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

Sub.: **Transcript of Analysts/Investor Conference Call- Q2 & FY 2020**

Sir/ Ma'am,

Please find attached herewith the Transcript of Analysts and Investor Conference Call to discuss the operational and financial performance of Q2 & FY 2020 of the Company which was held on Friday, 15th November, 2019 at 11:30 A.M.

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

This is for your information and records.

Thanking you,

Yours faithfully,

For **LUMAX INDUSTRIES LIMITED**

Pankaj Mahendru

LUMAX INDUSTRIES LIMITED

PANKAJ MAHENDRU
COMPANY SECRETARY
M.NO. 28161

Encl.: as above

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DK JAIN GROUP

"Lumax Industries Limited
Q2 and H1 FY2020 Earnings Conference Call"

November 15, 2019

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. NAVAL KHANNA – EXECUTIVE DIRECTOR (LMS)** **MR. SANJAY MEHTA – GROUP CHIEF FINANCIAL OFFICER** **MR. SHRUTIKANT RUSTAGI – CHIEF FINANCIAL OFFICER - LUMAX INDUSTRIES LIMITED** **MS. PRIYANKA SHARMA – HEAD CORPORATE COMMUNICATION & CSR**

Moderator: Ladies and gentlemen, good day and welcome to the Lumax Industries Limited Q2 and H1 FY2020 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the 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 over the conference over to Mr. Deepak Jain, Chairman & Managing Director. Thank you and over to you!

Deepak Jain: Good morning ladies and gentlemen, a very warm welcome to the Q2 and H1 FY2020 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 & Mr. Shrutikant Rustagi - CFO of the company and Ms. Priyanka Sharma - Head Corporate Communication and along with SGA Investor Relation Advisors.

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

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

The festive season in the month of October has brought some cheer to the otherwise struggling auto industry. Few large OEMs witnessed sales spike by a higher single digit on a year-on-year basis in October. Several OEMs announced that they reported high delivery numbers during the month due to the reduction in inventory. We need to be cautious and carefully observe the continuity of this momentum to see whether this is a festive season phenomenon or there is actually a revival in the demand in the market.

Now talking about July to September quarter of FY2020, the industry continued its downward trajectory despite higher discounts led by weak retail sales and inventory corrections by OEMs across segments. The discount levels of passenger cars reached a record high and accounted for 15% to 25% of ex-showroom prices during the quarter. The industry across segments unfortunately reported a double-digit decline in domestic vehicle sales in this period. The government has made a few announcements to aid the ailing auto industry. These announcements have not yet seen revival of demand as liquidity and loan disbursements to the end consumer especially on entry models, remains a challenge. Further the automobile industry keenly awaits the introduction of an incentive based vehicle scrappage policy to boost demand for the new vehicles in the long term.

The auto ancillary industry continues to be under severe pressure both in terms of revenue and margin stability. Lumax being the market leader in lighting, the top three customers MSIL, HMSI, and Hero Motor Corp has shown significant decline in their revenue, which has also adversely affected the revenue growth of the company. However, in Q2 FY2020, the following new models have been launched, which your company is supplying lighting systems for with Maruti for XL6 and S-Presso. With Hero we are proud to be associated with their first BS-VI motorcycle launch iSmart. With TVS Motors the company has started commercial production supplies now to their N-Torq model in this quarter. With International Tractors Limited we are happy to start supply to the two new models Solis and Sonalika.

Hence, we are confident that when the volume growth kicks in we will be able to gain faster recovery than it appears. Further the Indian automobile sector is witnessing a huge transformation with various new regulations applicable to the sector planned to be introduced in India. Lumax being an industry leader always believes to be at the forefront of any changes taking place in the industry. Through constant innovation and focus, we are confident to keep outperforming the industry and this is evident that despite decline in revenue, the company has expanded margins by 160 basis points on H1 basis.

In the downturn the company has also decided that it will continue to invest in the new electronic facility to build on the inhouse R&D and design capability. As we have been mentioning during our previous calls, as the industry moves towards adoption of BS-VI norms, the demand for LED lighting will increase at a faster pace. For FY2020 H1, LED constitutes about 33% of sales currently. On the operational front, our focus has always been on rationalizing costs and improving margins through constant innovation and improvement with focus on quality. As a result of which, the company has been conferred with the following recognitions. The Dharuhera Plant of the company won Gold award in the International Convention on Quality Control Circles held in Tokyo, Japan on September 24, 2019. The Pantnagar and Dharuhera Plants of the company are declared as winners of Gold award in "Excellence in Supply Development" and "Excellence in Inclusive Growth" respectively in the ACMA awards. The Dharuhera Plant is also declared as a bronze award winner in "Excellence of Manufacturing" in the ACMA Awards. The Chakan plant of the company is also declared as a silver award in "Excellence in New Product Design and Development" in the forthcoming awards. Now I would like to hand over the line to Mr. Sanjay Mehta, Group Chief Financial Officer to update on the financial performance of the company.

