LUMAX

LIL:CS:BSE:NSE:2020-21 Date: 25th November, 2020

BSE Limited Listing & Compliance Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001	**The National Stock Exchange of India Limited** Listing & Compliance Department Exchange Plaza, C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400051
Security Code : 517206	**Company Symbol: LUMAXIND**

Sub.: Transcript of Analysts/Investor Earnings Conference Call- Q2 & H1 FY 2020-21

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable Regulations of Securities and Exchange Board of India, Please find enclosed herewith the Transcript of Analysts and Investor Earnings Conference Call which was held on Thursday, 12^{th} November, 2020 at 10:30 A.M. to discuss the operational and financial performance of Q2 & H1 FY 2021 of the Company.

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

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

Thanking you,

Yours faithfully,

For LUMAX INDUSTRIES LIMITED

Pankaj Mahendru

LUMAX INDUSTRIES LIMITED

PANKAJ MAHENDRU
COMPANY SECRETARY
M.NO. A-28161

Encl: as stated above

"Lumax Industries Limited
Q2 and H1 FY2021 Earnings Conference Call"

November 12, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to Lumax Industries Limited Q2 and H1 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Jain, Chairman & Managing Director, Lumax Industries Limited. Thank you and over to you Mr. Jain!

Deepak Jain: Good morning, ladies and gentlemen. I hope everyone is doing good and keeping themselves safe from the pandemic. A very warm welcome to the Q2 and H1 FY2021 earnings call of Lumax Industries Limited.

Along with me on this call, I have Mr. Anmol Jain, Joint Managing Director; Mr. Vineet Sahni, CEO Senior Executive Director; Mr. Sanjay Mehta, Group CFO, along with the finance team, Mr. Shruti Kant and Mr. Ankit Thakral; and Ms. Priyanka Sharma, Head, Corporate Communications, along with SGA, our financial Investor Relations Advisor.

The results and investor presentation are uploaded on the stock exchange and company website, and I hope everybody has had a chance to look at.

Before we start with discussions on the financial performance of the company, I would like to share key highlights of the automobile industry. As the markets are opening up, people have started adapting to the new normal. With each passing month, auto sector is showing signs of recovery. Auto sale numbers have shown encouraging recovery month over month. Entire industry was staring at supply chain disruptions during the previous quarter. However, I am grateful to all our channel partners that we have overcome that phase, and our business is running smooth now.

We have seen better-than-expected recovery in past few months, and credit goes to our supply chain partners as well as our customers, whose operations are normalized now. As you all know, the festive season is always important to us since it gives us an enormous opportunity to book highest number of orders for the year.

This year, it was even more important as economic activities of the entire nation had taken a pause in the previous quarter due to the pandemic and this festive season is the ray of hope for all businesses to the path of recovery. We have seen almost all the automakers report growth sequentially as well as year-on-year basis with fair levels of discounts on their products leading to low inventory level currently.

There are several product launches, which have taken a backseat due to COVID, but they are also in the market now and we are happy to see them getting a good response.

I would like to give you a brief overview of our business at Lumax Industries. Our company is engaged in production and delivery of automotive lighting solutions to 2-wheeler, passenger vehicle, farm equipment space and commercial vehicle segment. We are the preferred suppliers to OEMs in India and continue to be the market leaders.

Feature that differentiates us from our peers is our strong branding and strategic partnership to capture the market share at the right time. We utilize our existing infrastructure to assemble and deliver a final product quickly and efficiently to meet the customer specification needs.

The gradual recovery in the revenues started in the current quarter, with each passing month, and we are happy to share that revenue in September month standalone was considerably higher from the same month last year and the upward trend has continued in October month also and expected to continue post the festive season.

In Q2 FY2021, the following new models have been launched which consist of Lumax Lighting. In the passenger vehicle segment, Mahindra & Mahindra has launched new Thar, which consists of all lighting as well as Bolero headlamp. In the 2-wheeler segment, the Suzuki Motorcycle Access 125 has the company's front combination lamp, and HMSI Harness CB350 has an LED headlamp.

In the commercial vehicle space, the Piaggio Ape has the company's headlamp and front directions indicator. And in the farm equipment space, we have Sonalika International with Rx Facelift and ITL, which has headlamp and fender lamp and projector headlamps with full LED fender lamps.

The company was also awarded at the Chinchwad plant that was judged as first in top 3 categories of the ACMA QCC Virtual Competition of Western region, held in August 2020, and the Bengaluru plant was judged third in the 15th National Quality Circle Competition organized by ACMA held again in August 2020.

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 morning, everyone. Let me update on operational and financial performance of the company for H1.

Operational performance,

The share of LED lighting stands at 35% of total revenue and that of conventional lighting stands at 65% during H1 FY2021. The product mix to the percentage of total sales, 67% consists of front lighting, 24% rear lighting and 9% other.

With respect to segment mix. 61% of total revenue consists of passenger vehicle, 33% for 2-wheelers and 6% commercial vehicle.

With respect to financial performance, the revenue stood at RS. 397 Crores for Q2 FY2021 as against RS. 429 Crores in Q2 last year, down by 7%. The shortfall mainly on account of lower revenues in July month, which was practically the first month post lockdown.

There was considerable increase in August and September months revenue put together from previous year resulting in shortfall of only 7% for the full quarter of Q2. Excluding mould sales, the revenue for Q2 stood at RS. 376 Crores as compared to RS. 386 Crores in Q2 last year, down by 3%.

