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Company Code : 517206	**Company Code : LUMAXIND**

Sub.: Transcript of Analysts/Investors Earnings Conference Call-Q1 FY20-21

Dear Sir/Ma'am

Please find attached herewith the Transcript of Analysts and Investors Earnings Conference Call of the Company which was held on Monday, 17th August, 2020 at 12:00 Noon, to discuss the operational and financial performance of Q1 FY 20-21.

The transcript will also be made available on the website of the Company www.lumaxworld.in/lumaxindustries.

You are requested to take the same on records and oblige.

Thanking you,

Yours faithfully,

For LUMAX INDUSTRIES LIMITED

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DK JAIN GROUP

"Lumax Industries Limited
Q1 FY2021 Earnings Conference Call"

August 17, 2020

MANAGEMENT: **MR. DEEPAK JAIN – CHAIRMAN AND MANAGING DIRECTOR – LUMAX INDUSTRIES LIMITED**
MR. ANMOL JAIN – JOINT MANAGING DIRECTOR – LUMAX INDUSTRIES LIMITED
MR. VINEET SAHNI - CHIEF EXECUTIVE OFFICER AND SENIOR EXECUTIVE DIRECTOR – LUMAX INDUSTRIES LIMITED
MR. SANJAY MEHTA –GROUP CHIEF FINANCIAL OFFICER
MR. SHRUTIKANT RUSTAGI – CHIEF FINANCIAL OFFICER – LUMAX INDUSTRIES LIMITED
MS. PRIYANKA SHARMA – HEAD CORPORATE COMMUNICATION

Moderator: Ladies and gentlemen, good day and a very warm welcome to the Lumax Industries Limited Q1 FY2021 earnings conference call. 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 performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now glad to hand the conference over to Mr. Deepak Jain. Thank you and over to you Sir!

Deepak Jain: Good afternoon ladies and gentlemen. A very warm welcome to the Q1 FY2021 earnings call of Lumax Industries Limited. I wish everyone is healthy and keeping themselves safe from the pandemic.

Along with me on this call, I have Mr. Anmol Jain, Joint Managing Director, Mr. Vineet Sahni, CEO and Senior Executive Director, Mr. Sanjay Mehta, Group CFO, along with his finance team, Mr. Shrutikant Rustagi, CFO and Mr. Ankit Thakral and also Mrs. Priyanka Sharma, Head Corporate Communication along with SGA, Our Investor Relations Advisor.

The results and investor presentation are uploaded on the Stock Exchange and Company website. I hope everyone has had a chance to look at it.

Before we start with discussion on the financial performance of the company, I would like to share a few highlights of the automobile industry.

With each passing month, the auto sector revival signals are getting stronger. With strict lockdown to ease in lockdown companies have reported nil revenue in the month of April to considerable growth in month over month number. Supply constraint and strict social distancing norms led to lower capacity utilization, which is now showing signs of improvement. The road to normalcy is going to be a challenging one.

With easing lockdown restrictions and improvement in demand, OEMs across the industry have reported substantial pickup in sales in July 2020. The majority of the demand is coming from two-wheeler and private car segment. People who used to travel by public transport prefer traveling in their own isolated space now as a matter of hygiene and safety; however, auto sector recovery is yet to experience full normalcy.

Economic activity will remain below the pre-pandemic levels in the near term. As I mentioned in the previous calls various auto industry associations have requested government for stimulus and demand boosting policy like the scrappage policy. The recent Vocal for Local campaign will lead to increased outsourcing by OEMs leading to higher utilization for Indian auto component manufacturer. If this call was to happen in pre-COVID time, this call might have had more discussions on transition from BS-IV to BS-VI. Also, as you know that the BS-VI norms were implemented amongst the recent lockdown. Despite COVID we hold our view of generating about 50% of our revenue from LEDs over the next three to five years.

New product launches during this quarter we had were the following: In the two-wheeler segment, the BS-VI models of Piaggio Vespa, VXL and XXL model and also the HMSI Grazia model all had LED headlamps supplied by Lumax. In the commercial vehicle segment, Lumax LED lighting is a part of Tata Winger headlamp and tail lamp.

It can be clearly seen that the new product launches is following a trend of LED lights over conventional lighting and we are confident of increasing our market share from LED segment at a faster rate with wide range of LED lights through our know-how R&D team and strong partnership with Stanley Electric Japan.

During the lockdown period the company was recognized in the following category, the Dharuhera plant received the JIPM TPM award for Excellence in Category A for the Year 2019. The Chinchwad plant was awarded the first place out of 51 teams participating in the top three categories at the ACMA QCC Virtual Competition held in August 2020.

I would like to place on record a deep gratitude to our esteemed customers, supply chain partners and all our associates who have risen to the challenge of COVID-19 during the quarter to quickly stabilize the company operations.