Sanjay Mehta: Good morning everyone. Update on Q2 and H1 FY2020 on consolidated performance. The Q2 total Income stood at Rs.429 Crores as against Rs.505 Crores in Q2 FY2019 down by

15% year-on-year basis. This is mainly due to low production of almost all the OEMs catered by the company. The Total Income for H1 is Rs.831 Crores vis-à-vis Rs.987 Crores in FY2019 H1 showing degrowth of 16% year-on-year basis.

The manufacturing revenue stands at Rs.386 Crores in Q2 as against Rs.500 Crores in Q2 last year down by 23% similarly it is Rs.777 Crores during H1 this year as against Rs.968 Crores last year down by 20%. Revenue from sale of molds during Q2 stands at Rs.43 Crores as against Rs.5 Crores during Q2 last year. Similarly, it is Rs.54 Crores in H1 FY2020 as against Rs.19 Crores last year on H1 basis. The company reported a consolidated EBITDA of Rs.44 Crores for the quarter as against Rs.42 Crores in Q2FY2019 recording a growth of 5%. The EBITDA for H1 stood at Rs.83 Crores, which is same as in H1 FY2019. EBITDA margin stands at 10.2% for Q2 as against 8.2% for Q2 FY2019. Margins during H1 are 10% as against 8.4% in H1 FY2019. The margins have improved by 160 bps on H1 basis in spite of lower offtake by OEM, due to various cost control initiatives and in sourcing of electronic business, with effect from April 2019.

There is increase in finance cost from Rs.6.76 Crores to Rs.9.65 Crores due to higher utilization of working capital limit to support vendor partners in the current slowdown and partly due to Indian accounting standard 116 impact. Profit after tax and share of associates for Q2 stood at Rs.20 Crores as against Rs.21 Crores last year, degrown by 4%. On half year basis, it is Rs.37 Crores against last year of Rs.41 Crores showing a decline of 10% in absolute amount terms.

PAT margin stood at 4.7% in Q2 as against 4.1% in Q2 FY2019. For H1, PAT margin stood at 4.4% as against 4.1% in H1 FY2019. The capex incurred during H1 FY2020 is around Rs.36 Crores excluding Rs.17 Crores on account of right to use asset as per Ind-AS 116. The estimated capex for FY2020 is at Rs.135 Crores including Rs.75 Crores on new electronic facility. Now we open the call for 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 Capital. Please go ahead.

Varun Bakshi: Congratulations for good set of numbers. Firstly, on the tool sales that are in the current quarter Rs.43 Crores so has that impacted EBITDA positively, EBITDA margin is really sustainable going ahead?

Deepak Jain: It is same as per manufacturing.

Varun Bakshi: So, we got on the basis of the electronic facility that we acquired?

Deepak Jain: Yes.

Varun Bakshi: Okay and secondly even the crude prices have been coming down, so in RM that we used last year, if I am correct, price was coming down, so do we have to pass on the impact or this is kind of already passed to OEM that causes some benefits?

Deepak Jain: Usually as I have been mentioning before that we do have back to back contractual agreements, so this is based on our negotiations. So, I mean to say even in terms of increase or decrease we have a back to back negotiation that happens, so it does gets passed on to our customers, specifically on the commodity prices.

Varun Bakshi: Okay. My question was really coming for the fact that this margin can sustain while going ahead as well?

Deepak Jain: That is correct.

Varun Bakshi: Okay. And we got the first order from TVS, so for N Torq basically you will be sole supplier for head lamps?

Deepak Jain: That is correct.

Varun Bakshi: In two wheelers obviously we discussed last time that may be one of the models of HMSI will go back to halogens, so in four wheeler case we are still seeing upgrade happening to LED light whatever model launches that you have seen in the recent past, LED content is on the higher side so the trend there is quite a bit in four wheeler, right?

Deepak Jain: We continue to maintain that over the years. We would probably achieve 50% revenue coming in from LED. Obviously as I said the downturn is there, every company would have this, currently we are at about 33%.

Varun Bakshi: Okay and lastly on the import content, what it is right now for LED lamps after this backward integration in SMT plant and how it will move going ahead?

Deepak Jain: In LED headlamps around 60% is the import content and they are continuously localizing it by insourcing, I think we have declared that insourcing of electronics have already been done, so it is on decline and the potential is up to 30% decline in that way.

Varun Bakshi: Okay and any timeframe for that?

Deepak Jain: It is in the next two to three years.

Varun Bakshi: Okay, but Sir just on the part that would mean obviously, your margins can expand and some part of that will be passed onto the OEM?