The company reported consolidated EBITDA of RS. 41 Crores in Q2 against the RS. 44 Crores in Q2 last year, down by 6%. EBITDA margin stood at 10.4% as against 10.2% last year due to various cost down initiatives and better productivity and utilization.

Profit after tax and share of associate stood at RS. 7 Crores as against Rs. 20 Crores in FY2020 a down by 64%. The lower PAT is mainly on account of less profitability in associate company SL Lumax due to onetime price reduction from the customers to SL Lumax. The capex incurred during the H1 is RS. 21 Crores.

That is all from my side. We will now open the call for questions.

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

Ashutosh Tiwari: If I look at the Q2 numbers, our sales is down, say, around 3%, if you remove the mould sales versus that our largest customer, Maruti, has seen good volume growth in the quarter.

So, is the product mix the reason why despite Maruti growing, our revenue and Maruti has not grown and other customers as well, if you can highlight what is happening over there?

Deepak Jain: Can you please repeat the question? I could not understand your last part of the question. I would not clear your line.

Ashutosh Tiwari: I am asking that, if I look at our sales, ex mould sales, it is down 3% Y-o-Y. And even revenue with Maruti is down versus last year whereas Maruti volumes have grown quite well versus in the last quarter. So, what exactly happened over there, is this because of model mix? Or we lost some model, which is doing well? And also, in case of other OEM, basically, I think in other category, I see a decline Y-o-Y. So, if you can throw some light over there of what is happening?

Anmol Jain: This is Anmol Jain. I will take that question. I think if you look at Maruti, along with the SMG numbers for Q2 in the current year versus the last year, their growth has been 5% in the quarter. And our specific revenue for Maruti and SMG has gone down by approximately 5% on a year-on-year basis. The reason for that is purely because their Swift and Desire platforms, for which Lumax has a very high presence, has not done that significantly as compared to their other model. And also, Baleno and Brezza, which have done slightly better in which Lumax does not have a strong presence. So, answering your question, it is mainly because of the model mix, which has led to this. But if you look at overall, Maruti Suzuki as a customer still contributes the same amount as the overall pie of Lumax as compared to last year Q2.

Ashutosh Tiwari: So, your model mix is the main reason why there is a bit of underperformance versus Maruti numbers. Okay. And also, in this others segment, if I look at, which is there also I see a decline. So, which major OEM has seen a decline over there?

Anmol Jain: So, there would be no one significant OEMs. There would be more than 15 to 17 OEMs in that space, which is clubbed into others. But again, it is pretty much if you look at the pie as a percentage, it remains pretty much intact at about close to 16% to 17% of the total revenue pie comes from other customers.

Ashutosh Tiwari: Okay. So, are you now going ahead, are you seeing in terms of schedules and not seeing a pickup in Desire and Swift as well? Or it is still lagging behind other models?

Anmol Jain: No, now we are seeing a very strong demand across the models. Starting from October, we expect that the H2 would be a very strong recovery, not just for any particular segment but across segments and also across OEMs.

Ashutosh Tiwari: Okay. And lastly, on the gross margin, I see a decline versus last year same quarter. So, any reason behind that? Because if I look at commodity prices, which you use plastics and all via the pricing would have come down only. So, any reason behind that because that has impacted our margins as well?

Anmol Jain: So, on the gross margins, there have been certain escalations and the certain price corrections. But for which we have already filed claims to the OEMs, and we do expect that in the subsequent quarters to get some of these recoveries back from the OEMs.

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

Vimal Gohil: Yes, Sir my question is around firstly, I will just take the bookkeeping question. You said that you did RS. 21 Crores Capex in H1. What is the full year guidance?

Sanjay Mehta: It is RS. 50 crores.

Vimal Gohil: RS. 50 crores?

Sanjay Mehta: Yes.

Vimal Gohil: okay. The second question is actually related to the one Ashutosh asked. You said that, there has been some change in the model mix in some of your key customers. Overall, if I were to ask you, what has been the trajectory of your market share in the LED segment over the last maybe 2, 3 years up to the last quarter? Has it gone up? Has it remained flat? Or maybe the company has a scope to recoup some of this market share? Because there have been quite a lot of players who have entered this LED segment. You may talk about Minda or maybe Motherson being aggressive. So how have you seen your market share pan out in the last 2, 3 years? And how do you see it going forward?

Deepak Jain: So Lumax industry, especially in the lighting segment has the highest market share. And obviously, you are right that there have been new entrants in the market over the last 3 to 5 years. And obviously, as of now, our market share is stable. It is not just about LED, but I am talking about the total market. Because we, for Hyundai and Kia basically do it with our associate companies which is SL Lumax and for the other segments and players, Lumax Industries cater to. So be it Maruti Suzuki, which is one of the largest or in basically the 2-wheeler space. Going forward, we basically are expecting that we would actually be front-ending and growing more in the commercial vehicle space as well as in the farm equipment space where Lumax had significantly lower presence, and that was primarily because of conventional lamps, which were being used in this. However, going forward, since the technologies have already been changed and adopted. And as I said, like there were some new product launches. You saw the launch, which we actually got from the Sonalika Tractors in the ITL, so this will keep on happening and hopefully be able to sustain the market leadership position and also grow in the segment, specifically on the commercial as well as in the space where it is farm equipment. The share of LED lighting parts today is around about 35% of the total revenue. Conventional would be about 65%. And going forward, we expect basically LED to conventional go to the ratio of 50-50 because our new project development is majority having component of LED.

