"Lumax Auto Technologies Limited Q3 & 9M FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Lumax Auto Technologies Limited Q3 and 9M FY2019 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 this conference is being recorded. I now hand the conference over to Mr. Anmol Jain, Managing Director of Lumax Auto Technologies Limited. Thank you and over to you Sir!

Anmol Jain: Good morning ladies and gentlemen. A very warm welcome to the Q3 and nine months FY2019 earnings call of Lumax Auto Technologies Limited. Along with me on this call, I have Mr. Deepak Jain, Director, Mr. Naval Khanna, Executive Director of Lumax Management Services Private Limited, Mr. Sanjay Mehta, Director and Group CFO, Mr. Ashish Dubey, CFO, and Ms Priyanka Sharma, Head Corporate Communications along with SGA our investor relations advisor.

The results and presentations are uploaded on the Stock Exchange and Company website. I hope everybody has had a chance to look at it. Before we start with discussion on the financial performance of the company, I would like to share a few highlights of the automobile industry.

On the industry performance, the discounts during the festive season and the year end has unable to make significant impact on the customer behaviour. In Q3 FY2019, all the major OEMs have reported a mixed growth due to various factors like muted festive demand compared to last year, increase in insurance cost, volatile fuel prices, tight liquidity, modest economic activity. Overall, the cost of owning a vehicle has inched up leading to holding the buying decision by the end consumer. The two-wheeler segment saw some continued growth whereas the passenger car segment was negative. The commercial vehicle segment has continued to witness robust demand. For nine months FY2019, all CV and selected two-wheeler OEMs have totally outperformed the passenger car segment.

Lumax Auto Technologies Limited is a part of Lumax Group, which is a leading automotive component manufacturer. Lumax Auto Technologies has expanded organically and manufactures a diversified range of products catering to major OEMs through its subsidiaries and associates. We have seven international partnerships, a strong marketing presence and 14 manufacturing facilities across the country. We had mentioned this earlier that lighting modules will be supplied only for Bajaj Auto and the aftermarket from Lumax auto Technologies Limited while the remainder of the OEM lighting business remains with Lumax Industries Limited and would continue as it is.

Let me now take you through the performance of each business entity:

The standalone entity caters to aftermarket business, chassis, and swing arm for two wheelers, trailing arm for three wheelers under the metallic business, plastic modules and PCB SMT assembly under the electronic business. The new facilities for metallic business in Pune and Aurangabad for Bajaj Auto have been operational. Bajaj Auto and Honda Motorcycle Scooter India continue to be the major customers. Also, within a year, rebranding exercise has enhanced brand visibility in the aftermarket. Currently, we have 250 plus channel partners, 10,000 plus retail points and 15,000 plus touch points across the country. We have already added 220 plus SKUs till date and we will increase to about 250 plus SKUs by the end of FY2019. Standalone entities contribute 60% to the consolidated revenues. Aftermarket represents 14% of our consolidated revenue.

Lumax DK Auto Industries is a 100% subsidiary, which manufactures lighting and plastic modules. Bajaj is one of the major customers for this subsidiary. Lumax DK contributes approximately 25% of the total consolidated revenues.

During the quarter, the company's Board of Directors has approved the merger of Lumax DK Auto Industries Limited, a wholly owned subsidiary company with your company. On approval of this scheme by the Jurisdictional Honourable Company Law Tribunal, it will be effective from April 1, 2018.

Lumax Cornaglia Auto Technologies is a 50% subsidiary, which manufactures air intake systems and the major customers are Volkswagen, Tata, Fiat and Skoda. The joint venture commands 100% share of business with Volkswagen and Tata. We have received an LOI from Tata Motors for the urea tank business, which has a potential of approximately Rs.40 Crores to Rs.50 Crores annually. The start of production is expected in Q4 FY20. Lumax Cornaglia currently contributes approximately 3% to the total consolidated revenues, but it shall soon double in the next two years timeframe.

Lumax Gill-Austem Auto Technologies is a 50% subsidiary, which manufactures seat frames and is a Tier-2 supplier to Lear and Adient. This company contributes approximately 3% of the total consolidated revenues.

Lumax Mannoh Allied Technologies is a 55% subsidiary, which manufactures gear shifter systems. The company has a market leadership position and has the capability to manufacture manual AMT and automatic gear shifters. This company contributes approximately 10% of the total consolidated revenues.

Lumax Ituran has generated business enquiries from OEMs preparing for regulatory norms to implement track and trace devices with additional features for their future models. Trial phase has started and response is encouraging. We expect to realize revenues in FY20.

Lumax FAE has generated business confirmation from one major OEM for supply of oxygen sensors, which will be mandatory under forthcoming BS-VI norms in April 2020 for two wheelers. The progress of the project is as per schedule and start of production is expected to be in Q4 FY20.

