



“Lumax Industries Limited
Q2 & H1 FY2019 Earnings Conference Call”

October 24, 2018



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Moderator: Ladies and gentlemen good day and welcome to the Lumax Industries Limited Q2 and H1 FY2019 earnings conference call. 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 entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. Please note that this conference call may contain certain 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 performances and involved risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Deepak Jain, Chairman & Managing Director of Lumax Industries Limited. Thank you and over to you Sir!

Deepak Jain: Thank you. Good evening ladies and gentlemen, a very warm welcome to the Q2 and H1 FY2019 earnings call of Lumax Industries Limited. Along with me on this call, I have Mr. Vineet Sahni, CEO and Senior Executive Director, Mr. Sanjay Mehta, Group CFO, Mr. Shrutikant Rustagi, CFO of Lumax Industries, Ms. Priyanka Sharma, Head Corporate Communication and SGA, our investor relations advisor. The results are uploaded on the Stock Exchange and Company website and I hope everybody has had a chance to look at it. Before we start the discussion on the financial performance of the company, I would like to share a few highlights of the automotive industry.

The auto sales during the first half of the financial year 2019 has remained buoyant despite hikes in diesel and petrol price in the country. As per SIAM, the industry sold approximately 1.41 Crores vehicles in H1 FY2019 as compared to 1.27 Crores vehicles in H1 FY2018 registering a growth of 10.9% on year-on-year basis. The passenger vehicle segment has witnessed a year-on-year growth of 6.8% for H1 FY2019 with total sales of 17.4 lakh vehicles. The commercial vehicles continued with its growth momentum and have thereby registered a year-on-year growth of 37.8% for H1 FY2019 with total sales of 4.87 lakh vehicles. The two wheeler industry fared well during the first half wherein sales of motorcycles overtook that of scooters, the sales of scooters grew by 5% with total sales of 37.5 lakhs vehicles, sales of motorcycles grew by 13.2%, the total sales of 73.7 lakh units.

The industry is passing through a turbulent phase as recent unfavorable exchange rate, oil price increase and also unexpected turbulence in the Indian financial market due to the NBFC defaults which have impacted the market sentiment adversely. We however are optimistic and expect the situation to settle down in the coming months.

On company performance, our company is engaged in production and delivery of automotive lighting solutions to 2-wheelers, passenger vehicles, farm equipment space and commercial vehicle segments. We are the preferred suppliers to OEMs in India and continue to be the market leader. We are the manufacturers of the automotive lighting systems and lighting product has been transformed from a functional product to a styling, performance, safety and technology aspects for all vehicles and automotives. Aesthetics remains the key characteristics for OEMs for



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their product differentiation to appeal to the customers and being technically competent with inhouse R&D, design center and manufacturing capabilities, we have continued to serve our customers well. I am also glad to say that in the forthcoming disruptions on electric vehicles, lighting will continue to play a major role as a component and system integration. Our top six clients include Maruti Suzuki, Honda Motor Scooters India, Hero MotoCorp, Mahindra & Mahindra, Honda Cars, Tata Motors and we cater to all segments of the automotive lighting industry.

In Q2 FY2019 following new models have been launched, which consist of Lumax Lighting. In the passenger vehicle segment, the Force Motors Gurkha, which is on the front direction indicator and the two wheeler Hero MotoCorp Destini 125 scooter with tail lamp and front turn signal and in the CV Piaggio Vehicles Ape tail lamp. The automotive industry is at a cusp of transition with vehicle manufacturers and customers increasingly seeking energy efficient and aesthetically appealing lighting products. With BS-VI rollout in 2020, there is a clear mandate for all auto manufacturers to supply cleaner, safer and sustainable vehicles. These developments have led to an aggressive transition from conventional automotive lighting to LED lighting. Currently LED forms about 35% of sales and we expect it to be 50% of total sales in the coming years. As the lighting is moving into electronics, which is more LEDs, our import content has increased hence localization and electronic skills improvement of the people as well as plant and machinery remains key challenge for the company. On the positive side it gives the company a huge opportunity to enhance market share in the agriculture, two wheeler and commercial vehicle sector. On the operational front, as an organization we continue to focus on cost control programs and enhanced operational efficiencies. Now I would like to hand over the line to Mr. Sanjay Mehta, Group CFO to update you on the financial performance of the company.