Anmol Jain: Just to supplement that, this is Anmol Jain, again. If you look at a 2- to 3-year horizon from FY2018, let us say, to the current date, the share of LED has actually increased from 25% to 35%, as Deepak had mentioned. And more specifically, if you see the 2-wheeler, the LED presence has gone up from 20% to almost 40% in the 2-wheeler space. So, we see a stronger penetration of LED in the 2-wheeler space. And since, Lumax compared to some of the competition is a much stronger player in 2-wheeler space as well. You see our market leadership sustain and with this technological shift of LEDs as well.

Vimal Gohil: Right. Okay. Sir, one question on your balance sheet. What I really observed over here is on the borrowings, if you see under your current liability section, your borrowings have gone from RS. 265 Crores to RS. 310 Crores despite the Capex coming down. So, when do you see this borrowing number ending for FY2021? Do you see some repayment happening? Because what I believe is post our Bawal facility ramping, you do not have a lot of Capex that is coming up. So, what is the outlook on your debt?

Deepak Jain: Sanjay, would you please take that one?

Sanjay Mehta: So, the increase in the debt is largely on account of working capital limits because of the market conditions. Also, there is sudden ramp-up. if you see the other side, the creditors are down by almost RS. 30 crores. And there is a slight increase in debtors and the stock. So, the answer to your question, going forward, debt is not going to increase rather it is going to be decreased. Our long-term debt has already been reduced by almost around RS. 12 Crores to Rs. 13 crores. So, these are all temporary increase to manage the present situation of the increased demand.

Vimal Gohil: Right. So, what I observe is your working capital was slightly negative in FY2020, which has turned positive right now in FY2021. What you are saying is that additional delta of about Rs. 50-odd Crores is the only reason why your short-term debt has gone up?

Sanjay Mehta: Yes.

Vimal Gohil: And that working capital is expected to normalize as and when the situation normalizes?

Sanjay Mehta: Yes.

Vimal Gohil; Fair enough.

Deepak Jain: It has already started to normalize. You could see it in the subsequent quarters as the volume offtakes, again, happen.

Vimal Gohil: Correct. March 2021 balance sheet in terms of debt, would that be a right assumption?

Sanjay Mehta: Yes.

Vimal Gohil: Fair enough, sir. And sir, sorry, one last question from my end. This is on margins. When we commission our Bawal facility, and that is probably one of the state-of-the-art facility that you spoke about in terms of and which will help you localize even bring localization faster and take it to a higher level. So, you already achieved a 10% EBITDA margin that you spoke about. As far as FY2022 and fiscal 2023 is concerned, the volume growth is going to be much better, hopefully? And given the fact that, and you have done a lot of cost optimization, your localization is going to be higher. What are your next targets on EBITDA margin going forward? Because you clearly achieve what you committed in terms of EBITDA of getting it to 10%? What are your next targets on that?

Anmol Jain: So, I will answer that. This is Anmol Jain, again. So, if you look at the last, let us say, 3, 4, 5 years, our EBITDA margins have gradually continued to increase from a 7%, 8% level to what it is today at over 10%. And that has largely been account of multiple things, including the in-sourcing of the SMT PCB process. Going forward, I think it is our continuous endeavor to increase our EBITDA margins. But to give you a picture, I think, over the next few years, our endeavor would be to try and get closer to the teen margin, somewhere 12%, 13% would be probably my best estimate in terms of the target of the company's operating margins.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC. Please go ahead.

Aditya S. Makharia: Yes. Just two questions. Are you concerned about demand coming off post the festive season? Because a lot of 2-wheeler makers such as Bajaj have said that there is some weakness in the festive demand? And second is, could you share some more details or give some commentary about your foray into electronics with Stanley? So how is that faring? And you had mentioned something about HVAC-related components. So maybe you could give some qualitative comments there?

Deepak Jain: Sure. So, I think let us talk about, first, the market scenario post the festive season or let me put it very in a short-term basis on the Q4 of this financial year. We are basically optimistic but cautiously optimistic. However, I think the way we are getting the schedule orders from our key customers and market leaders, specifically in the passenger car segment as well as in the 2-wheeler segment, we see that this will actually sustain going forward in Q4. One of the primary reasons is that as the country is going under unlock down stages, and the rural as well as both urban areas are opening up, excluding major cities, we are seeing that there is consumer confidence, which is coming back. The businesses are getting normalized, and hence, the cash flow positioning is also basically getting better, leaving at the end consumer, more disposable income. Hence, we feel that this will be sustainable. However, given the COVID times and unprecedented pandemic situation, we remain cautious of any, I would say, adverse impact. And we are agile to take that. I think over the last 6 months, we have learned a lot how to deal with this pandemic and we continue to basically be vigilant. Coming to your next question on the electronics part. Stanley has been, as I said, over the last 37 years, a very strong partner. We have expanded already our partnership to foray into not just lighting, but also electronic space. Lighting and electronics continue to actually merge more and more. And hence, one of their product lines, which was the HVAC panel and also the electronic cable, we have already made an agreement with Stanley. This includes basically backward integration for our current product line as well. We do see there is a good market opportunity over the next 3 to 5 years, especially given the thrust of government Aatmanirbhar Bharat as well as on localization. Currently, also in various models, HVAC panels are being used, however, not being localized. And hence, we feel that once this pandemic is over, we have stabilized the company., we will be putting in investments, not just in LED electronics, but also going forward in HVAC to ensure that we are able to give localized product line. We have already started receiving RFQs. And once we materialize the orders, we will then make subsequent announcements accordingly.

Aditya S. Makharia: Okay. But the timeline you said is in a year's time or it is going to be longer?