Our continued focus on cost control measures has brought operational efficiencies and has been consistently improving our EBITDA margins. The margin for nine months FY19 stood at 11.1% compared to 10.6% in nine months FY18 an expansion of 50 BPS. We will continue to focus on rationalizing our cost and bringing in operational efficiencies.

The capex plan for the current business stands at Rs.55 Crores to Rs.60 Crores for FY19 of which Rs.27 Crores has already been incurred till date. However, we are constantly evaluating new opportunities in fresh product lines in line with the forthcoming regulations and future trends towards the electrification and light weighting of vehicles. Hence, capex for new businesses shall variate accordingly.

The company has made following new launches during the quarter. In the passenger vehicle segment, seat frames have been launched for TACO Magna in the model Tata Harrier, Gear shifter Knob for Nissan Motor's Kicks model, gear shifter lever & knob for Maruti Suzuki's Wagon R, Gear Shift Lever both AT & MT for the Maruti Suzuki's new Ertiga. In the commercial vehicle space, gear shifter lever systems were developed & productionized for two models of Volvo Eicher.

The Pantnagar plant of the subsidiary company, Lumax DK Auto Industries won excellence in manufacturing in the recently held ACMA Award ceremony in Pune on January 29, 2019 and January 30, 2019. The subsidiary company Lumax Cornaglia Auto Technologies also won the silver award in manufacturing excellence in the same ACMA awards platform.

During the recent interim budget, government has stated that India can be a $5 trillion economy in the next five years and $10 trillion economy in the next 10 years. Most of the capital expenditure is towards pushing rural consumption, which will also push auto sales gradually. Major OEMs across the globe are visioning India as an automobile manufacturing hub. Auto industry will be on their toes for embracing mandatory regulatory norms, new technology and changing customer preferences. We at Lumax Auto Technologies are increasing our product portfolio, sharpening our skill sets and elevating our association with our JV partner and clients to enhance our leadership position.

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 take you through the financial performance for the company for nine months on consolidated basis.

The consolidated revenue stood at Rs.1,021 Crores as against Rs.780 Crores in nine months last year up by 31% year-on-year basis led by strong volume growth from the OEMs and supported by growth in aftermarket. EBITDA margin for Q3 has increased by 60 basis points to 11.3% against 10.7% in last year largely on account of better operating efficiencies, implementation of bill to ship concept by Bajaj Auto and improved performance of the JVs and after markets. EBITDA margins for nine months stands at 11.1% as against 10.6% nine months last year. The profit after tax and minority interest stood at Rs.54 Crores in nine months as against as Rs.36 Crores in nine months FY2018 registering a growth of 51% year-on-year basis. EPS stands at Rs.7.88 per share as compared to Rs. 5.21 in nine months FY18.

Company wise revenue breakup for nine months: -

Lumax Auto standalone, the revenue (net of excise duty) stood at Rs.624 Crores as against Rs.400 Crores in nine months last year, recording a growth of 56% with EBITDA margin of 8.8%.

Lumax DK Auto, the revenue stood at Rs.241 Crores as against Rs.249 Crores in nine months last year with EBITDA margin in mid double digit.

Lumax Cornaglia, the revenue stood at Rs.33 Crores as against Rs.34 Crores with EBITDA margin in single digit.

Lumax Mannoh, the revenue stood at Rs.104 Crores as against Rs.95 Crores in nine months last year with EBITDA margin in mid double digit.

Lumax Gill-Austem, the revenue stood at Rs.28 Crores as against Rs.40 Crores last year with EBITDA margins in single digit.

Now we open the call for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Varun from Equirus Securities. Please go ahead.

Varun: Thank you for the opportunity. Sir my question is regarding the revenue split that you have provided so for the Q3 FY2019. The revenue for electronics is 9%, which comes out to be like Rs.29 Crores against Rs.55 Crores in Q2 FY2019. So can you just throw some light like why there has been a dip in the revenue quarter-on-quarter basis?

Anmol Jain: If you look at the Q3 performance of the industry, as I had mentioned earlier all segment i.e. passenger car, commercial as well as two wheelers has had a negative growth. The industry degrew by 16% in Q3. Hence, the offtake of the SMT for the lighting business from Lumax

Industries also took a beating and that is the reason, there is a dip in revenue in Q3 compared to Q2.

Varun: Sir my next question is regarding the employee cost. The employee cost has gone up significantly in Q3 as a percentage of sales. So could you throw some light on that as compared to last year?

Sanjay Mehta: It is 11.5% in Q3 in comparison to last year of 10.3%. It is because of the wage agreement finalization and in general the increase in the minimum wages, etc.