Deepak Jain: That is correct. So, I think we will have to see it very carefully. I think the more important part of actually localizing is to build capabilities. You please understand that rupee in about a five-year period depreciates 15%, so obviously whatever we localize there will be obviously customer arrangements, but going forward as much as we localize, we will build competitiveness.

Varun Bakshi: Okay. Thanks a lot.

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

Vimal Gohil: Thank you for the opportunity. Sir I just missed the number on content, how much did you say the import content was currently?

Deepak Jain: In LED headlamp, it is 60% and the potential for localization around half of that, 30%.

Vimal Gohil: Okay. So, over the next two to three years you are looking to bring the import content down to 30% right?

Deepak Jain: Yes that is the plan.

Vimal Gohil: Okay. Sir we raised about Rs.50 Crores in CPs, I think in the last month if I am not wrong, can you just help me understand where the proceeds have gone?

Sanjay Mehta: No. It is under the working capital facilities, so to reduce the interest cost we have raised funds through CPs.

Vimal Gohil: Okay. But I was just noting that we have a negative working capital

Sanjay Mehta: Since long, it is negative working capital and we keep on doing the vendor financing and the customer financing in that line.

Vimal Gohil: Okay.

Sanjay Mehta: If you see the working capital utilization is there in the balance sheet.

Vimal Gohil: Right. So, this CPs was raised largely for working capital you are saying?

Sanjay Mehta: Yes. It is a replacement of the existing working capital at the competitive interest rates.

Vimal Gohil: Okay. Just to be sure Sir if I am not wrong you had total net current assets at Rs.480 Crores versus liability of 550 so this gives your negative working capital of Rs.70. So just to understand further this Rs.550 Crores include vendor financing as well, right?

Sanjay Mehta: Yes.

Vimal Gohil: Okay. So, this is for your vendor financing basically. How much of that Rs.550 Crores will be vendor financing Sir?

Sanjay Mehta: It is almost around Rs.80 Crores of that.

Vimal Gohil: Okay. So Rs.80 Crores, so existing was at what interest rates?

Sanjay Mehta: Our average interest is around 8.7%, but the commercial paper I think we have already mentioned that it is around 6.75%.

Vimal Gohil: Okay. Sir just on your debt position, I do see that obviously after the raising of CPs it has increased. This Rs.207 Crores worth of borrowings or Rs.217 odd Crores worth of borrowing does it includes the CPs?

Sanjay Mehta: It includes the CP in fact the CP has been raised in October. You are seeing the number of September and it includes the vendor finance of almost around Rs.89 Crores and customer bill discounting is also included in that, which we used to show earlier in the creditor, but because of the Ind-AS this has been reclassified. If you see the creditors, the creditors have gone down by Rs.89 Crores as well.

Vimal Gohil: Yes, and that is moved to other financial liabilities?

Sanjay Mehta: Yes.

Vimal Gohil: Okay. Right. Is this a peak debt that we are seeing? After the current capex cycle is over, can we see your debt normalizing going forward maybe in FY2021?

Sanjay Mehta: In fact, if you see, it is all the short term and working capital limit and because we keep on doing the vendor bill discounting at competitive rate to the vendors, definitely it will not increase, therefore it is going on the reducing trend.

Vimal Gohil: Right. Okay. Fair enough Sir and Sir just wanted to understand more on the margin bit, you said that some of the commodity prices are passed on, can you just tell me what is the benefit that we got with the full integration of the PCB facility in this quarter?

Sanjay Mehta: It is around 70bps out of 160-170 bps.

Vimal Gohil: Okay. That has come from PCB?

Sanjay Mehta: Yes. There is a YoY improvement of 70 bps on EBITDA margins

Vimal Gohil: Okay. On the gross margin, how it would be Sir?

Sanjay Mehta: Around 200 bps.

Vimal Gohil: Okay. Right. Sir on S-Presso does this model have LED headlamps or these are partially LED, how is it?

Deepak Jain: Yes, these are partially LED.

Vimal Gohil: Okay. Fair enough Sir. All the very best for the rest of the year. Thank you so much.

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

Kashyap Jhaveri: Good afternoon Sir and congratulations for good numbers in these challenging times. First question is for the proportion of LED in total revenues. If I tried to reduce the number for Q2 the proportion of LED is about 31% versus 35% in Q1. In your presentation, I am not seeing any changes in the segment type breakup of the revenue or a product type breakup of the revenue so what would have led to such 4% decline?

Sanjay Mehta: If you see the conventional to LED breakup it is shown on the H1 basis, last financial year 2018-2019 & FY2019-2020 it is basically same.

Kashyap Jhaveri: And I am looking at Q1 press release also, you have given the same number which were 35:65 and for H1 it is 33:67 so for Q2 that number has to be roughly about 31%?

Sanjay Mehta: In Q1 also it was 67% conventional lighting and 33% LED lighting.

Kashyap Jhaveri: Because I have your press release for the quarter.