Sanjay Mehta:

Good evening everyone. The total revenue stood at Rs.518 Crores for Q2 FY2019 as against Rs.379 Crores last year up by 36% year-on-year basis, which is led by increase in volume and value addition of new technology lighting component. The same is up by 41% year-on-year from Rs.720 Crores in H1 FY2018, (net of excise) to Rs.1,014 Crores in H1 FY2019. EBITDA margins excluding forex fluctuation stands at 8.9% for Q2 FY2019 as against 8% for Q2 FY2018 last year. Current quarter witnessed the foreign exchange loss of Rs. 4.3 Crores as against gain of Rs.0.50 Crores in Q2 last year. Similarly, the EBITDA margin excluding foreign fluctuation stands at 8.9% in H1 FY2019 as against 7.7% in H1 FY2018. In H1 2019, we witnessed a forex loss of Rs. 7.8 Crores as against gain of Rs.2 Crores in H1 last year. The reported profit after tax after share of associate stood at 41 Crores in H1 FY2019 as against 36 Crores in H1FY2018. PAT margin stood at 4% in H1 this year as against 5% last year in H1 FY2018, which is mainly due to extraordinary customer price increase impact in the associate company in Q1 FY2018. EPS stands at Rs.43.77 per share as compared to 38.42 for H1 last year. Now we open the call for questions.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Ashutosh Tiwari from Equirus. Please go ahead.



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- Ashutosh Tiwari:** Congrats on a very good set of numbers. Firstly, you mentioned that 35% of sales is now coming from LED based lamps, in terms of volume what would be the share basically for industry in terms of volumes LED share will be how much roughly?
- Deepak Jain:** You are talking about in terms of which segment if you want to specify that please?
- Ashutosh Tiwari:** four wheelers and then two wheelers separately?
- Deepak Jain:** I think the total penetration, first let me just clarify, when I say LEDs there could be partial LEDs and lighting systems and also full LED systems. Tail lamps have more LED penetration than the front lighting. On the two-wheeler, it is currently at around about just 15% and on the passenger vehicle it is around about 20%, from the commercial vehicles it is less than 5% and Agri segment it is just about 1% or so, but the forward orders what we are getting we are seeing almost about 70% of the new developments on all the segments are having some sort of LEDs.
- Ashutosh Tiwari:** So these numbers you said is including the tail lamps?
- Deepak Jain:** I am talking about the complete lighting systems for the vehicle in whatever segment I just mentioned.
- Ashutosh Tiwari:** So in that sense I mean still there is a strong growth ahead for when you think shift to LEDs for us?
- Deepak Jain:** Absolutely. Just to give you another perspective when you said a strong growth, I am again going to repeat around 2016-2017 Lumax sales conventional was 92% and 8% was LED and today in H1 2018-2019 the convention is 65% and LEDs have gone to 35%, so this is the quantum growth and our expectation is as I mentioned about last year that we should be probably doing 50:50 in FY2020 if this current trend continues.
- Ashutosh Tiwari:** Got it. Secondly, we have mentioned three models in our press release, the models, which are launched with LEDs in the last quarter I thought even Ciaz has launched head lamp and we have supplied over there right?
- Deepak Jain:** Ciaz was there from before that, so I think it was not I mean say for this quarter, so far we were probably done it much before.
- Ashutosh Tiwari:** I did not see in the last release also that is why or may be, okay. Thirdly if we look at the CV segment sales for us it gives 4% of sales in first half of FY2018, now has 6% of sales that means on the doubling of sales in CVs for us, so what is driving the growth over there?
- Deepak Jain:** I think I had again mentioned earlier, the CV and also agro space, you are seeing two things, you are seeing one is the technology of lighting space from the old Halogen and the glass beams and that has been basically moving up to a plastic integrate, what you see actually not necessary



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LEDs, but what you see actually on the back of our vehicles. Because of that I think the company has been able to penetrate certain market shares and also in the agri space, we are seeing adoption of LEDs on tractors and hence we have got some orders from TAFE, which we basically executed and that is why you are seeing a growth in this.

Ashutosh Tiwari: This forex loss of 4.3 Crores what this corresponds, is the material that we buy from Stanley or other sources for raw material products basically?

Deepak Jain: I will complete this thing including not just Stanley, but any other basically raw material including the electronics what we get for the LEDs.

Ashutosh Tiwari: Now will this losses come down in third quarter?

Deepak Jain: Will the rupee remains here I say yes it would, but just to give you another perspective on July 30, 2018 when was my last concall with the investor dollar was Rs.68.4 and, today October 24, 2018 it is actually 73.5. The level of rupee movement, which has gone through, I am hoping it will stabilize and we should basically be able to again get this recovered.

Ashutosh Tiwari: And have we been able to pass through this RM cost increase with OEMs or negotiations are still pending?

Deepak Jain: Negotiations will continue, this is as I mentioned again before that it goes on almost about quarters and some customers have six months' policy, so this will actually continue and we will actually keep on basically asking.

Ashutosh Tiwari: Lastly SL Lumax contribution to the profit basically I think that had been quite volatile in the past and we have said that it can be volatile in the earlier calls, but on an Yearly basis FY2018 numbers will be met broadly in FY2019 as well at a profit level for the full year?

Deepak Jain: That is what I have been always maintaining that due to the one customer Hyundai global policies on pricing, very, very difficult to actually predict and track on quarter-on-quarter basis, but we maintain that for SL Lumax, for the annual year, they should be able to do the same kind of profit levels in terms of percentage, what they have been doing historically.

Ashutosh Tiwari: I think we have received some dividend in the current quarter from SL Lumax, what is the quantum of that?