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

Sanjay Mehta: Good afternoon everyone. I will just update on the operational performance for Q1. The share of LED lighting stands at 30% of our total revenue and that of conventional lighting stands at 70% during Q1 FY2021. The product mix for Q1 as a percentage of total revenue is 68% of front lighting, 22% of rear lighting and 10% others.

The segment mix for Q1 as a percentage of total revenue is 67% passenger vehicles, 25% two-wheelers and 8% commercial vehicle.

Now I will just update on the consolidated performance. Due to the outbreak of the COVID-19 pandemic and the consequent lockdown announced by the Government of India due to which the operations were suspended for the part of the quarter and gradually resumed with requisite precautions thus the results for the quarter are not comparable with those for the previous quarter.

The revenue stood at Rs.78 Crores for Q1 FY2021. April was completely washed out, 15% of the Q1 revenue was achieved in May 2020 while the balance 85% was achieved in the month of

June. We have witnessed substantial recovery in June and the momentum continued in July 2020 as well.

Manufacturing revenues for Q1 stood at Rs.74 Crores while the balance was molds. The consolidated EBITDA loss is Rs.32 Crores for Q1 vis-à-vis gain of Rs.39 Crores in Q1 FY2020. The consolidated PAT after share of associated stood at Rs.32 Crores in Q1 FY2021. That is all from my side. We will now open the call for the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Varun Bakshi from Equirus Securities. Please go ahead.

Varun Bakshi: Thank you for the opportunity. Sir my first question is regarding our customer revenue split in 1Q. So, for 1Q the revenue from HMSI has come down significantly. Is it largely because of higher inventory that was there in the end of March or what led to such a steep decline?

Anmol Jain: Largely because HMSI did not start the production in Q1 substantially if you look at April, May and June the numbers are absolutely miniscule, and they were obviously doing their inventory correction as well. So, that is primarily the reason why our revenues for HMSI in Q1 was also negligible or close to nothing.

Deepak Jain: I just want to add a little bit structure. If you see Q1 has been an exceptional and abnormal quarter, and I do not think it kinds of comparable even to Q4; however, just to give a conclusion, of the 90-odd days of basically Q1 we actually were shut down almost on an average of about 43 days. We definitely see a better tick from Maruti Suzuki and Hero and that is primarily because both being the leaders in the rural segment having an outreach and also on the entry segments vehicles their recovery in the month of June has been much better. Also for the company, the revenue which we did in the month of June almost consists of 82% of what we are reporting for the quarter and hence you can see that there would be probably some anomalies in the current customer segment because some customers have delayed their production start ups; however, in the long-term or even in the mid term we see that once the operations of all the customers are normalized more or less we will remain stable on the customer ranking which were probably was the same as what it was in the year of 2019-2020. So our top three customers will still remain as Maruti Suzuki, HMSI and Hero and also along with Mahindra and Tata Motors. So, we do not see a very significant shift on the ranking, but these five will remain our top five account.

Varun Bakshi: Sir also if you could provide more colour on how the demand is shaping up in say July and August and what kind of utilization have we reached currently in the month of August?

Deepak Jain: I think we have seen a better than expected recovery in the month of July as well as in the month of August. We are seeing an improvement although we still have not gone in terms of the complete utilization because you have to see as a total we were 20% down from last year and we will probably overall for the year will contract; however, if I compare it with basically the manufacturing revenue for the month of July vis-à-vis what it was for 2019-2020 we are down

20%, August probably about 4% and September we expect to have a positive as compared to last year's September. So we definitely see a better than expected recovery.

Varun Bakshi: Sir, also if you could provide any update regarding the new products like HVAC panels from Stanley that we were looking at if there is any kind of a development over there?

Deepak Jain: The HVAC panel remains as a product, which we will be having a launch with our partner. Currently, we are discussing with our customers and our plans remain basically the same. There are no changes because of the COVID to basically launch this going forward.

Varun Bakshi: So, do we have any confirmed orders for the HVAC panels from our customers?

Deepak Jain: We are currently under discussion. Once we have, we will be able to let you know.

Varun Bakshi: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Dhagash Shah from CD Equisearch. Please go ahead.

Dhagash Shah: Good afternoon. Dhagash Shah this side. Sir, what sort of integration do you have between different business units that is two-wheelers, four-wheelers, commercials?

Deepak Jain: Can you please elaborate what do you mean by integration?

Dhagash Shah: Integration as in what sort of integration between production, administration those sorts of things?

Anmol Jain: All our manufacturing locations are not specifically addressing any particular segment. The processes are common and within an infrastructure there are different production lines which cater to passenger vehicles, different for two-wheelers and different for commercial vehicles. I would say that almost close to 75% of the production process would be common and just the final assembly would be different based on segment demand and the segment requirements of the product. So there is a fair bit of backward integration of the processes across segments.