Deepak Jain: No, it was FY2022, we said that we should start somewhere the production in FY2022 or later part of FY2022.

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

Dhagash Shah: So, Sir, what sort of entry barriers were there in the LED business?

Deepak Jain: In the component space itself, there are high entry barriers. And now when we look at product line like the lighting systems, globally, this is actually controlled by around about 4 or 5 players, all of which have got presence in India. And also, in India, I mean, say, we have a very, very diverse and distinct supply chain, especially for lighting, catering to targeted OEMs. So, I think the barrier to entry is extremely high. That gives more complexities because lighting is a product which is actually fragile. It is bulky, it is not very easy to transport. And hence, depending on the customers, you have to set up a product line or the factories which are very close to it. And hence, it gives, again, barriers to entry. In terms of pure LED, the technology, which is not just in production, but mainly in packaging design, that is extremely, extremely relevant. And our global partners like Stanley have invested massive amounts in R&D to ensure that they are able to integrate LEDs into lighting systems. You are also aware that LEDs is probably one of the fastest moving technology. Every 2 to 3 years, it keeps on evolving in terms of product performance, in terms of quality performance, in terms of output as well as on the price efficiencies. So, it is a very, very rapidly evolving market, and you need to be really having a good R&D. So, in a simple way, there is high barrier to entry.

Dhagash Shah: Got it. So, since you mentioned that, sir, then should not we be having a positive market share outlook for LED going the years ahead?

Deepak Jain: We continue to do so. You are absolutely right.

Dhagash Shah: All right. And since you mentioned a bit about supply chain, sir, so why are the replacement market revenues low for the company? Is not that a market that needs to be explored?

Deepak Jain: For Lumax Industries, does not directly deal with the replacement market. We are primarily dealing with the OEMs and the spares of OEMs.

Dhagash Shah: All right. So, is there some sort of contractual reasons why you all do not explore that market?

Deepak Jain: Well, we are being focused on the OEMs, and there are certain contractual obligations. We would continue to focus into basically servicing our customer requirements in OEM and spares. There is another group company, which basically does into the direct retail business.

Dhagash Shah: All right. And sir, if you could put a figure on that as in what sort of revenues would be coming from there, 15%, 20%, anything, if you can give some sort of outlook?

Deepak Jain: On what? Sorry, I am not following your question.

Dhagash Shah: So, my question is, sir, that if you could give some sort of revenue share that the other company is getting from the replacement market?

Deepak Jain: I think we will restrict answering this question as it pertains to the other listed company of the group.

Moderator: Thank you. The next question is from the line of Ashvin Shetty from Marcellus Investment Managers. Please go ahead.

Ashvin Shetty: Sir, just had one question. When I look at your trade payables, so it used to be around Rs. 536 Crores at FY2018 and it has been consistently coming down. So, I think as at September 2020 end it has almost halved at RS. 285 crores. Sir, I wanted to understand what is the reason for the significant reduction in the trade payables, which also is having a bearing on our overall working capital?

Deepak Jain: Thanks. Maybe I will request Sanjay Mehta and Vineet to take this up.

Sanjay Mehta: Yes. So, the main reason of the decrease in the creditor is no sales in Q1 but continuous payment to creditors as we have a larger credit term. So, till it comes to the 30th September, a lot of creditors has been paid off. And further because of the increase in the demand suddenly on the demand of creditors keep on paying to them early to maintain inventories, that is the reason of the decrease in the creditor.

Ankit Thakral: And to supplement that in financial year 2018, there was almost around Rs. 100 Crores amount that was bill discounting amount which was part of trade payables that has now been regrouped into short-term borrowings.

Ashvin Shetty: Okay. But how should we see the number going forward? Should we continue to see decline in the creditor days? Or will you stabilize at this level?

Sanjay Mehta: It will stabilize going forward once the production is in the normal space. Because at the time, payment is slightly faster to the creditors on account of market conditions but way forward, it will be stabilized almost around 90 to 100 days of the creditors.

Ashvin Shetty: Okay. And sir, second is just a bookkeeping question. If you can let me know the gross debt figures, including the current maturities, what it stood at September end?

Sanjay Mehta: It is Rs. 352 crores, total debt. Out of that, long-term debt is almost around Rs. 41 Crores and rest is the working capital limits.

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

Abhishek Jain: Sir, as you mentioned that onetime price reduction has taken in SL Lumax. So please throw some more light on it? Is it applicable with the other OEMs as well?

Deepak Jain: Sorry, can you repeat your question, Abhishek?

Abhishek Jain: Sir, as you mentioned that there was a onetime price reduction you have taken in SL Lumax. So please throw some more light on it? Is it applicable with the other OEMs because there is a lot of the cost pressure now with the OEMs that they are trying to reduce their prices or cost?

Deepak Jain: Okay. I understand. So, I think, see, SL Lumax, I have been mentioning in previous calls as well. I mean, say, because of their special arrangement with Hyundai globally, they keep on adjusting prices based on their global discussions when it comes down as onetime price adjustment, and it is not a planned thing. For majority of the other OEMs what Lumax Industries look at, we basically continue to be actively engaged in basically price negotiations and discussions, and there could be downward as well as upward. Because depending on the external situations, we keep on putting claims on our customer. It is a continuous effort. So, in other customers, we do not usually expect ad hoc onetime price decreases. And we keep on basically having it across the quarters. So that is how we basically are doing. A lot of them, the price revisions do happen in the quarter 1, starting the financial year. However, depending then on the negotiations, we basically continue to do it. And then if it is up plus or minus, we basically then put it across throughout the year in the subsequent quarters.