Sanjay Mehta: It is 9.8 Crores, we have got dividend from SL Lumax, but while consolidating it will be squared up.

Ashutosh Tiwari: Thanks a lot.



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- Moderator:** Thank you. We have the next question from the line of Hemant Kher from JP Morgan. Please go ahead.
- Hemant Kher:** Congratulations Sir on the good set of numbers. So one thing that I would like to, given that LED share is increasing and with our import content being high how do you see the exposure, so the import component and the forex exposure going on, so will it strain our gross margins going forward?
- Deepak Jain:** The volatility of I mean say the rupee keeps on depreciating, yes there will be a strain on our margins, our intent again is to basically start localizing as soon as possible, but again I have said that we have contracts with the customers, which actually also safeguard us against forex loss is going up or it will be going down.
- Hemant Kher:** So given the cost parcel mechanism that we have, so will it be right to say that our gross margin in a rupee per basis would remain constant, but as a percentage of sales would come down going forward because given a pass through our revenue would increase, but our margins would remain stable. Is it a right way to interpret that?
- Deepak Jain:** Yes, you can say that, I think right way would be that given basically the LED adoption given basically the thing gross margins will actually stabilize, that is fine, but I think we have to understand, I mean say what will be the impact on the imports specifically and also in the localization policy comes in, what kind of sharing, this is custom duty, so there is always double value.
- Hemant Kher:** Just to followup on this LED prices only, so in one of the concalls if I remember you have said that there is a 1.5% to 2% unit price drop that we offered to the customers, so given this thing and the volatility scenario where do you see gross margin numbers in the coming years when the LED lighting per se matures, can we have some guidance on that number?
- Deepak Jain:** I think I mentioned in the last call that I think when I look at from my EBITDA levels our first intent is to actually have an increase of 150 to 200 BPS, and this probably would be a combination of localization, this also would be a combination of certain price negotiations with new technology adoptions, which were coming in and intent is obviously to grow it to a double digit by 2020, I think that is basically our target for EBITDA.
- Hemant Kher:** And one last question, what are the current plant utilization levels that we are operating given a new capacity nearly at 85% if I am not mistaken, what is the utilization levels currently?
- Deepak Jain:** I think it goes plant by plant. As an overall company we are still at around about 75% to 80% and the reason why it is, is that the new plant capacity is at 85%, you have to also see that the plants, which I am assuming you are talking for the Sanand Plant right?
- Hemant Kher:** Yes.

- Deepak Jain:** That plant I mean YSD, which was a Swift platform that had been shifted from NCR to basically Sanand because the Maruti Suzuki decided to shift that model to SMG, and hence we had to shift capacities from Bawal, the things of the Bawal capacities have actually been more freed, so overall we are still at around about 75%.
- Hemant Kher:** Do we expect the after market to increase on account of that from a freed up capacity in Bawal or these areas?
- Deepak Jain:** Well, this company would do mainly on spare parts and OEMs, so not necessarily too much on after market, we expect that the volume will continue to grow, market we are still expecting a 10% growth, but despite all these volatilities and these capacities will actually come in place for addressing those volumes.
- Hemant Kher:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.
- Rajesh Kothari:** Good evening Sir. Congratulations for good set of numbers. My first question is you mentioned that the 10% volume growth you are looking for, I think that is for the industry, am I right?
- Deepak Jain:** Yes, that is right.
- Rajesh Kothari:** You mean the total automobile industry, two wheeler or four wheelers this 10% number what you are seeing is which industry?
- Deepak Jain:** Well I am talking about the complete industry as such as two wheelers, as four wheelers. If you are looking only for H2 currently maybe H2 in passenger vehicles it would be lesser than 10%, on the two wheelers it will be a little more than 10%, and overall I think if the industry grows at 10% we would be happy. Q2 overall if we see all categories put together we actually grew at about 10.5%. This is as per the SIAM data.
- Rajesh Kothari:** My second question from slide #21 except two customers I think all customers reported 40, 50 or 100% kind of a growth, except I think HCIL and HML, so what is the HCIL, it is a Honda?
- Deepak Jain:** Honda Cars India Limited, I think that is basically, so your question is that why we are not being growing with Honda Cars India, can I understand that correctly?
- Rajesh Kothari:** Yes, so HCIL and also HML is also flattish 90 to 100 Crores.
- Sanjay Mehta:** In case of Honda Cars, globally, Stanley is not having the models of Honda City and Amaze that is why there is a reduction, as both the models are not with us, there is a reduction in Honda Car.