Dhagash Shah: Sir, with regards to raw material and designing can you throw some light on that as well?

Deepak Jain: I think currently Lumax Industries is one company with lighting although we are leaders in the lighting segment in the country, I think it is a company which actually offers product lighting for all segments, be it CVs, passenger cars, two-wheelers, and agriculture segment. Second if you are looking at in terms of the processes, we make lighting and all our processes, there are three major steps for the processes is the injections, process treatment and assembly. All our plants are equipped to have all these processes internally and as Anmol just explained that all these processes are used for all the segments. In terms of the technology R&D we have basically a partnership with Stanley Electric as well as the company has three R&D centers in Gurgaon, in Pune and one is in Taiwan and we use that R&D localized capability to cater to all our product development for basically the customer requirements for the Indian markets. So, we have that engineering capability as well to do that.

Dhagash Shah: Sir, how much of your lighting systems can be replicated by unorganized players for the replacement market?

Deepak Jain: From the unorganized player you have to understand that obviously there is a regulation and there is enforcement. Over the years, we have also been using our regulations to enforce not just I would say aftermarket issues, which we have curiosity issues, but also actually educate the consumer to use basically the OEM products, but if you see now as the technology is shifting and it is becoming more and more LED oriented the tooling investment and the technology investments is becoming more and more and hence it becomes more difficult to basically get it replicated by the unorganized market.

Dhagash Shah: Sir, is it possible to put some sort of rough figure or some sort of percentage on the question?

Deepak Jain: I do not think we will be able to put an estimate in terms of how much we can basically be replicated unorganized market or not, I can just give you an analogy. For commercial vehicle old 12-tonne Tata truck, which is still on the roads, used to have a sheet metal and a reflector and a glass film, today a similar type of Tata, the new launches are having a complete revamped new product, which is completely having plastic electronics, and hence it becomes impossible for the aftermarket to replicate it in an unorganized sector.

Dhagash Shah: Sir, what sort of difference is there between revenue and profitability in terms of front and rear lighting?

Vineet Sahni: Again, there is no direct answer on fixed proper percentage on front and rear. It all depends on the content of the lighting. For example, today the rear lights are also moving towards LED and front lighting is also moving towards LED, but front lighting is slightly more profitable but more capital intensive also as compared to rear lighting and therefore you would see that Lumax portfolio we have a higher share of front lighting as compared to rear lighting.

Dhagash Shah: My reason for asking that is the front is close to 70% of revenues and back is close to 22%. So, can you elaborate some further on that Sir?

Anmol Jain: When you are looking at the distribution about front and rear please also understand that there is almost one-third play of the two-wheeler and in that two-wheeler, there is not much substantial difference between a front and a rear lighting. In the passenger car space of course, there is a huge difference both in terms of technology or even the contribution and the revenue per vehicle. So, it is very difficult to give you a black and white picture in terms of front lighting is more profitable than rear lighting. There are various scenarios where we see the rear lighting on certain models are more profitable than the front and vice versa or in some cases both front and rear fetch similar margins for the company.

Vineet Sahni: Just to add on to your question that rear lamp requires lesser technology and the old types and therefore there are a greater number of players in rear lamp as compared to the headlamp. The quality requirement and the technology requirement for headlamp is much higher and therefore you see a little distribution of head at 70% and tail at 22% or 25%.

Dhagash Shah: That is very helpful Sir. Thank you. Just lastly if I can fit in how much surplus capacity do you need at any point of time? Do you have to keep? Is there any such requirement?

Vineet Sahni: Normally we plan our capacity at 85% to accommodate the peaks, 85% to 90% and 10% to 15% we keep for the peak season. For example, production requirement and they go up in OEM during festival seasons. So, that is how we do the planning.

Dhagash Shah: Thank you so much Sir.

Moderator: Thank you Sir. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good afternoon gentlemen. Sir, my question is regarding our electronic plant in Bawal facility and what is the progress in that because last time you cited about some delay. We see a lot of opportunity and you will agree with me on auto electronic side. Can you highlight sir on that?

Vineet Sahni: Electronics is growing up as we had shared earlier. So, new products are moving towards LED and therefore whenever it moves to LED so PCB comes into picture. That is why PCB is being designed in-house and that is supporting us in our process. Anything else you want to know?

Sanjay Shah: What progress are we having? Have we recovered this trend? Are we doing any capex and coming out with new products on that side we see in the new product facility?

Vineet Sahni: We are setting up as we shared world class infrastructure in electronics in a place called Bawal near our plant and this should be functional in Q1 of the next year. We postponed it because of the current condition. The infrastructure is ready. We would be creating this facility which is one of its kind in electronics and this should be functional in Q1 of next year because as we see a good potential coming in electronics.