Sanjay Mehta: Last year it was 35:65, financial year June 2019.

Kashyap Jhaveri: Yes. I am saying June 2019, your press release say that is 35:65.

Sanjay Mehta: We will recheck it.

Kashyap Jhaveri: Second is again on working capital management, if I look at H1 over H2 also, there is about increase of about 40 odd Crores in terms of overall working capital, I am just looking at inventory plus receivables reduced by payables, and partly, which is also reflected in your debt moving up by almost about Rs. 60-70 odd Crores so again to understand here even adjusted for the vendor payable discounting we were on a single digit total cash conversion cycle and which is now today roughly about 18-20 days, so how should one take that as we go forward?

Sanjay Mehta: No actually because of the slow down we have aggressively taken the vendor financing to support the vendors and in the last year after Q1 it was included in the creditors, but during this quarter the auditors advised that we have to show it in borrowing. So subsequently the creditors have been reduced and vendor financing has come in the borrowing. Rs.20 Crores of the short-term loan just to fund the creditors. We have recasted the previous year figures, that is why you see a decline in creditors and an increase in borrowing, if you compare apple-to-apple basis both creditors and borrowings are on the same track.

Kashyap Jhaveri: Sir even March 2019 and September 2019 is not comparable?

Deepak Jain: We cannot recast the figure as per Ind-AS.

Kashyap Jhaveri: Okay and just last question on your gross margin part, now if I look at your other opex has gone up by almost similar percentage versus what has been the gross margin increase so that largely PCB coming into fold will explain the whole part or is there anything else?

Deepak Jain: Yes.

Kashyap Jhaveri: Okay. Sure, Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the question of Bhaskar Chaudhury from Entrust. Please go ahead.

Bhaskar C: Hi. Sorry I missed the split of, how is the volume performance for H1?

Deepak Jain: All the manufacturing decline which is on H1 basis is due to volume impact only.

Bhaskar C: So, over the next two to three years how much do we see the margin going up by and there will be two things that work, one is the increasing LED component and the other will be the cost initiatives that you take so both put together how much you think the margin can go up by over the next two to three years?

Deepak Jain: I think let us say first and foremost I think we have to see on the long-term basis so I would say about 3 to 5 because we have already lost significant years if you look at it from decline perspective, you actually almost about two year behind, the whole industry is actually about three year behind, so however we continue to actually get into margin so depending on the movement which we are confident on the LEDs moves to 50% ,localization, cost innovation we still expect that it should probably be in the range from 12% to 14%.

Bhaskar C: Okay. Over a 3 to 5-year period?

Deepak Jain: Yes of course.

Bhaskar C: Okay and one question on the LED conversion, so typically, the 33 to 67 ratio, so the higher LED demand, Is it coming from primarily new model launches or is there also existing models which are getting, the replacement of conventional to LED?

Deepak Jain: The lighting fortunately has minor model changes and full model changes and obviously lighting undergoes a change on a platform basis every three years or so, and hence there is an opportunity to adopt LEDs. So, classic example being Swift or other models, which company is already supplying and when we talk about it for us is, replacement business, but this replacement business when we do, the new product development comes in with LEDs so most of our new product developments are having LEDs in it.

Bhaskar C: Okay. Got it. Thanks.

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

Abhishek Shah: Thank you for the opportunity. Sir just had a few questions. One is, I am trying to understand you mentioned 33% of revenue comes from LED in value terms. I am just trying to understand how much would that be in volume terms, could I assume about 15% sort of?

Deepak Jain: Yes, around 15% to 20%.

Abhishek Shah: Got it. Sir second question is we have been talking about LED prices being almost three to four times higher than the conventional lighting, first I want to understand that have you seen any price fall in the past few years, I was assuming three years is a long term for even innovation to kick in and prices to fall?

Deepak Jain: The prices actually have started maturing up and also with localization coming in we need to pass on some reduction to the customer as per our agreement. So, prices will see a decline in coming years. However, margins may not decline because it has been localizing the electronics that we import.

Abhishek Shah: So, I am just trying to understand where do you see these prices stabilizing in the long term?

Deepak Jain: There will always remain a difference in the pricing for example, we see it will stabilize at around 2x to 2.5x, if they are currently at 3.5x then it will go down in the coming years.

Abhishek Shah: Okay. I understood. That is all from my side. Thank you.

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

Abhishek Jain: Sir revenue in first half decreased by 16% and as I expect the volume would be fallen more than the revenue decline and must be offset by higher realization so can you throw some light on in terms of the volume decline and increase in average price realization in first half?

Deepak Jain: See volume decline is actually different for different customers and for us our major customers decline is higher than other customers so few of our major customers without naming them have declined up to 20% or more and therefore our decline on an average is 16%.

Abhishek Jain: So, what is the overall volume decline?

Deepak Jain: 20%.