- Deepak Jain:** And what is the other customer you are talking about?
- Rajesh Kothari:** I think HML is kind of a flattish from 90 Crores to 100 Crores?
- Deepak Jain:** But you have to see it is not flattish, it is actually 90 Crores to 100 Crores correlate to 10% growth and the customer has grown 10%.
- Rajesh Kothari:** So this HML is what Honda Motors?
- Deepak Jain:** Hero MotoCorp.
- Rajesh Kothari:** Hero MotoCorp. What I was just thinking is that while in all other customers you have grown significantly, there also if I look at the LED mix of Hero that also must be growing faster am I right?
- Deepak Jain:** Well if you see that, yes you are right, but I think you have to also understand which platforms. Hero has been a little bit late adaptor on the LEDs. We have just launched one of the products, which has been the destiny, so we are hoping that this will also do well, but is actually a whole mix of product mix. I do not think we have lost market share.
- Rajesh Kothari:** Understood and in terms of overall market share, what is the current market share for two-wheeler and for passenger vehicles?
- Deepak Jain:** The two-wheeler market share we are currently at around about 30% and for the passenger cars if you include SL we would actually be at around about 62%.
- Rajesh Kothari:** And what would have been the corresponding market share?
- Deepak Jain:** Corresponding market share for what last year?
- Rajesh Kothari:** Yes.
- Deepak Jain:** Same in the pass car and two-wheeler side.
- Rajesh Kothari:** Basically this growth of 40% what you are reporting in the first half and 30% plus in second quarter, so do you think even in FY2020 probably you can sustain these trends considering that penetration of LED is still very low?
- Deepak Jain:** Well, you have to please first understand what the market is growing, I think you have to understand how the market first is growing, it is not necessary you just cannot start doing 40%, 50% growth, if you see there is a mix of volume growth and there is a mix of technology growth. If the market starts not growing and only the technology aspect comes in, then we expect about almost 15% to 20%. If the volume also starts driving 10% to 15% and also it depends on what

kind of new product launches and all that stuff. I have mentioned that for this current year, our guidance is about 18% to 20% growth we maintain that basically, obviously we have grown substantially more in H1, but it does not mean that we are expecting just flattish growth in H2, but given the volatility in the market, the consumer sentiment, also how the NBFC because it impacts the two-wheeler financing as well. We have to wait and watch and I think the Q3 will be significant just to see how basically the industry is shaping up.

Rajesh Kothari: My last question is with reference to earlier question, you responded that you have a pass through, you have contracts with customers to safeguard against forex losses so it is like for every 1%, 2% change you need to go back to the customer, is there a lag of the one quarter, two quarter, how that entire policy works?

Deepak Jain: There are different customers, would have different policy, but on generalizing, customer would give us a quarter or six monthly basis, a spot market, mark to market kind of a return and it averages that out and then it gives us the compensation with it over or it even takes it when it is basically going down, so this is how the customer vis-à-vis supplier relationship is working on foreign exchange policy.

Rajesh Kothari: So say for example the largest one would be in Maruti, which is about 33% of revenue, so do they give at the end of every quarter or then put it cumulative and give it at the end of the six months?

Deepak Jain: They do not do it cumulatively; they again do it average six months.

Rajesh Kothari: So let us assume in third quarter, you may not get compensation, but then in fourth quarter end you get the combined compensation of both the quarters that is what you mean?

Deepak Jain: Correct, so it is a trailing basically.

Rajesh Kothari: Trailing and settlement at the end of every six months that is what you mean?

Deepak Jain: Correct, so for example, let us say on October 1, 2018 the rate was 72 and say March 31, 2018 it is probably about 78, they will average it out and then they will give us at maybe 74, 75 rupees and then they will basically reset it in our pricing and depending on the import content we have and based on that they will make the calculations.

Rajesh Kothari: So they will compensate you for the six months, am I right?

Deepak Jain: Correct.

Rajesh Kothari: Understood.

Deepak Jain: Average six months.



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- Rajesh Kothari:** So by FY2020 when you are looking I say the double digit kind of a margin, what is the current localization level right now?
- Deepak Jain:** Well, the current localization level again, you are talking about PV or you are talking about 2W?
- Rajesh Kothari:** Total basis.
- Deepak Jain:** On a total basis, right now we import about 25%, we have localized about 75% as such, but you have to understand this, majority of our sales 65% is also coming from conventional. In the conventional our localization levels are almost close to about 90% or so. Now with this, LED is coming, we are basically seeing that there is a scope of localization of about 30% that is what it is in the front lighting, on rear lighting is about 15%, so on average basis it is about 25% of scope. We still would not be able to localize fully. So, after 25%, this is the target and by 2020 we should be able to localize almost 70% of 25%, about 20% we will be improved on the localization. Have I made it clear?
- Rajesh Kothari:** No, I am a little confused, so you say that in LED you can do localization of 25%, so 75% you have to import correct, 25% is maximum what you can do localization correct?
- Deepak Jain:** No Sir, I am just saying is that in LED currently the import content is almost close to about 65%, 35% is localized already. 65% of that I am seeing an opportunity to localize almost close to an average 20%.
- Rajesh Kothari:** So it becomes like 50:50 it means.
- Deepak Jain:** Correct and 50% is still be imported because of the constraints of the electronic ecosystem in India.
- Rajesh Kothari:** Understood. Fine. Great. Thank you Sir. Wish you all the best.
- Moderator:** Thank you. We have the next question from the line of Aakash Manghani from BOI AXA. Please go ahead.
- Aakash Manghani:** Good evening. Thanks for taking my question. The first question was this quarterly revenue growth, is it possible to split it into value versus volume in four wheelers as well as two wheelers?
- Deepak Jain:** Yes, we can actually do that. Overall I would say and I would now just talk about is the 43% growth, which you have done on H1 basis or do you want a quarter basis analysis, you want Q2?
- Aakash Manghani:** Yes, you can give me Q2.