Abhishek Jain: Okay, sir. During this quarter, revenue from the Tata Motors has gone up significantly. Is it because of the volume uptick of Tata Motors or you have won new business?

Deepak Jain: Yes. So, if you see Tata Motors in the Q2 specifically, I mean say, the growth would have been around about 10% or so and we have basically, year-on-year, grown at about 22%. And it is primarily because of the increase in volumes of the Tiago, Tigor as well as Altroz where Lumax Industries is present.

Abhishek Jain: Okay. Sir, my last question is related with this government announcement of the products and linked incentives. So how this will benefit auto ancillary industry and Lumax Industries in particular?

Deepak Jain: Extremely, extremely happy to know that they have made the announcement. And even if you see the outlay of what the government has announced in the 10 sectors, almost 40% of it is going into the auto and the auto ancillaries. And of course, we are in detailed deliberations now, getting the final guidelines with the DHI, Department of Heavy Industries. Actually, I am leading these discussions. I think the sentiment is to make more localization. So, it will be channelized towards export benefits, export competitiveness. And the idea was to balance. There are certain, I would say, disabilities when you are making certain production. But to ensure that we get the right PLI, I would say, measures to make our industry competitive, that, I think, has been balancing it out so that we are able to be more export-oriented as well as Aatmanirbhar or localized. Now the company per se, as I mentioned, that we have many product categories, in electronics, we are investing in localization. So, the PLI scheme will definitely benefit us in terms of investment velocity, capacity as well as in the localization initiative. And of course, make ourselves more competitive so that we are able to then discuss with our partner, Stanley, to make also their global requirements where they can see India as a potential export for hub in the future.

Abhishek Jain: Okay, Sir. Sir, my last question is related with the system inventory. So, what is the current system inventory with you? Is it normal or it is higher than the normal?

Sanjay Mehta: No, it is slightly higher. But looking to the increase in production because of the increase in demand, we are keeping the inventory slightly higher, so that there should not be any contraction in production.

Deepak Jain: There is also a customer requirement, given the festive demand pull and also the uncertainty in the environment. Most of the customers have also told us, and we are also planning to basically keep some high inventory level for basically the immediate next 2 months, 3 months, but this will normalize in the due course.

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

Sanjay Shah: Deepak Ji, you sounded positive and are now focusing and having an entry into commercial vehicle and farm equipment. So, sir, can you highlight on this? And can you talk some detail what is the market opportunity? Who are the competitors? What sort of domestic manufacturing is there? How much is import content is there? What is the value of LED into this commercial vehicle?

Deepak Jain: So, let me just give you a little bit more outlook on the industry, on the CV as well as FES. And then I will tell Vineet to give you a little bit more details on Lumax Industries per se. What we have seen primarily that the LED technology and also lighting has a very clear visible advantage while designing a vehicle. This was only being adopted in the 2-wheelers and the passenger car segment. But I would say, over the last 3 to 4 years, the commercial vehicles also, specifically when like companies like the Bharat Benz basically came into Business, they started basically adopting the global platform. And then, of course, Tata also refurbished a complete commercial vehicle chain and made it more modular. And in doing so, they also then discussed and decided to basically refresh it. And then the whole competition like Ashok Leyland's and others, followed it. Also, CVs were bricked into the heavy commercial, medium commercial, light commercial vehicles. And as the light commercial vehicles volume grew up, they actually started adopting this. It was a very pleasant surprise that some of the tractor segment players also, especially when going into a higher horsepower tractor and also export-oriented tractors and I am talking specifically companies like TAFE, companies like Sonalika, they actually wanted to refurbish the tractor line. And while discussing with us, they decided that they will go the LED way. Of course, now Mahindra has also followed suit. Mahindra being the world's largest tractor maker by volume, is positive. So, the trend is definitely shifting to becoming having more stylish commercial vehicles or tractors. And there, lighting plays a significant role of having a visible impact. And second, of course, because of the design change, they are now looking and open to adopting LEDs as well. We, at Lumax, over the last 3 years, what had done was we had made a special department for our designing and styling, which was focused on the farm equipment section as well as on the commercial vehicle segment. This did give us impetus to basically do a lot of designing in that. Relatively speaking, as I say, our market share on lighting was almost negligible, a single-digit figure in the FES space. And the reason was we forego a lot of this lighting because there were conventional old types of sheet metal and glass still being used. And because of that, we were not making competitive in that market, and there were many, many players which were feeding this market. So, we decided to actually focus on the high value-added lamps. Same thing also happened in the CV space. But over the last 4 years, we saw that shift, and we started doing the designing. And now we are targeting to have at least around about 25% of this market, especially in the farm equipment and also in the commercial vehicle segment to about 30%, 35%, given the fact that most of them will be new refreshed lighting. On specific customers, Vineet, if you would like to add something?

Vineet Sahni: Yes. Sanjay Ji. So, I just want to add, I think most of it has been explained by Deepak Ji. But I want to add that we were actually the leaders to lead this change in the agri, that is the tractor market. And we were the first one in competition to form a group and engage with customer to change this technology in agri, that is tractors. And now after 2 to 3 years of hard work, we have started getting good response from almost all the tractor makers, and we are very confident to reach around 30%, 35% of market share quickly. And going forward, we see ourselves as a preferred player for this change. On the commercial vehicle, yes, there is a huge opportunity for a similar change. We are working on that, and that also will follow. In fact, tractor has been faster to change as compared to commercial, maybe because of cost sensitivities. But we feel that, that is also a good opportunity, for which we are equipped today to bring that change and capitalize on that opportunity.