Sanjay Shah: What is the capex you have spent now and what balance capex are required to be spent on that side?

Vineet Sahni: Sanjay if you could support there, balance is how much.

Sanjay Mehta: Rs.75 Crores is total spending on this project out of which Rs.50 Crores of that amount has already been spent, for balance, purchase orders are there. So, during this year we will have expenditures of around Rs.25 Crores on this project.

Sanjay Shah: Thank you. That is it from my side. Wish you good luck to you. Have a safe health.

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

Abhishek Jain: Good morning. Thanks for taking my question Sir. During this quarter, there is a significant jump in material expenses to sales. Is it because of the finished goods inventory for non-material expenses or is it because of the increase in RM prices?

Sanjay Mehta: It is because of the inventory.

Abhishek Jain: So, non-material expenses also added in this part, in the material expenses?

Sanjay Mehta: Actually, if you see the sales in QI which is as explained is not at all significant. The distancing requirement and all other protocols have increased all the expenses. The capacity utilization is not there at all.

Abhishek Jain: How much is the current inventory with you, which need to be liquidated in second quarter?

Sanjay Mehta: Due to lower sales, we are having the inventory of almost around 250 days including the raw material inventory. Finished goods inventory maybe around 45 days. Right now, it is almost cleared. The production is ramping up.

Abhishek Jain: What is the normal inventory?

Sanjay Mehta: Normal inventory finished goods we are carrying almost around 8 to 9 days.

Abhishek Jain: Sir, your import content is high in LED segments. So, what is the arrangement for the rupee depreciation?

Sanjay Mehta: We are not infact taking hedging for our imports because it is back to back arrangement from the customer mostly. So largely, we are not going for hedging of the foreign exchange.

Abhishek Jain: It is passed on every customer?

Sanjay Mehta: It is in most of the cases.

Vineet Sahni: It depends on the arrangement with the customer, not all customers have similar arrangements. Somewhere there is back to back, somewhere it is negotiation and somewhere we take a risk of natural hedging. So, if it goes down, we do not take from customers and if it goes up then also, we do not take from the customers. So, it depends from customer to customer.

Abhishek Jain: What was that forex loss in the first quarter?

Deepak Jain: Exactly, first quarter I do not think we had enough sales to have any forex loss as such.

Abhishek Jain: No, I am talking about the raw material's inventory and all, because that you have enough inventory right now. So, just wanted to know that how much hit you have taken during this quarter and where it is?

Sanjay Mehta: I think it is not significant. It is maybe around Rs.1 Crores.

Abhishek Jain: Sir, as you are talking about the ability to products like HVAC panel and electronic cable as well, so can you throw some more light on how big business opportunity in these products and when can you start the production on this?

Anmol Jain: Answering to both your questions, number one the electronic facility as mentioned before is basically for captive backward integration use to manufacture the CCD for the lighting. So, to that extent it is not a revenue generator, but as you have seen in the trailing quarters the profitability margins of the company have also risen because of this move of backward integration. So that is on the electronic side. On the HVAC side, yes, we do see a good market opportunity over the next three to five years because most of these products are currently imported. We are right now in the discussion stage with our OEM customers and perhaps also will be entertaining some RFQs shortly. So, we do expect that the production of this should start somewhere in FY2022, or later part of FY2022.

Abhishek Jain: My last question is related with your interest cost that has jumped significantly. Can you throw some might light on it?

Sanjay Mehta: Because of the higher utilization of the working capital limits, because of the disturbance in the working capital cycle in Q1, but over the coming times, and the capacity utilization is increasing we are hopeful that it will be reduced substantially way forward.

Abhishek Jain: Thanks Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Thank you for the opportunity. Please pardon me. I joined the call a bit late, if I am repeating the questions. I just wanted to understand the change in mix that we have seen this quarter from the LED lighting mix going down would you attribute that largely to your sales from HMSI going down to nothing temporarily this quarter?

Deepak Jain: We try to assume that not just HMSI but also in other customers maybe the models which have really gained traction on production are the entry level vehicles, which not necessarily have LED lamps so it is just a model mix, which is the contributor to the lesser LED contribution but going forward as things normalize we do expect things to come back to where they used to be.

Vimal Gohil: The models where the LED content is higher as you just highlighted that probably in August, we have seen some revival, has that revival has LED also participated in that revival?

Deepak Jain: Yes, it has.

Vimal Gohil: Sir, the next question was on gross margins. We have seen a sharp contraction in this particular quarter. As you said, this was driven by maybe higher inventory usage in this particular quarter. What is the outlook there? Do you see gross margins normalizing going forward? Also are the gross margin deterioration because of the mix of conventional and LED?