Deepak Jain: So Q2 the total growth had been about 38%, on which the volume growth was about 17% and the value growth was about 83%.

Aakash Manghani: This is for which segment?

Deepak Jain: This is total, I am talking about, I am giving you the segment as overall. Again this is excluding the tooling revenue, so this is a manufacturing sale and in that I would say in the four wheeler space you would say that the growth has been about 54%, in the two wheeler space our growth has been 36% and our CV space it has been about 10%, so these are the three growth figure and more or less it has been 20% volume growth and 80% value growth plus, minus, so it has been consistent in four wheelers as well as two wheelers.

Aakash Manghani: That is useful. The other thing is this SL Lumax, the numbers that you reported, over here I think you mentioned earlier to one of the questions was, you expect the margin to be the same as the last few years, first of all what is the margin right now and what sort of profitability you expect over the next half, so is there some guidance you can provide over there?

Deepak Jain: So I can provide you guidance. HI 1819 is currently at about 3.8% at the PAT level and last year they did about 6%, exactly 5.8%. We expect that they should be able to at least maintain the profitability levels of last year.

Aakash Manghani: What sort of revenue growth would they have achieved H1 versus H1?

Deepak Jain: H1 versus H1?

Aakash Manghani: Right.

Deepak Jain: Revenue growth H1 vis-à-vis H1 they have achieved about 15%.

Aakash Manghani: The other thing is the MSIL growth that you are achieving on FY2018 I think it was single digit growth that you have received from, in the last two quarters it will be north of 50% averaging, so what is causing this, which models can you sort of single out and what is the LED mix within MSIL?

Deepak Jain: I think first and foremost I think your company had invested in the new facility, which was in Sanand in Gujarat that was fundamentally to cater to SMG. Lumax has been the sole supplier for the Suzuki Swift Platform and hence this is what is driving the growth, if you also see Maruti's internal numbers, the Swift has been contributed with basically the maximum growth for the H1 and 45% LED is basically in that revenue made for Maruti.

Aakash Manghani: Right now it is 45%, what was it last year in H1?

Deepak Jain: It was about 20%.



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- Aakash Manghani:** Okay.
- Deepak Jain:** Because Swift has actually adopted LEDs and that is our platform and hence basically increased.
- Aakash Manghani:** Right and I think on the last call you also mentioned that you are trying to sign up with TVS Motors, what is the progress on that?
- Deepak Jain:** We have received an LOI for the first order for TVS Motors and I was coincidentally yesterday at TVS, and we will be supplying it from our Bengaluru location and that would be starting basically in next year.
- Moderator:** We have the next question from the line of Sanjay Shah from KSA Shares & Securities. Please go ahead.
- Sanjay Shah:** Good evening gentlemen and congratulations for good set of numbers. Sir I need to understand regarding our EBITDA margin, the margin what we talk about double digit is after other income or before other income?
- Deepak Jain:** After other income.
- Sanjay Shah:** Because this quarter we have degrown in that before other income and surprisingly there was a healthy dividend payout by SL.
- Sanjay Mehta:** That is because of foreign exchange because dividend income was not taken in the consolidated results due to squaring up on consolidation. The decrease is because of forex loss of Rs. 8 crores in HI 1819.
- Sanjay Shah:** How do you foresee future the third quarter because we have heard about Maruti being showing some sign of slowing down, anyone that is shutdown coming in one of the plant, can you update on that Sir?
- Deepak Jain:** I think in December majority of our customers go for a shutdown including us, so this is not new to us, this is a plant maintenance shutdown. The point is that of course there is an impact on the consumer sentiment and the market sentiment because of the oil prices, because of the forex, because of the NBFC's. We however remained bullish. We see that if even the Q3 there is a slow down or taper down. I feel that Q4 again it should come up, it should be hinter, but also is obviously the advent of elections in Q4, so the run up to elections hopefully I mean say we should again start seeing again robust. We fundamentally believe that in the macroeconomics, and in the macro because government keeps on spending onto the infrastructure, the rural spending is still alright. So I think the macros are still very healthy. These are short-term blips and we hope that there would be certain interventions and with that stabilization of the environment. We maintained that we would be about 20% growth. We have already done that even if basically next two quarters zero growth, which we do not expect that because of

technology shifts and new product launches will help us to actually cumulate revenue. I think we are at least going to be probably going 10% better than at least what we were projecting.

Sanjay Shah: That is great Sir. Thanks for updating that and Sir is there any progress towards our Lumax electronic platform?