Sanjay Shah: That is great. Vineet Ji, but what is the value of that LED, the whole set vis-à-vis to passenger vehicle?

Vineet Sahni: See, I will give you a ballpark number. In a passenger vehicle, if you are using all LED lamps, so the value comes to around Rs. 13,000 to RS. 14,000 per car. Of course, it varies from feature to feature. In tractor, it would come to around RS. 3,000 to RS. 4,000, if it is all LED.

Sanjay Shah: In commercial vehicles?

Vineet Sahni: In commercial vehicles, which will also be around the same. It is around RS. 3,000. Because tractors would have more lamps, just to let you know, they have these fender lamps, which are 4 in numbers, right? So that also when they turn into LED, so the numbers go higher.

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

Anubhav Rawat: Just a few questions from my side. So, sir, this price reduction in SL Lumax. Sir, is it primarily in the Kia portfolio or Hyundai or both?

Deepak Jain: It is primarily on Hyundai.

Anubhav Rawat: Okay. So, sir, any percentage I mean any ballpark percentage for this reduction?

Deepak Jain: Usually, they do around about 3% to 4%. That is what basically the ballpark figure is. But again, as I said, they are mainly done based on their global complete Hyundai order, so not specifically just for Hyundai.

Anubhav Rawat: Okay. Right, Sir. And sir, like for us, the split between LED and conventional is 65%, 35%, would you have any number for SL Lumax?

Deepak Jain: We can get back to you on this.

Anubhav Rawat: Okay and so according to your annual report for FY2020, I was just going through the contingent liabilities. So, they have gone up from RS. 62 Crores to RS. 92 crores. So, sir, what is the reason? And what is your view on this?

Deepak Jain: I will request finance team to basically take that first?

Sanjay Mehta: It is on account of some GST liability on the moulds, etc, where there is a litigation for all the component industry. And we are confident it will be in our favor going forward. It includes income tax matters also

Anubhav Rawat: Okay. Because, Sir, I mean, it is quite a big number, like I think it is 20% of our net worth? So, I mean are you fully confident that in our favor?

Sanjay Mehta: Yes, we are fully confident, along with that some income tax liabilities also there, which is in the process of settlement. I mean in our favor.

Anubhav Rawat: Okay. And sir, for this Bawal capex, how much is remaining?

Ankit Thakral: You are talking about Bawal?

Anubhav Rawat: Yes.

Ankit Thakral Around RS. 17 crores.

Anubhav Rawat: RS. 17 crores. 1-7, right?

Ankit Thakral: Yes.

Anubhav Rawat: Okay. So, and by what time will these be completed, sir?

Ankit Thakral: So, it will be, I think, completed by Q4 of this year...

Sanjay Mehta: End of this year.

Ankit Thakral: Q4 or Q1 of next year.

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

Pankaj Bobade; Sir, you mentioned about HVAC panels and electronic cables, which would be our foray in future. So, this HVAC cable, is it something related to air conditioning or where does this panel go in a vehicle? And what is the market, what is the scope for us and the total market available? And who are the competitors, both for HVAC and electronic cables?

Deepak Jain: So, let me just tell you what the product description is, HVAC panels primarily are panels, which are controlling. So, when you sit in the vehicle and where the audio system is, you actually see the full panel, which controls, it is like a digital panel with basically like an LCD screen behind. And that primarily does the controls of the air conditioning or climate control. So that is what is the HVAC panel. We are not getting into any HVAC systems. These are basically on the control system for them. And so, for basically the this was the question there?

Pankaj Bobade: No. There was some disturbance.

Deepak Jain: So that was basically it in terms of the electronic cabling, I mean you said there are cables, which also complement the vehicle integration with the panels as well as on the lighting systems. So that is what it is. Vineet, you can now come in and you can just talk a little bit on the market scenario per se.

Vineet Sahni; Okay. So, this HVAC is basically heating, ventilation and air conditioning. That is what Deepak Ji has just explained where you see the cable... So, as I said, HVAC is basically heating, ventilation and air conditioning. So, these are the electronic channels that we do, which controls the air condition system in the car. There are existing Japanese and non-Japanese competition into this business. We are starting with one customer to start with. At this moment, it is preliminary, not to speak about that customer at this moment because of competition. And gradually, after we start production, we will penetrate into the market. So, there is a business plan to it.

Pankaj Bobade: Sure. Just I mean, can you give a color on what would be the total market for this product?

Vineet Sahni: So, the total...

Pankaj Bobade: Ballpark figure?

Vineet Sahni: Yes, ballpark figure of this market comes to around Rs. 800 Crores potential.

Pankaj Bobade: Both independently RS. 800 Crores…HVAC panel and electronic cable?

Vineet Sahni: No, I am talking of total. Yes, total market, it is around Rs.800 Crores potential.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: I just have 3 specific questions. First is on aftermarket piece, so whatever sales Lumax Auto Technology mix is made through Lumax Auto Lumax Industry. Am I right in thinking that way? So, the aftermarket network and distribution will be managed by them, but the supplies are primarily from us?

Vineet Sahni: A slight correction there. Lumax Auto Technologies does buy a lot of lighting from Lumax Industries, but not 100% of the requirement. They also buy a lot of lighting from Tier 2 suppliers, which are directly controlled by Lumax Auto Technologies.

Viraj Kacharia: So, of the total aftermarket requirement of, how much will be catered by Lumax industry?