Deepak Jain: These gross margins for this quarter I would say that since it is an abnormal quarter where there was a lot of inventory also which was kind of taken care into the accounts, I would say that it is an anomaly. Going forward the gross margins should be normalized what they have been in the previous quarters going forward in the Q2 to Q4, we would see that this material consumption should be normalized.

Vimal Gohil: But the reduction in gross margins is not largely because of the rise in prices because the crude prices have been sort of subdued in the last particular quarter.

Deepak Jain: It is not the pricing; it is more about the revenue dropping and the inventory which was accumulated in the first quarter.

Vimal Gohil: Because of the lower production per se?

Deepak Jain: That is correct.

Vimal Gohil: Sir, the next question was really on localization. Are we on track to sort of increase our localization content or reduce imports, try and reduce your dependence on imports as we go ahead? Any change of plans over there?

Deepak Jain: I think the company has always had a fair amount of focus on localization and of course I would say with this whole COVID, we recognize that we need to fast track localization with alignment of our customer need and hence you said in sourcing between the LED, PPD, and going forward we are also evaluating other opportunities where we can basically derisk ourself and do import substitution. It is as progress as per plan maybe we might fast track a bit as well.

Vimal Gohil: Where are we in terms of localization in terms of percentage of content or maybe percentage of our costs, how much is imported content right now?

Deepak Jain: It again varies from basically lighting for the four-wheelers as well as two-wheelers. So, if you see basically the localization opportunity in the four-wheeler is something around about 20% or so and in two-wheelers it would be about 5%.

Vimal Gohil: When you say fast track, what was the plan earlier and what is it now, if you could just highlight that?

Deepak Jain: Fundamentally, we see that we would basically be localizing primarily on the LED content because the LED on the headlamp is 60% is basically still imported and almost about 30% is on the two-wheeler side and this, we wanted to basically have a localization about 30%. This I would think would be fast track.

Vimal Gohil: Any timelines there?

Deepak Jain: Probably you would see fast tracking. Our original plan was about a year or so. We may basically cut it to about nine months. We have to understand the localization means alignment with customers, so it has to go through the whole testing protocols. It is not just that you can just do it tomorrow. So, hence we would be fast tracking it from that perspective given the customer needs as well.

Vimal Gohil: Sir, last two questions, if you could just give me the gross and net debt on books for the quarter and what is the capex outlook for FY2021?

Deepak Jain: I will tell Mr. Mehta along with his finance team to address this.

Sanjay Mehta: We are carrying almost around Rs.53 Crores of the long-term debt and the working capital is almost around Rs.320 Crores. The debt equity ratio is around 0.15.

Vimal Gohil: Sir, this Rs.320 Crores of working capital debt will it come down, going forward?

Sanjay Mehta: I think it will definitely come down. As I mentioned because the Q1 was an abnormal situation so going forward when the capacity utilization will increase definitely it will come down.

Moderator: Thank you. Vimal, we would request you to please come back in the question queue for any followup questions, as we have several participants waiting for their turn. The next question is from the line of Pritesh Cheddha from Lucky Investment. Please go ahead.

Pritesh Cheddha: Slightly a broader question; so this gross block that we have of about Rs.1200 Crores and plus the capex that we have for backward integration at Bawal. Sir, a broader question this Rs.1200 Crores of gross block what is the peak revenue it can generate and at the peak revenue with the localization plans that we have what will be the margins that the company can achieve?

Anmol Jain: With the kind of gross block ideally we should be looking at close to anywhere between 1:1.8 to 1:2 and assets turnover ratio, so considering Rs.1200 to Rs.1300 Crores I would say anywhere around Rs.2000 Crores topline should be achievable with the current gross block with the kind of LED penetration and transition we are seeing currently. In terms of margins as you know that the company has been attaining close to double-digit EBITDA margins and we do expect this should perhaps in the coming few years expand by another perhaps 200 BPS to 300 BPS. The idea is to close an inch closer towards teen EBITDAs in the next few years.

Pritesh Cheddha: About 10% that we have should move closer to 13%, 14% on the peak revenue in the backward integration that we have.

Anmol Jain: More like 12%, 13%, yes that is the endeavor.

Pritesh Cheddha: Any outside thought or educated guess the peak revenue when do you think you could achieve two years down the line, three years down the line, any thoughts there?

Deepak Jain: It is difficult to forecast with the current situation at hand. As you know the industry would still be showing degrowth in the current fiscal year. This is over and above the 18% degrowth the industry saw last year if you are looking at a 40% odd degrowth in two years, the first and foremost question would be how soon we can recover that 40% degrowth and only then we can talk about growth. So to give you a very broad base picture and this is my personal assessment I do not anticipate that peak revenues being achieved maybe sometime in later part of FY2023.

Pritesh Cheddha: Peak revenue of your capacity, right? That is what you have quoted.