Deepak Jain: Well, localization is basically one of the other side key challenges and we are in consultation and discussion with Stanley to actually come to basically to more localization as maybe also expand the relationship from just lighting to also further electronics, so that we are still in discussion. We will let you know as soon as we conclude.

Sanjay Shah: Great Sir. Thanks for updating and good luck to you Sir.

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

Pankaj Bobade: Sir thanks a lot for taking my question and congratulations on good set of numbers. Sir what is the capex for current year?

Deepak Jain: The current capex planned out is between Rs.80 Crores to Rs.100 Crores, we have already in H1 spent close to around about Rs. 36 Crores or so. This has been primarily done in the Bengaluru, Sanand and Dharuhera plants, which are currently running and these are basically more from expansion as well as just basically maintenance capex.

Pankaj Bobade: Sir you mentioned about the localization of LED, so currently we are importing 65% of the content and we would like to bring it down to 50:50 by FY2020?

Deepak Jain: Correct.

Pankaj Bobade: Will this help us improve our margins?

Deepak Jain: Yes, it should. There are two, three inherent things, number one we actually should be able to improve our margins because we safeguard ourselves through certain forex plus minuses and also you are able to then do more value addition into our IT systems and hence we should be able to at least safeguard the margins and improvement.

Pankaj Bobade: Last question I have just missed up on the breakup of LED in headlight and tail light in two-wheeler, PV and CV segment, can you please repeat that?

Deepak Jain: On the headlight and tail light, Sir?

Pankaj Bobade: Yes.

Deepak Jain: I think fundamentally I was talking about pass cars and two wheelers, but if you want headlight and tail light, again we can give it to you offline.

Pankaj Bobade: Sure Sir. Thank you.

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

Kashyap Jhaveri: Congratulations Sir on great set of numbers and thank you for the opportunity. First of all, you mentioned about Hero Destini 125 about LED, this is on the tail lamp right, not the head lamp?

Deepak Jain: This is tail lamp, correct.

Kashyap Jhaveri: So this is a new launch by Hero and the pricing, which has been very competitive and they have unlike other competitors they have not put off head lamp, which is an LED, do you believe that given that other costs are rising the OEMs might actually probably put LED or aesthetics part of the vehicle alternately back, but they are at least for some time, is that possible because other costs are rising clearly on the ownership of the vehicle?

Deepak Jain: I think you have to understand this I am talking specifically on the two-wheeler side, now the BS-VI is coming in 2020, one of the main reasons for the faster adoption of LEDs in the two wheelers, which is already a very, very price sensitive market is because of this adoption of BS-VI. Now lighting or LED lighting has nothing to do with BS-VI, but you have to understand whether for the first time after a very long time the motor cycle or scooter is going back to the drawing board and it is refiguring to become a BS-VI compliant vehicle. In that, you basically become a fuel injection system from carburetor because of that you actually need less voltage consumption on your existing parts because of lot of electronics would be put in including ECUs, including sensors, including safety guards, so light weighting and low voltage consumption and lighting is where LED or technology, which is already available where you can actually reduce the voltage consumption almost six times or seven times by using LED technology. This is what is actually influencing not just Hero, but I think all the lighting makers to do it, of course it becomes more aesthetically appealing, it becomes safer, it becomes greener and hence also the market trend is one customer see the LED lighting it goes, so I am very bullish that is not just because of price sensitive market it will be pushed in the two-wheeler segment because of BS-VI. It was a very different reason why they are adopting the LED light.

Kashyap Jhaveri: Second question is in Q4 you had added few models on two-wheeler side, which was X-Blade and Activa 5G, could you help with market share in these two models and also you added Yaris also, so if you can help us on market share on these three, four models?

Deepak Jain: Which models are you talking about specifically?

Kashyap Jhaveri: HMSI, X-Blade, Activa 5G and Toyota Yaris.



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- Deepak Jain:** We have got 60% or so.
- Kashyap Jhaveri:** In all three?
- Deepak Jain:** Vineet, you want to take that?
- Vineet Sahni:** Yes. I will take that. For HMSI side we are at 60% market share, and Yaris we are supplying the rear lamp, which we are at 100%.
- Kashyap Jhaveri:** This 60%, which you mentioned for HMSI is only head lamp or head lamp plus tail lamp?
- Vineet Sahni:** It is head lamp and tail lamp.
- Kashyap Jhaveri:** Can you split between the two, is that possible?
- Vineet Sahni:** We can give you the details later, at this moment we do not have.
- Kashyap Jhaveri:** Sure. Thank you very much Sir.
- Moderator:** Thank you. We have the next question from the line of Rakesh Jain from ACM Investments. Please go ahead.
- Rakesh Jain:** Thanks for the opportunity. My question is currently what is the content of LED in the vehicles right now and what is this content globally right now, what is the benchmark do we have?
- Deepak Jain:** You have to understand that the Indian market is very unique, if you look at the two wheeler market I do not think there is a global benchmark like this. If you look at basically the pass car, it is a very, very segmented, our small car definition for me it was very different than probably the global markets, , but you have to understand that it is very, very different market, it will be basically from global benchmarking specifically on the LED vehicle content and that would be very different.
- Vineet Sahni:** I will just to add on like in Europe, daytime running light became compulsory long time ago, so most of the head lamp had that feature and this is just now about to come in India, so it also depends on regulation, so it is a very macro question I think we can explain it later.
- Rakesh Jain:** Sure. Sir just one more question on this, if you could just give some colour on what factors would lead, by how much this LED industry would grow in the next five years and what factors could lead this to happen including the one you mentioned that the low power consumptions, what other factors could lead this to growth?
- Deepak Jain:** Regulations of, first of all, market sentiment. LEDs you have to understand that it is basically having a better efficiency in terms of performance, in terms of low voltage consumption, also in