Vineet Sahni: Out of total aftermarket of lighting needs of Lumax Auto Technologies, roughly about 70% of that lighting would be from Lumax Industries.

Viraj Kacharia: And for LED, it will be close to 100%. Am I right thinking that way?

Vineet Sahni: Yes, possibly.

Viraj Kacharia: Okay. Second question is on the HVAC panels and electronic cables, which you talked about. So, the market is primarily catered to by imports currently, right?

Deepak Jain: Yes. That is correct.

Viraj Kacharia: And what will be the cost differential? I mean, just based on initial walk-in, in terms of localization versus imports.

Deepak Jain: Well, I think in terms of if you saw, we actually did certain in-sourcing. And based on that and localization, we actually did improve about 100 bps. So, I mean, it is a competitive scenario. If you look at pricing difference, I mean, say, you have to see we have to talk about a little different where we export it out. But usually, depending on the logistics, I think, ballpark figure, I can say, it comes somewhere between 10% to 17% becomes a cost merit. Until and unless we get that kind of a cost merit, we are not able to localize it.

Viraj Kacharia: Okay. And last question is, so primarily, our focus so far has been on the domestic piece. Now given the PLI scheme and also, there is an increased focus on localization and also from an export point of view. So, is there any thought process between us and our partner, Stanley, in terms of using India as a base also for automotive lightings or any of the other product lines which you talked about?

Deepak Jain: So as I...

Viraj Kacharia: Is there a roadmap to it? Or is there any thought process, which we are in discussion right now?

Deepak Jain: As I mentioned before, in my call, I think there was when I was answering the PLI scheme, of course, I mean, see, Stanley has multiple global facilities. And I think India being one of them. And of course, we keep on discussing and deliberating that depending on the competitiveness of India, we can probably support certain regions and their global requirements. I personally feel that PLI scheme, once it is out with the exact contours and what kind of export PLI, we can actually get we definitely would be able to become much more competitive in the global requirement. And we are already in discussion with Stanley to look at opportunities that we use India as exports hub.

Viraj Kacharia: Okay. Last clarification. Sir, for export, will largely be a function in terms of us, if at all requiring to Stanley requirement? Or us independently, do we have any thought process of us looking to catering to any of the markets on independent exports?

Deepak Jain; See, there are 2 things to gear on exports. Number one, if I look at it, we already do independent exports, specifically to Europe on certain platforms. However, I mean, say, whenever we export, we are very conscious of the fact that we are not competing with Stanley globally. Number two, now we are in discussions with Stanley to see whether, I mean, say, India can prove its competitiveness to get certain products, which we are already probably making to meet the global requirements of Stanley. And in third, I think, if you look at it, export also why it comes low in lighting is primarily the reason that it is a very fragile product. It is also a very aesthetic product, so dust proof, scratch proof, and it is not so logistically friendly. But wherever we see opportunities and India does have a high logistics cost. And that is why I said that there are certain disabilities which are in India.

Hopefully, this PLI scheme when it comes and puts out details, would actually be able to offset those stabilities and make us more competitive for the global warming.

Moderator: Thank you. The next question is from the line of Avinash Nahata from ABC.

Avinash Nahata: So, 3 questions, all on SL Lumax. So, number one is SL Lumax, does it cater to the domestic markets for Hyundai and Kia only or does it export as well? What is the mandate with that particular company? That is number one. Number two, since we hold a strategic 22%, 23% holding, so we would obviously what we have heard from you guys is that there is a onetime price adjustment. And so, there is a negative movement as far as profits from associates. If you look at H1 this year versus last year, RS. 7 Crores positive versus RS. 7 Crores negative. So, we want to understand, as a shareholder, is what to expect from this equity stake in the medium-term? And third, is there any shareholder agreement, which gives us an ability to increase our holding going forward? So, these are 3 questions relating to SL Lumax.

Deepak Jain: So, number one, the SL Lumax is focused on basically the Korean manufacturers in India. They were for since inception, the sole basically lighting as well as other product makers like mirrors and trims for Hyundai in India as recent Kia Motors basically entry came in, SL globally also got the Kia business. So, in that way, relationship with Lumax is extremely fruitful. Because we are able to have a structured way and give solutions to our customers where they basically deal with the Koreans, given their basically relationship for these Korean makers globally as well as headquartered in Korea. And Lumax, through its partnership with Stanley, basically caters to all other customers. Stanley and SL also cooperate globally and have basically a relationship in a global competition manner. Second part is and you said that for, I think, the market, I think they will cater to the Indian market. Not directly to export. But of course, I mean, say, Hyundai as well as Kia has exports plans, so they will basically go from the India sourcing plants. That is number one. Number two, of course, we have a minority shareholding in that within the group. This is the only entity, which we have a minority shareholding. And this is a strategic interest, which we have. Agreement is very clear to basically structure the market so that we are able to give better solutions to our customer. Do not compete with each other. As well as more importantly, with this, basically, equity, we do enjoy rich dividends as well, which is coming and this equity over a long period of time has also enhanced and increased in value. Number three, going forward, if we have a plan to increase and enhance our equity. As of now, we do not have any plans. We will basically sustain this equity model.

Avinash Nahata: So, does the shareholder agreement provides you a provision where you can increase after next year? Is there something like this for exports.

Deepak Jain: It is a confidential thing; I would not be able to disclose that. We do have a joint venture agreement between SL and Lumax Industries.

Avinash Nahata: Okay. And my last question was there is a negative movement, RS. 7 Crores profit versus RS. 7 Crores loss this year, profit from associates. So, we want to understand how is this business doing? And what should we expect in the medium-term from this business SL Lumax?