Deepak Jain: That is correct. I mean FY2021 is a degrowth and I am saying FY2022 we might just come back to where we were and FY2023 we might look at a growth story again where we could be maximizing our revenue potential with the numbers, I had just mentioned to you.

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

Sunil Kothari: Thank you. My hearty congratulations for a very good result. Sir, we talked a lot about renewed perspective in annual report. If you can qualitatively talk more about what is changing? You are talking about changing our approach, growth maybe cost, so if you can little bit talk about this?

Deepak Jain: In a broader sense I think when we talk about a renewed approach, I think number one it is not necessarily talking about the growth or the external environment; it is talking about the internal way we are doing things. There is obviously a very strong focus on consolidating capacities, a very strong focus on our cost structures, a very strong focus on redefining the shop floors based on the flexibility and agility, which are required in these unfortunate times. So we are looking at more internal issues. Obviously the external factors we still have a very strong product development order book as we go forward we do expect that with the growth bouncing back in one to two years, coupled with our internal reorganization of our resources, we should be in a much stronger position as a company than what we are today both in terms of our cost structures and margins. That is the broad sense of what we mean by redefining and relooking at the approach with the way the businesses run today.

Sunil Kothari: Sir, basically, this internal exercise on internal side, will it change or breakeven point maybe lower fixed costs anything quantitatively if you can talk what type of costs we have taken which is sustainable and likely to remain at a lower in terms of percentage level?

Deepak Jain: Absolutely, I think in Q1 itself the team has done a great job in looking at all avenues to reduce the fixed costs of the organization and we have been able to reduce the breakeven points and hence even with negligible revenues the loss which we had provided or which we have reported is not as significant as what we had anticipated when we started the lockdown. As a revival comes back on a month on month basis, we are seeing a much positive result than what we had anticipated before. So, you are absolutely right that the breakeven point will be reduced going forward and as growth comes back, we should be in a much stronger position.

Sunil Kothari: Great Sir. You mentioned during your opening remarks or reply to somebody this capacity utilization lower month on month, if you can repeat again?

Anmol Jain: The capacity utilization, what Deepak was mentioning was in the month of July our manufacturing revenues would be 80% of last year July, in August it should be upwards of 90% of last year August and in the September month it should be 100% of last year or we might even cross that 100% to show some growth on a year-on-year basis.

Sunil Kothari: Thanks a lot. Wish you good luck.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management (Private) Limited. Please go ahead.

Nikhil Upadhyay: Good afternoon. Good work for the team to report such numbers in a difficult period. Sir, my questions are basically two, and one clarification. Did you mention we were also looking at entering electronic cables? Because I understand we were looking at entering the HVAC segment. Are electronic cables also a segment we are looking at?

Deepak Jain: We basically overall would like to compliment and get the products with Stanley Electric; Japan is basically making. Of course, they are leaders in lighting and HVAC panel would be the next product, which we would basically be launching with their support in India. So, not electronic cables. I did not say this.

Nikhil Upadhyay: Fine. Secondly, Sir if we look at, we have done a good job over the last three, four years in terms of localizing our production capacities and a lot of it is already visible in our improvement in margin. I will just take a bit longer term perspective here that if we look over the last 15, 20 years in this industry there have been changes, like from halogen lamps and then conventional lamp and now LEDs and every time, probably we have a good first mover advantage as of now, but over a period in multiple calls also you have mentioned that the cost difference, price difference which is around 3 to 4 can settle down around 2 to 2.5. My question is from the competitive perspective that if we have to understand our cost structure and the way we have done the import substitution and have a first mover advantage. So, where would be our competitors in terms of debt, cost structure. Would we be like most competitive at the pricing point or the value proposition, which we can provide to our OEM players? If you can just help me understand on those two aspects?

Deepak Jain: I am not clear. I am sorry. You did get a bit. Can you just give a little bit specific point, what would you want us to explain?

Nikhil Upadhyay: My point was that over last three, four years we have been doing a lot of localization and improving our cost structure. So, we are reducing our import content and lot of indigenization has happened on the cost structure. Now a clear benefit of it is like that will help us become more cost competitive versus someone who is importing. In this industry in our previous calls also, we have mentioned that the price differential which we are looking at currently of three to four times versus the conventional lamps that will probably come down to 2 to 2.5 times. So, now we have a first mover advantage in terms of the localization. I just want to understand that what would be our cost differential or value proposition versus our competitor to our OEMs. So is it like for the competitors also to bring in the same cost dynamics or cost competitive it will take three, four years, where would they be in terms of vis-à-vis our pricing or cost of production on the LED part?