Abhishek Jain: 20% okay and realization would be higher by 4% so it is total revenue gone down by 16%?

Deepak Jain: Yes.

Abhishek Jain: Sir just wanted to know the competition in LED space, basically who are the key competitors in organized and unorganized space.

Deepak Jain: I feel we should discuss only organized because ours is the OEM business so there is no room for unorganized in OEM business and all global players are in India and competing in the space.

Abhishek Jain: So, can you give some names?

Deepak Jain: Basically, we will have to go based on segmentation so for example in the passenger car segments there is global players like Koito, Magneti Marelli, and Valeo. In the two-wheeler space there is a mix of basically both international as well local players like for example FIEM, even Visteon, which is now Hanon and now in the CV space there are more local players like Neo lights, Auto lights, so again it is dependent on the space. Your company has probably got a distinction that it operates in all spaces and has the market leadership positions in most of the spaces.

Abhishek Jain: And what is your current market share in the two-wheeler and four-wheeler space?

Deepak Jain: So overall in the four-wheeler space it has got higher share because we also have an associate company which is supplying 100% to Hyundai. So along with that, we do about 55% in the passenger car space, on the two-wheeler space it would be around about 30%.

Abhishek Jain: Okay Sir and your aftermarket division is operated through Lumax Auto Technologies so what sort of the margin you make from this business?

Deepak Jain: Well I think you can then probably focus on Lumax Auto Technologies call as this is the Lumax Industries call.

Abhishek Jain: Okay Sir. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Congratulations Deepak for reasonably good set of numbers. I just wanted to know we have been talking in the past, there would be pre buying taking place in this particular quarter may be Q3 or Q4, have you seen any signs on that?

Deepak Jain: If you are talking about pre buying on basis of BS-VI.

HR Gala: Yes.

Deepak Jain: Not really. We are actually little bit concerned going forward on Q4, all the industry expected pre-buying in Q4. I think the current situation is that because of again it all depends on segments, but again especially on the retail, also at entry levels, which in certain segments are still considerably high. They will be pushing in how to sell the BS-IV vehicles and then giving probably the fill in by the BS-VI vehicles in the retail shop. So, I do not see there will be that considerable pre buy, which the industry was expecting I would say about six to nine months before rather I think pre-buyable not have significant impact on it may be about 2% to 3% if so also coming in commercial vehicle space.

Moderator: Sir the current participant has dropped off. We moved to the next question, which is from the line of Kripa Shankar from Dolat Capital. Please go ahead.

Kripa Shankar: Just want to understand what is the penetration of LED in two-wheeler and PV in this quarter and how will it be improved from last like annual basis?

Deepak Jain: Yes, for H1 basis in passenger vehicles the ratio is 69% conventional and 31% LED and in two-wheeler it is 55% conventional and 45% LED and it has been going consistently in the last three to four quarters.

Kripa Shankar: Okay and any margin guidance for FY2020?

Deepak Jain: Margins?

Kripa Shankar: Margin line.

Deepak Jain: We will be able to maintain the double digit hopefully in terms of EBITDA.

Kripa Shankar: It is middle or like a lower double digit?

Deepak Jain: Sorry.

Kripa Shankar: It is range of like?

Deepak Jain: Similar to this one. I think the company has the decline in the revenue and I think it is right now very hard to predict how Q4 will be. So, company is putting its efforts to maintain at basically the current levels in terms of margin stability.

Kripa Shankar: Okay. Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity and congrats on a good set of numbers. Deepak my first question is on the PCB manufacturing, which we shifted from Lumax Auto Tech to Industries, Have the operations now stabilized and is it running as expected or there are some teething issues there?

Deepak Jain: No there is absolute stability and also you can see there has been margin expansion because of that. We will continue to actually further invest in this electronic development capability so that we are going to basically be having better competitiveness within the company.

Ronak Sarda: Sure, and Sir, related question here is when we last met you highlighted Stanley is keen to introduce some more electronic products through Lumax Industries in India, anything to update there?

Deepak Jain: So, that is correct. We have an agreement with Stanley to actually now introduce electronic facility; right now we are doing a market feasibility study along with certain customers. We are also, as you know investing in a new electronic facility, which will not just cater to the PCB internal consumption and manufacturing, but also will have the base to launch new products, which Stanley has globally. So, we are working on that and when the time is right, I think we will make certain announcements into the market.

Ronak Sarda: Any timelines, When do you see something tangible happening there?

Deepak Jain: In Q4 we will try and conclude the feasibility study and make the market announcements accordingly.

Ronak Sarda: Sure, perfect and last question is on the topline. If we see your LED prices coming down by let us say almost 20% or which we are highlighting with the localization, do you see the penetration increase much quicker than the 50%, which you think as of today?