Anmol Jain: This is Anmol Jain. I think the business fundamentals are very strong of SL Lumax. It still enjoys a single source status across Hyundai and Kia platforms. I would only request, as mentioned before, please look at SL Lumax as an associate for the entire year, 12 months. And you will see that for the entire year, they do add significant value, both as Deepak mentioned in terms of dividend and in terms of the profits. They do have some very different understanding of a quarter-on-quarter arrangement with the customers. And hence, you see these onetime abnormalities in specific quarters, both on the positive side as well as negative side. But I would only request you to look at the entire year rather than any specific quarter for these movements.

Avinash Nahata: So, if my understanding is correct, you are trying to say that if you look at the previous 2 years and the way the SL Lumax profit from associates line item has been doing, so the profitability, obviously, based on future growth, will be on similar lines, irrespective of quarterly movements?

Deepak Jain: That is correct. And you have to discount for this year, specifically the COVID movement.

Avinash Nahata: Yes, that is okay. I am talking about from a steady state perspective, annualized would be pretty much the same and plus the growth in the business?

Vineet Sahni: I mean the growth would depend directly with respect to the plant in terms of the revenues. But I think in terms of margins, one should expect these current margins on an annualized basis to be sustained going forward.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors.

H. R. Gala: Congratulations. I think you have really come back quite well in first quarter. Just wanted to know what is your view for the full year. Do you think we will end up in a black or still there can be loss because H1 had a big loss component?

Deepak Jain: Hasmukh Ji, thank you for joining, sir. Yes. Well, let me put it this way that the definition of black has changed. So, let me put it in a way that, at least in revenue, I think it will be difficult to be positive. It will be negative itself. But definitely all our endeavors are that we will, hopefully, with this revenue outlook of H2 coming in, which was also we felt in the month of September. I personally feel that we would be able to turn the company around, and we would be basically able to profit figure on the bottom line.

Anmol Jain: So just to supplement that, I think in H2 just to supplement that. In H2, we do expect a strong volume recovery revenue growth. I would say, that is there for H2 stand-alone, we even look at a double-digit growth compared to H2 last year. But as Deepak has mentioned, for the full year, we definitely would be still in the negative territory in terms of the revenue. And in terms of the bottom line, we do expect that for the full year, in H2, we will have as much stronger recovery. And in for the full year, we should be able to report profits for the full year for the FY2021.

H. R. Gala: Okay. And that will be I hope it will be before these SL Lumax because SL Lumax, we do not know what could happen?

Anmol Jain: Right now, I am talking about without SL Lumax.

H. R. Gala: Correct. And sir, what will be our effective tax rate, sir, because it is 45% in Q2?

Sanjay Mehta: It is a normal tax rate, sir, around 34% what is there.

H. R. Gala: And sir, just last question from my side. You said that now we are focusing on the tractors and farm equipment and CV, etc. Do you see that in the passenger vehicles and 2-wheelers, the new players, which we have come in the last 4 or 5 years, are they making roads into our territory?

Deepak Jain: No. So, I think just to be very clear that if we enjoy our 50% market share, I mean, say, we will need to basically put in all fires to basically sustain this market share. And I think if we want to gain the market share, the only way to gain the market share is to also enhance our presence in these segments. So, when I said that we will be focusing in the commercial vehicle and FES and gaining market share there, does not mean that we are planning to lose the market share on the pass car as well as the 2-wheelers segment. We rather would like to intake. Just to give you another thing we had mentioned about last year that we have already started making roads in the TVS Motors. So, for the 2-wheelers. So, we know HMSI, Bajaj, we continue as a group to have a good market share leadership. But then TVS, we want to enhance basically our market share position. In the pass car business, we have already got

MG Motors as a new client. Now we have also got some other key customers which are coming in, also entering. So, we keep on basically putting our focus down and ensure that major players like Maruti Suzuki. Like for Tata Motors in the pass car segment, we have actually gained market share. So, I think this happened. But of course, their model mix keeps on changing quarter-on-quarter vis-à-vis, I mean say, it happens that we may have 1% plus/minus. But in the long term, we want to basically sustain market share leadership through across segments and also penetrate in this.

H. R. Gala: Okay. And sir, what is the view of these major OEMs like Maruti, etc, on their future capex plan, capacity expansion plans? When do you think they will fructify?

Deepak Jain: Yes. I think it is a very good and important question. COVID times for the industry itself was so unprecedented that its kind of had frozen in terms of at least capacity expansion. However, if I look at stand-alone October, you have seen like Maruti Suzuki at almost 180,000-plus vehicles. And also, if I see the run at rate in Jan, Feb, March, which is Q4, Maruti wants to do something similar, what they did in the month of October and November. December being already always a year-end month the year-end month, they already have planned shutdowns and all. So hence, I think the pickup again will start Jan, Feb, March. And with this, the capacity expansion will be needed to be planned out. I personally feel that Maruti is already on the drawing board to see where they can do Capex planning. Maybe they will announce soon in probably Q4 or Q1 of next year.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Deepak Jain for closing comments.

Deepak Jain: Well, I would like to thank everyone for joining this call, and I hope we have been able to respond to your queries adequately. I take this opportunity to wish all our shareholders a very happy and more importantly, also a prosperous happy Deepavali. For any further questions, please request to get in touch with SGA, our Investor Relationship Advisor. Thank you once again for joining the call. Stay healthy. Goodbye.

Moderator: Thank you. On behalf of Lumax Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.