Deepak Jain: Let me try and address it in about two, three areas. Number one I think the lighting technology you have seen that every or almost a decade goes through a radical shift and this is not just in India, it is globally which is there. We obviously have a competitive advantage as you had mentioned also first mover advantage due to the relationship which we enjoy with Stanley Electric and you also have to understand the Indian market is also largely dominated by the Japanese OEMs which also do give us those technologies and hence we are able to utilize the global relationship to get that first mover advantage and do the local indigenization and offer the similar kind of products to the other non-Japanese OEM. In terms of the cost structure I think it is a continued effort. We are very clear that we will continue to have localized technologies which are suitable for the Indian market and we would also use that technology to also have skill building in our teams so that we are able to give a much more localized. We personally feel that as the technology becomes more complex for example, LEDs is becoming more and more electronics going forward again it would be when the Indian market would be ready for it, but there would be a lot of sensors, lot of software, lot of basically control units integration also in the lighting systems, so we are pretty confident that we will have that kind of skill and we are slowly developing and investing in that. Of course the investment portfolio as well as the capacity and capability to invest because as the technologies develop, you have to invest a lot more to localize these technologies and hence the financial, healthy financial balance sheet is also very, very important and if I compare it with the other competitors into the market, I mean to say that definitely for Lumax Industries it is a competitive advantage. Last is the segment distribution which Lumax enjoys where we actually do cater to all segments, be it two-wheelers, four-wheelers, Pascars, and even our recent entry into the commercial vehicles as well as to the agriculture space to actually again this technology shift happening, we would be able to garner more market share in these segments as well from what we are currently having. That is the overall way and of course with volumes the cost structure gets more distributed. We have invested over the years a lot in localized R&D capability to becoming technologically self-reliant and also have basically invested in Taiwan office for R&D. So, I think all those investments as the scale goes up, as basically all segments start adopting, we will be able to have a much more efficient cost structure than today.

Nikhil Upadhyay: Thanks a lot. Just one small question when we say that our front lighting is 64% and rear lighting is 22%. That would be by value. Can you help me understand by volume? If there is just keeping with basic like if in Pulsar there is an LED front light which we are providing would the OEM go to someone else for a tail light or does it like for the whole product or the whole product we get all the lighting or is it like a piecemeal approach, which an OEM takes.

Deepak Jain: The sourcing has significantly changed over the years and over the years the sourcing strategy at one point of time, used to be okay on one model like I am just giving an example Pulsar you could have two head lamps suppliers or two tail lamp suppliers. Now it is probably model specific; however, within that model when we say OEMs two again derisk itself probably does on the front end lighting to someone and rear end lighting to someone else, but it does not mean the front end is again distributed to two players it is probably then captured with one player itself and overall there is a broad based for almost all OEMs, the strategic sourcing, which basically defines who their strategic partners are and how much from the total buying they would basically be having a share balance with the competitors itself. So, I think that is where the current is. Very simply to answer your question if you have basically one model, headlamp would go to one supplier, tail lamp usually goes to the other supplier; however, in our case, we have seen and I will give an example like Swift we do cater to the complete model on the lighting wing.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from Monarch Networth Capital Limited. Please go ahead.

Anubhav Rawat: Good afternoon Sir. Just a couple of questions on the related party transaction. Sir, in FY2019 we had around Rs.217 Crores of purchase of raw material from Lumax AutoTech and it came down to about Rs.98 Crores. So, this is I presume because we had acquired their assets. So, is this a sort of rough number of Rs.100 Crores. Will this be the normal run rate, or will it further come down?

Sanjay Mehta: Yes Sir. Because I think you are comparing with the two years' figure. The last year there was LED, the Plant & machinery of which have been sold to Company. I would just want to mention that both the companies are audited by the BIG 4 audit form, so whatever the relative party transaction is taking place, it is on arm's length basis and is as per the requirement of that particular time. It is not less or high. It depends on the business requirements.

Anubhav Rawat: Sir, just wanted to understand we basically procure raw materials from Lumax Ancillary Limited and Bharat Enterprises. So, what is the nature of these?

Sanjay Mehta: We are purchasing wire harness from the Lumax Ancillary and Bharat Enterprises because stringent quality control is required in that.

Anubhav Rawat: What about Lumax Ancillary Limited?

Sanjay Mehta: Wire harness.

Anubhav Rawat: Thank you.

Moderator: Thank you Sir. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks a lot for taking my question. Sir, two questions, first one you mentioned that the opportunity for imports, substitution of imports is just 20% for four-wheelers and 5% for two-wheelers. But you also mentioned that the margins would increase by 2% to 3% over the next two to three years after normalizing of the demand. So, there is a disconnect between these two things. Could you throw more light on this? Secondly, do we have any scope for benefiting from the China plus one strategy followed by various OEMs?