Anmol Jain: We are in the pipeline of discussing certain inflationary increases from our customers. Once that comes into play, we do anticipate that some escalation would be brought back and perhaps this value would be more at about 11% to 11.5%. But some of them are annual inflationary costs and we expect going forward it would be maintained around 11%.

Varun: Thank you. That is it from my side.

Moderator: Thank you Sir. We have the next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity and couple of quick questions. First, if I look at your nine months FY2019 versus 9M FY2018 product mix and customer mix, we have seen a very sharp jump in electronics, chassis and frames business. The contribution has almost doubled, but if I look at your customer mix, mainly Bajaj has increased in a big way. So can you help us understand, is it mainly due to the content has increased more at Bajaj level?

Anmol Jain: If you look at Bajaj Auto as our customer, it still is at 33% to revenues for nine months FY2019 and it was exactly the same at 32% in FY2018. If you take the consideration of the accounting change of the bill to ship to that is partially the reason otherwise instead of a 33% growth, which we have factored in for Bajaj Auto in nine months year-on-year, this growth could have been 62%. So yes, largely the fabrication business and chassis, there have been some additional lines and some investments were made into the swing arm and the trailing arm business, which has got the benefit in the current fiscal. Moreover, Bajaj Auto itself has reported strong set of numbers for the first nine months. So, we continue to enjoy a very healthy and a very deep cooperation relationship with Bajaj Auto and that is one of the reasons why we have had this significant growth year-on-year with Bajaj on the fabrication side.

Ronak Sarda: Just a followup here where do you expect Bajaj Auto share over the next three to five years, I know we are working to lower the customer contribution in some ways, but where do you expect this number to be in three to five years time?

Anmol Jain: Well just to take you back, I think we had taken a conscious effort to derisk the dependability on any one customer. Bajaj at one point of time for the company was as high as 80% and currently it sits at 33%. Going forward, the intent would be for any customer not to go beyond approximately 30%. That would be the intent. Having said that, it does not mean that we will not grow with Bajaj. We will continue to grow with Bajaj, invest with Bajaj, but clearly, we would also like to grow with the other customers through new product lines, which the company is constantly looking at to grow faster than Bajaj Auto.

Ronak Sarda: Sure thanks. The second question is on your Lumax Mannoh subsidiary can you just refresh us how the industry is shaping up, what is the contribution now for AMT and automatic variants? and again you guys are the market leader here, but what is the competition intensity here? any expectation or increase in content per vehicle going ahead?

Anmol Jain: Yes, we are as I mentioned the first gear shifter maker to localize the automatic transmission technology in terms of the gear shifters. We continue to see a good movement and a good order book towards automatic transmission as well as AMT. Currently, the ratio between MT and AT stand at about 80:20. We do expect it to further improve to approximately 70:30 in the next two years timeframe. This is also a result of the order book, which we are seeing. We have some good order book on both AT and AMT for various customers, so we definitely see a trend going forward of an increasing penetration of AMT & AT in the market and as I had mentioned earlier the price points are almost 4x to 5x in AT and AMT compared to manual. Those will definitely give us a better contribution per vehicle going forward as well.

Ronak Sarda: Just a clarification again, in the press release you have highlighted winning orders where you mentioned gear shift knob, so what exactly is a knob, the entire assembly is basically a gear shifter lever right and is it like some small part of it?

Anmol Jain: The gear shifter system, which is currently manufactured at Lumax Mannoh, takes care of two thing, one is the shift lever, which is fitted on to the vehicle and the other element is the knob, which is the aesthetic part on which there is the gear numbers mentioned. So we manufacture both. In some models we supply the entire system, which is the lever and the knobs. But for some variants we only supply the knob. For example, in the Nissan Motor Kicks we only supply the knob.

Ronak Sarda: That is just plastic molding business basically?

Anmol Jain: That is correct.

Ronak Sarda: Any colour on the market share in the gear shifter business what would be your market share and who are the key competitors here?

Anmol Jain: Well we are currently the market leaders with approximately close to 45% to 50% market share. There are definitely other competitors as well. There are approximately four more competitors in this space for us between the passenger car and the commercial vehicle space.

Ronak Sarda: Thank you.

Moderator: Thank you. We have the next question from the line of Nikhil Oswal from Stallion Asset Management. Please go ahead.

Nikhil Oswal: Thanks for the opportunity. Sir coming back to the previous question you said that you are commanding nearly 45% to 50% market share and there are another four competitors in the market. So can you just throw some colour on what way we are better than them and how would we sustain this market share?

Anmol Jain: First and foremost, our strength and the dominance of our leadership is a direct result of our R&D and our engineering strength. With our partner Mannoh, we have been able to build a very strong capability of local designing, developing and validating the entire gear shifter systems that has resulted in not only engineering capability, but also a cost competitiveness. Because, we are able to almost 100% locally engineer and manufacture these products for our customer specifications. so that would continue to hold as our core competency.