Deepak Jain: I think currently the whole industry is going through extremely volatile time and I think all the customers are looking at cost cut down and all. As I said, LED adoptions is going to continue in India, since there are low penetrations in India. So, we expect that we continue to first adapt and adopt on LED. This is also evident in whatever order books we are having; a lot of them largely are on LED developments. So, I do not see there is going to be any issue, but we will continue and we first focus on first step of 50% LED contribution. Obviously as LED starts penetrating more, you will have a better price I would say not corrections but better pricing in terms for the whole market. So, I think presently it will be be 70% - 80% which we need to first continue to push on the threshold of 50% or so which we expect to do in two to three years.

Ronak Sarda: Right and last question on the financials, there has been some amount of capex, which we have spent in H1 can you highlight which segment that has gone to and does it include any payments towards the PCB asset, which has shifted from Lumax Auto Tech to Industries in this year?

Deepak Jain: We have done Rs.36 Crores of capex in H1 and it includes the PCB segment also around 13 to 14 Crores.

Ronak Sarda: Is it 26 the same amount which reflects in the cash flow statement or some higher amount?

Deepak Jain: Cash flow statement is showing the amount, which is still lying in capital advance in the balance sheet.

Ronak Sarda: Okay. So, something incremental which would happen over the next year?

Deepak Jain: Yes.

Ronak Sarda: Right. Okay. Perfect. I just wanted to understand that. Thank you.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Sorry Sir. My line got cut. So, I just wanted to know about the pre buying thing, which we were discussing.

Deepak Jain: So, as I mentioned I do not see any significant impact on the pre buying on the industry. I think Q4 could be better primarily because lot of people have already started to liquidate the BS-IV inventory and hence Q4 there may be production uptick for wholesale uptick, which means not necessarily retail uptick, so basically filling in to the inventory. So, I think that is what we would be doing, but I do not perceive that pre buy what the industry was expecting nine months ago will be basically pulled.

HR Gala: Okay. Fine. Another question is on capital expenditure side there is a sizable buildup in the capital working in progress by about 47 Crores, so which are the projects, which we are going to undertake?

Deepak Jain: We are executing that new electronic facility project for PCB, besides that there are a few expansions at existing plant also, which was taken in the earlier year, we are continuing that.

HR Gala: Okay. So, can you just tell in FY2020 what will be our total capital expenditure?

Deepak Jain: We have budgeted of Rs.135 Crores that include Rs.75 Crores of the electronic facility.

HR Gala: How much, 75?

Deepak Jain: Yes.

HR Gala: On the electronics?

Deepak Jain: That is correct so basically our intent is regardless to the downturn we will continue to invest in building local electronic capability, also in the design and development. There will be certain plants, which would require certain Brownfield expansions; we are not doing Greenfield expansions.

HR Gala: Okay and so there is goodwill, which has arisen that is a result of what?

Sanjay Mehta That what PCB business we have taken in April from Lumax Auto Tech.

HR Gala: Okay because of that.

Deepak Jain: Accounting standard required us to create goodwill.

HR Gala: Okay. Thank you very much Sir. Wish you all the best.

Moderator: Thank you. The next question is from the line of Jaimin Desai from ICICI Prudential. Please go ahead.

Jaimin Desai: Good afternoon all. Thanks for the opportunity. Sir my first question was with regards to the Hero Motocorp business order that you have highlighted in the press release, wanted to know if we were present in the base outgoing model as well the BS-VI version?

Deepak Jain: For us it is a replacement model.

Jaimin Desai: Okay and could you also highlight what would your penetration level with other key clients be like would be sole suppliers for some of them?

Deepak Jain: I would say that the top three for us is Maruti, HMSI and Hero Motocorp and in Maruti we are close to about 45%, for HMSI we are close to about 50% and for Hero we are close to about 35%.

Jaimin Desai: Okay. Fine. Thanks Sir. That is it from my side.

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

Vimal Gohil: Sir just wanted to confirm, our mould sales in this particular quarter are about Rs.43 Crores right?

Deepak Jain: Yes.

Vimal Gohil: Okay. Sir second thing was impact of Ind-AS on the margins, how much of your rent cost would have percolated into depreciation and interest for the first half and for the Q2?

Sanjay Mehta: It is 0.2% in H1 and similar in Q2 also.

Vimal Gohil: Okay. 20 bps impact is because of Ind-AS on EBITDA margins, positive impact?

Deepak Jain: Yes. Positive impact.

Vimal Gohil: Okay and Sir the N torq sales, you have already commissioned, right?

Deepak Jain: Yes. It has started in September.

Vimal Gohil: Right and Sir you have highlighted on the Ronak's question, I think you have highlighted that there is some capex that is there on some other line item of the balance sheet, could you just highlight that once again, I missed that part, the electronic facility if I am not wrong?