Deepak Jain: So, I think I will answer the first question first. I think you are presuming that all the margin improvements will only come by localization. I think that is not the case in point. I think the margin improvement plan is primarily driven by better volume optimization, better product mix, transitioning towards LED, very, very cost-efficient programs, which we are running in the company and have been fast tracked because of this COVID-19 experience and of course due to the import substitution. So, it is a mix of all the parameters and a consistent approach towards cost rationalization which would actually help us our margin improvement given that we expect demand to further firm up and hopefully go. So, as growth comes in, I think we should get better margins. Second point I think we are talking about China plus one strategy. I think we will have to very closely monitor and watch how our OEMs are basically going to respond towards that and will they be shifting more and more certain products which could have export opportunity, and we have to also understand that in global relationship we have a very strong partnership with Stanley, which we have to respect their territory. So, we will continue to evaluate that and see whether we would have certain export opportunities which comes through for the company.

Pankaj Bobade: How about this Atmanirbhar call given by PM. So, do we see any opportunities growing for us may not be only in LED segment, or lighting segment or in any other product segment?

Deepak Jain: This company Lumax Industries Limited will be focused on lighting segment which basically will be catered along with our partners Stanley as I just mentioned that the HVAC panel is a new opportunity which we are evaluating. Atmanirbhar I think I will clarify that we at least see that as not just localization, but how do we enhance competitiveness so that Indian manufacturing can be recognized world over. I think that is the key and we are always in dialogue with Stanley that how do we basically improve our competitiveness and at any given opportunity if Stanley feels that we can use the Indian manufacturing base to cater to export requirements for the global processes we would be very happy to do that.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, the Honda Activa model has shifted to both halogen and LED with two variants with BS-VI rather it was completely LED. So whatever volumes we are seeing over the last two, three months what is the mix? Is it the halogen has got bigger share or LED is also a decent share?

Vineet Sahni: One important thing is that first quarter we should not take as a market or anything because different customers took different categories.

Ashutosh Tiwari: I am not talking about the first quarter. I got your point because any ways sales were not there. I am talking about the recent months basically.

Vineet Sahni: Yes, recent months both LED and halogens are taking priority from customers. First the vehicles related to halogen took priority because of the rural market, but now we see a significant increase in LED also.

Ashutosh Tiwari: Sir, this Activa 40%, 50% could be LED and sustainable like going ahead over next three, four months?

Vineet Sahni: Yes.

Deepak Jain: Let me answer it in a very different perspective. The market agility is so much that we really do not specially on a model, which is basically having both, and currently the halogen is there. Tomorrow the LEDs, we personally feel that LED would come back very fast, because as the market normalizes it is very, very difficult when you have given customer a choice on a specific model of higher technology they basically would revert back to older technology. And though as we say there is always a price differential on models and a price pressure, but we have to see. We have to also understand that the recent transition to BS-VI has obviously put in a lot of price pressure on the vehicle pressure and of course it was further compounded by COVID-19. So I think we will have to wait and watch. It would be very difficult for us to say that it is all going to be halogen or it is all going to be LED, but the point is that how the company will quickly react to the agility and hence we have those and the capacity, but if the LED requirements or the halogen requirement shoot up considerably, we would be able to cater to most of the demands.

Ashutosh Tiwari: Actually, just wanted to understand how the things are moving right now obviously what we have seen in recent months is that let us say even if the dealer segment of the motorcycles the higher price whatever you are selling there is no downtrading, seen so far, may not be in the ratio, it will be very different from BS-VI, so just wanted to understand that part?

Deepak Jain: We also agree with that stance, but again I am saying it is too premature just to speak about three- or four-month's outlook on this.

Ashutosh Tiwari: Secondly obviously we are localizing the PCB and other electronic parts of LED and also with COVID we must have taken a lot of cost cutting measures, so will it be fair to assume that when our revenue goes back to FY2020 levels, maybe in FY2022 that time the margins should be reasonably higher than maybe of 1% or even higher than that if I compare to FY2020 levels?

Deepak Jain: Absolutely, Anmol had mentioned that that we would aspire to basically reach a higher margin levels, of what we had been basically doing.

Ashutosh Tiwari: FY2022 itself we can see better margin?

Deepak Jain: Generally, it will depend on the market conditions.

Ashutosh Tiwari: Obviously, but I am just saying that if FY2020 goes to FY2022. Thanks Sir. All the best. That will be all from my side.

Moderator: Thank you Sir. Due to time constraints that was the last question. I would now like to hand the conference over to Mr. Deepak Jain for closing comments.

Deepak Jain: I would like to thank everyone for joining on the call. I would like to restate that this quarter was an exception and we remain confident to grow with the numerous opportunities and outshine the market. I hope we have been able to respond to all your queries adequately. For any further information, please request to get in touch with SGA, our Investor Relationship Advisor. Stay Safe and Healthy. Thank you once again.

Moderator: Thank you. On behalf of Lumax Industries Limited that concludes this today's conference call. Thank you for joining. You may now disconnect your lines.