terms of design aesthetics, in terms of packaging, so obviously the only thing why you are not adopting it faster is because there is still a price differential between the conventional and the LED. There are discussions also that may get regulated by the government because in certain segments because as they want to project EV, EVs would be only possible in certain cases, and I am saying certain segments, not necessarily passenger car, but like for example case in point would be three wheeler segment where they do battery swapping and there has been certain cases reported where they actually were to switch off the head light because they do not want basically drain on the battery, so even there could be regulation coming into effect. So I think there are multiple facets, but we are very strong believers that the LED trend and the adoption of LEDs in every segment in India will continue to play a pivotal role.

- Rakesh Jain:** What is the kind of capex are we doing towards this end?
- Deepak Jain:** For this year, I have already shared that we are basically having capex plan of about Rs.80 Crores to Rs.100 Crores and of which this, H1 we have already done about Rs.36 Crores.
- Rakesh Jain:** Is this primarily towards LED or complete?
- Deepak Jain:** No, it is for the Company as a whole for FY 1819.
- Rakesh Jain:** Alright. That is all from my side. All the best. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil:** Thank you for the opportunity Sir. Sir, I just wanted one clarification. Sir the guidance for the margins that you have provided is for the consolidated business right?
- Deepak Jain:** Yes it is.
- Vimal Gohil:** Yes, and you also clarified that other income is also included in operating margins, but your consolidated business hardly has any other income, so the differential excluding other income your margins will be more or less the same?
- Sanjay Mehta:** Yes.
- Vimal Gohil:** Fair enough. Thank you so much and all the very best.
- Moderator:** Thank you. We have the next question from the line of Deepen Shah, an Individual Investor. Please go ahead.
- Deepen Shah:** Thank you for the opportunity. I had a question on the realizations from the LED versus traditional lighting, in the past we have had an opportunity to interact and our understanding was



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that the price difference between the traditional lighting and the LED could be four to five times, with increasing acceptance of LED, has there been any change in that ratio in the sense that has pricing for LED has come down as compared to earlier expectations and how do you expect it to go ahead in the next two to three years?

Deepak Jain: I think it is similar, it is not really changed, so the revenue mix would actually go about three to five times, it depends on how much LED adoption you are doing in to lighting system, so when you said actually 5 times, it is actually complete LED vis-à-vis complete conventional.

Deepen Shah: Okay.

Deepak Jain: Right now, you are saying multiple applications of LED in the lighting system both in the front as well as in the rear, so for example Vineet had just mentioned about DRLs, sometimes you are just basically using one kind of LED function in the turn signals, so there are multiple permutations and combinations. We see that not from a revenue side, but the foreign exchange as I mentioned before that basically is impacting because there is a high import content on the current LED systems.

Deepen Shah: Right. Thank you very much and all the best.

Moderator: Thank you. We have the next question from the line of Hemant Kher from JP Morgan. Please go ahead.

Hemant Kher: Thank you for providing the opportunity again. So you mentioned that you will be having an LED penetration of 50% nearly going forward, so is that in line with the industry trend or is it like we are catering to high-end models more going forward?

Deepak Jain: No I think we have to see that is not necessarily the industry trend, the industry penetration on LEDs is much lesser; however, we are saying this because our revenue book would be booking 50%-50%, and this has been growing and the reason why we are pretty sure is because the way our order book is shaped up and the new developments what we are doing we can probably predict that it would actually come to that level. Also I think in my opening remarks I mentioned that LED adoption is also giving the company a certain opportunity to penetrate in certain segments to garner more market share where we were not there and a very simple example I am going to give is like tractor, tractors are using full technology lighting, not even the current lighting what you see on the passenger cars. They were doing a sheet metal glass, the company, for us it became obsolete process and lot of the other makers who were actually doing the fragmented makers were catering to that segment and now in the agri space also they are wanting LEDs TAFE has already come up with a tractor, so I am seeing future develops and more and more technology LED adoptions come in I think we are pretty confident that we would be one of the leading players who can actually cater to get this market.



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Hemant Kher: Sir just from an industry point of view what is the rough ballpark number if you could give me for the LED penetration that is there in India or like in four to five years that is about to come?