Deepak Jain: I think the question was that one is CWIP appearing in the cash flow versus the capex we have appeared in the balance sheet. So, in capex in balance it is 36 Crores and in CWIP it pertains to the electronic facility that capex and some ongoing expansion project we have taken in the last year. The total would be around Rs.135 Crores in this FY2020.

Vimal Gohil: Got it. Perfect and Sir lastly your electronic facility is expected to commission exactly when?

Deepak Jain: In Q4.

Vimal Gohil: Okay. Thank you so much and all the best once again.

Moderator: Thank you. The next question is from the line of Kartik Krishnan, an Individual Investor. Please go ahead.

Kartik Krishnan: And Sir I wanted to understand, out of the overall LED revenue how much revenue Swift and Activa contribute?

Deepak Jain: Broad base it is strictly around about 55% to 60%.

Kartik Krishnan: 55 to 60%. Okay.

Deepak Jain: Both Activa and Swift put together.

Kartik Krishnan: Okay Sir. Fine and the second thing is like while I understand that aftermarket products are sold through Lumax Auto Tech, Are these products actually manufactured in Lumax Industries and then sold to Lumax Auto Tech at the cost plus margin basis.

Deepak Jain: Yes, at arm's length with Lumax Auto Technologies and for the products which we do not have any contractual obligations with the customers and has some potential in direct retail in the aftermarket, we supplied to Lumax Auto Technologies

Kartik Krishnan: Okay. So, any revenue relating to after market does not come in the books of Lumax Industries. Is that correct?

Deepak Jain: Lumax Industries continues to be OEM focused.

Kartik Krishnan: Okay. Fine Sir.

Kartik Krishnan: Okay. Got it. That is it from my end.

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

Kashyap Jhaveri: Question for our associate company SL Lumax, if look at the contribution in consolidated number that is roughly about 7 and 7.5 Crores for the first half, so have the margins again sort of come back on track there because if I look at FY2019 over FY2018, versus a double digit margin we barely made about 5% EBITDA there in FY2019 so have the margins sort of come back there?

Deepak Jain: Yes, that is correct. They have reported better margins and also because of revenue growth.

Kashyap Jhaveri: And would that be back to the peak of the double digit 11%-12% margins or that is still a little away?

Deepak Jain: I think it is a little away, we should have a similar stability on it as we know Hyundai as sole customer. As I would say policy where they also do certain cost downs and they are probably not factored in right now. So as of now I think they are back on track on the double-digit margin based on the revenue.

Kashyap Jhaveri: Okay and versus about less than 5% margins in FY2019 first half would be in case you can disclose the number if not the number then probably where exactly between the 5% and 12% where does it lie now?

Deepak Jain: I think it should be around about high single digit.

Kashyap Jhaveri: Okay. As you said it is on track to achieve the double-digit number probably in some time in future?

Deepak Jain: Exactly.

Kashyap Jhaveri: Okay and on the full year basis, what would you guide SL Lumax contribution to the consolidated number?

Deepak Jain: Lumax Industries?

Kashyap Jhaveri: SL Lumax on the consolidated number, the share of profit?

Deepak Jain: You can double the H1 numbers of FY2020.

Kashyap Jhaveri: Okay. Sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Somil Shah, an Individual Investor. Please go ahead.

Somil Shah: Good afternoon everyone. Thanks for helping me on this call. I wanted to know why mould and tools cost have increased from 3.59 Crores to 37.50 Crores this quarter?

Deepak Jain: Because the sales have increased from 5 Crores in first quarter to 43 Crores, so accordingly the cost has also increased, there is a margin remaining the same.

Somil Shah: Okay and are we going to benefit in that new taxation regime or there is no change in our taxation rate?

Deepak Jain: No. we are not going because of the huge availability of the MAT credit with the company.

Somil Shah: Okay. So, we will be having the same taxation rate?

Deepak Jain: Yes.

Somil Shah: Okay and Sir last question considering current market situation for the remaining half do you think we can have similar revenue like second half last year there will be a single digit degrowth?

Deepak Jain: If you see and compare to H2 it is obviously the slow down started in H2 last year as well, but I think it will continue in H1 and H2, and given the fact that Q3, November, December is a shutdown period, Q4 there is going to be certain inventory, so we expect we should be able to have degrowth but probably say 10% for the full year basis.

Somil Shah: Okay and Sir lastly as of now we do not export any of our products right?

Deepak Jain: There is some export but that is primarily done to space as well as to certain European OEMs.

Somil Shah: Okay but that is very negligible percentage?

Deepak Jain: We do about 3% or so for revenue.

Somil Shah: Okay so if I heard correctly, are we in talks with Stanley to produce it here and supply globally something like that.

Deepak Jain: No. we are focused on the domestic markets. So, what you had heard was that Stanley we are not just doing on the lighting, but they do certain other products on electronics, we are investing in that capability so that when the market is ready we along with Stanley are able to capture the OEM market for that product line in India as well.

Somil Shah: In India, okay. Thank you. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Varun Bakshi from Equirus Capital. Please go ahead.

Varun Bakshi: Just a question on tool sales, so we had a done 54 Crores in the first half, full year would be around Rs.100 Crores?

Deepak Jain: It should be around that much.

Varun Bakshi: And tax rate for the full year will be around how much?

Deepak Jain: 27-28%.

Varun Bakshi: Okay sure. Thank you.

Moderator: Thank you. The next question is from the line of Prateek Kothari from Unique Asset Management. Please go ahead.

Prateek Kothari: Thanks for the opportunity. See if we exclude our mould sales, revenue is down by 22%, 23%; all of this is attributed to volume decline?

Deepak Jain: That is correct and that also mirrors our top five customers de-growth thus far.

Prateek Kothari: Okay and also to earlier participants question we answered regarding this LED realization, eventually earlier it was 3.5-4x of conventional and eventually it might go down to 2.5 to 3x of conventional where are we in that cycle currently?

Deepak Jain: It is still at about 3.5-4x.

Prateek Kothari: Okay and Sir again in Q1 presentation we have mentioned our LED share to be 35%, in this presentation you are mentioning 33% for first half, so does that mean that this quarter it was 31?

Deepak Jain: I think it also reflects, we will check in the calculation and get back on this particular enquiry, but I think my estimate is that based on the volume downturn, you have to also understand that H1 has been probably significant downturn and that would also reflect on the quantum of buying of LEDs by our OEM customers. So, there could be a large share but we maintain that in fact the trend has not changed. It is kind of comparable of 67:33, 65:35, so that is what basically is more important.

Prateek Kothari: Fair enough and also earlier we have guided for 50% import content down to 50% by this year end, are we on track to achieve that?

Deepak Jain: We had not said about this year end, we have talked about two to three years, we continue on that.

Prateek Kothari: 30% right not 50%.

Deepak Jain: No. it was 30% and hence we basically are talking about more and more fast adoption of LED takes place, the company is also competent to start localizing it internally.

Prateek Kothari: Okay and Sir my last question regarding this PCB business which we have bought from Lumax Auto that was done at almost book value so why do we have this 10 Crores of goodwill on books now?

Deepak Jain: No. It is done on valuation basis by the independent valuer and it has been taken as a business combination by the auditor and goodwill has come in the book.

Prateek Kothari: Okay. Fine sure. Thank you.

Moderator: Thank you. The next question is from the line of HR Gala from Finevest Advisors. Please go ahead.

HR GALA: Sir I just wanted to know that in last October Minda announced that they have acquired a German company, which is in the lighting, does it anyway alter the competitive landscape in India for us?

Deepak Jain: More acquisition, more competition, better price results, we continue to establish and maintain our relationship with Stanley Electric, which is not just an engineering company but also basically a global lighting company. So, that is all I would able to comment and we continued to be basically focus on our internal capability building.

HR GALA: Okay. Thank you.

Moderator: Thank you. We take the last question from the line of Madhu S, an Individual Investor. Please go ahead.

Madhu S: Sir I have three questions. The first question is I want to understand where we stand in terms of advanced LED categories like matrix, multipixel and Laser. Second are any updates on Michigan design office and third is what are the key financial targets we are targeting in the next three to five years?

Deepak Jain: So first one I think as I said we are investing on LED adoption and the PCB designing and electronic manufacturing within the company as in terms of technology the technology is readily available with our partner Stanley Japan globally and whenever the Indian market is ready with those kind of pricing points and our customers are willing to basically start getting and adopting this kind of advanced LED technologies into India we will basically collaborate with them to bring these technologies into India so that is the first. Second can you repeat your questions now?

Madhu S: Second is on any updates on the Michigan design office, which was mentioned in the annual report?

Deepak Jain: Yes. So, I would update, we selected the person, we are in touch with him and we have seen the location. However, we deferred the expenditure there considering the slow down. So, we are waiting for industry to recover and then we will start the expenditure.

Madhu S: Sure, and the third one was the key financial targets, which you would like to achieve in the next three to five years basically return on capital employed or EBITDA margins or return on equity?

Deepak Jain: We are targeting EBITDA margin of around 12% to 13% in the next three to four years and we are moving in that direction if you see the results. Of course, that would also depend on the growth of the market as well but this is our internal target.

Sanjay Mehta: ROCE level we always give a guidance of maintaining a growth of close to 25% to 30%, currently the company is maintaining a ROCE of about 28% as of H1.

Madhu S: Okay. Got it. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Deepak Jain: I would like to thank you everyone for joining on the call. I hope we have been able to respond to all your queries adequately, for any further information request you to kindly get in touch with SGA, our Investor Relations Advisors. Thank you very much for your participation.

Moderator: Thank you. Ladies and gentlemen on behalf of Lumax Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.