Deepak Jain: I think currently I would say, if I see all permutations and combinations including LEDs and all, it is hovering around about 20%. My take is that this was very rapidly increased and the reason why I am saying is because almost 70% of all the developments or the new developments what we do have some form of LEDs, which are coming in. The usual lead time for the development cycles are about one to two years, so you see if that is the case you can do a math that it promptly would actually double from 20% to maybe 50%, now this is barring if there is mandated regulations in certain segments where they say okay, you need regulatory framework to the LEDs need to be adopted faster or this segment needs to be having LED, so that is barring that, but I think from 20 it will probably quickly come to about 40%-45%.

Hemant Kher: One last question Sir, so on the ROCE front, what do you think is like a long term ROC that we can see because currently see the ROCE are increasing, but this would not be given the higher price point currently that LED trades at, but once it normalizes and so what is the ROCE that you see going forward?

Deepak Jain: I think our target is 30%, and we would like to sustain this and again it bases on what kind of investments we will actually be keep on doing it, so I think that is what at least the target is.

Hemant Kher: 30% on a pretax basis?

Deepak Jain: Right.

Hemant Kher: Sir just one last question, is the incremental ROCE coming down, as per the new capex of the Sanand plant that you have developed, so the incremental ROCE on that account because the network and these would be a historical number?

Deepak Jain: No, it is not, it is actually not coming down. Your understanding that the electronics is coming and we are investing for the electronics capability now in the future, and right now it is mix between the conventional electronics, more and more electronics come in, you are basically investment vis-à-vis the revenue ratio actually improves than basically what it was in the conventional.

Hemant Kher: Thank you so much Sir and wish you all the best.

Moderator: Thank you. We have the next question from the line of Shailesh S, an Individual Investor. Please go ahead.

Shailesh S: Thanks for the opportunity and if you see in last year in FY2018 we did a tooling sales of around 1.45 billion and we were targeting around 70 Crores in FY2019, so how much we did in first half FY2019 and how much we are expecting in second half?



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- Sanjay Mehta:** We have done Rs. 19 Crores in H1 FY2018-2019 and we are expecting around Rs. 50 to 60 Crores in H2.
- Shailesh S:** How much we did in first half Sir?
- Deepak Jain:** Just to answer your question very simply, our outlook was about 70 Crores or so, we have done about 20 Crores already and I think based on what the customer plans are we should be able to meet the 70 Crores so in the H2 we should be about at 50 Crores.
- Shailesh S:** And also Sir as you said that import content in LED, which was around 65% and next year we are targeting around 50%, with the focus towards the backward integration particularly with PCB surface mount, so what kind of localization you see in LED import, LED in localization over next three to four years?
- Deepak Jain:** So as I said the opportunity was to go to 50:50 or so, again it also is a derivative of how the Indian ecosystem on electronics improve, do you said three to four years timeframes there are certain investments, which come in for making component electronics, it should improve then further. That is the constraint why it is 50%.
- Shailesh S:** Will you please update on Greenfield unit for Suzuki second phase, 2.5 lakh?
- Deepak Jain:** Well, Currently Maruti Suzuki has basically cautioned us, where they are saying that they may limit the capacities to about 750,000 and once they reach 750,000 in SMG then they will probably share the plans, so we are still in discussion with Maruti Suzuki, so as of now we are also going a little bit slow on the Greenfield investment; however, we are modifying Sanand location and probably expanding that also, so that if there is any plus currently we already doing at around about 300,000 and if we are able to garner the market share in our wallet share with Maruti once it become 750,000, it is about 500,000, 600,000, maybe we can just cater from Sanand. So this is the point, but if it goes to about 1.5 million then we will need Greenfield factory, So we are waiting for direction from SMG.
- Shailesh S:** Yes. See in first half FY2019, how much we sourced from LATL?
- Deepak Jain:** How much we sourced from LATL as a figure?
- Shailesh S:** Yes.
- Deepak Jain:** Approximately 200 Crores, my finance team can give you that number later.
- Shailesh S:** How much it was in last year first half FY2018?
- Deepak Jain:** We can share it off the line please. We would not have it ready as of now.



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- Shailesh S:** What is the capital allocation for the next two years, this year you said around 80 Crores investments for the next year?
- Deepak Jain:** Next year also again, it should be similar, again if the Greenfield site comes in and that would be then adding another 70 to 80 Crores, so it could be ranging from 80 Crores to 200 Crores.
- Shailesh S:** Also for the backward integration Sir?
- Deepak Jain:** I think there are two things, which are variable here. One is the Greenfield site on Gujarat based on Maruti Suzuki's direction. If that comes in, we probably would need about 100 Crores odd. If the 80 Crores that should include the backward integration and certain Brownfield task, so I am again giving you a digit of about 80 Crores to about 200 Crores including or excluding the Maruti Greenfield.
- Shailesh S:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Deepak Jain for closing comments. Please go ahead Sir.
- Deepak Jain:** Well, I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. For any further information, request you to get in touch with SGA, our investor relations advisors. Thank you once again.
- Moderator:** Thank you gentlemen. Ladies and gentlemen, on behalf of Lumax Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.