Nikhil Oswal: Another question was regarding aftermarkets, the contribution from revenue has increased in aftermarket can you just tell me what kind of margins do we have in aftermarket?

Anmol Jain: In aftermarket, as we have always been maintaining, we operate on a mid-double digit EBITDA margin. Our endeavor have been towards maintaining those margins and growing the topline. I had mentioned earlier also that we would be doubling the topline of aftermarket in the next three to four years' timeframe. So we would continuously focus on having at least 20% CAGR on aftermarket and maintaining or further growing the EBITDA margins.

Nikhil Oswal: Alright fine. That is all Sir. Thank you.

Moderator: Thank you. We have the next question from the line of Resham Jain from DSP. Please go ahead.

Resham Jain: Sir just wanted to understand given the current automobile industry scenario, how are you looking at over the next six months to one year in terms of the growth in various segments? where do you see your pockets of optimism and where do you see some challenges? so just need your thoughts on the next one year scenario?

Anmol Jain: Currently, I think there is a lot of volatility and the sentiments of the consumer definitely seem to be a little muted. This has been a clear indicator after the Q3 results where the industry has seen a negative 16% growth compared to the consecutive quarters and even on a year-on-year basis in Q3 the growth was only 7%. This was mainly led by the commercial vehicle and the two wheeler space. Passenger cars did decline by almost 9%. It will be a very volatile situation for the next two quarters. The general elections are also just around the corner. My personal view is that the passenger car industry will continue to struggle and possibly just report a single digit growth if at all. The commercial vehicle space would still be a better off situation because also the base is not as high. In the two-wheeler space, I think it would be a mixed bag. Some OEMs would constantly be able to grow at a better pace, but overall as a two-wheeler industry, I would not be surprised if the growth drops from a double-digit current growth rate to also perhaps the high single digit growth rates. So, there will be growth, but I think the growth rate, which was envisaged in the first half of the current fiscal has definitely changed and got a little lower in the next probably two to three quarters out. This is what my personal opinion on the industry outlook.

Resham Jain: Sir if you can also highlight on the raw material front. In the last two quarters, we have seen some increase in the polymer prices and metal prices which are now coming down slightly. So your view on the gross margins going ahead?

Anmol Jain: If you see our raw material consumption as a percentage to sale over the last few years, it has constantly been improving. In the first nine months of current fiscal, it stands at 69%, which is the lowest in the last five years. There were some escalations on both polymers and metallic as you rightly pointed out in the Q2 and perhaps even a spillover in the Q3, but it has eased off. Currently, we will be getting some rebate of this from our OEM customers in the coming quarters because as I had mentioned earlier, there is always a time lapse of approximately six months when the pricing is revised from the OEMs. So currently, we are still getting a price of the lower raw material rate whereas the actual raw material is being bought at a higher rate. So going forward this would be corrected and it would also help a bit in our margins.

Resham Jain: Sir any rough number, which you want to share like 30, 40, 50 basis points, how much impact it would have had on the previous two quarters roughly?

Anmol Jain: Approximately 20 basis points. I would say 20 to 30 basis points is at best our estimate, which would have been impacted because of this raw material escalations.

Resham Jain: Sir this year your capex is close to Rs.55 Crores as you shared, next year any number for FY2020 capex?

Anmol Jain: Right now, it is too premature because our operating budgets only get finalized in Q4, so it would be too premature. But for the general business, I do not anticipate any major changes in the next year for the current set of businesses. However, we are pretty bullish and we are evaluating multiple opportunities for new product lines and we are in the advanced stages of discussions for a few. Some of them should see the light of day next year in terms of capex and those would be over and above the general businesses. So for me right now to comment is it too premature how much of a number we should look at, but we should definitely be looking at a capex more than current year if the new product lines were to go through.

Resham Jain: Thank you Sir and all the best.

Moderator: Thank you. We have the next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: Good morning. I have a few questions and first is regarding the competition in Telematics. So do we stand a chance versus others. We saw one of the competitors Minda Industries also did some joint venture on the Telematics and there are many companies, which are supporting the Telematics business along with data analytics service. So what is our competitor advantage in Telematics and when we should see the results have you started getting feedback from all the OEMs whom you deal with and would you have a preference in Bajaj Auto on Telematics?

Anmol Jain: There is already a lot of traction, which has started on the Telematics business both on the OEM as well as the fleet compared to what it was earlier. We are in discussions with a lot of both passenger cars as well as two wheeler OEM in terms of the Telematics devices. In terms of the competiveness, our joint venture partner is perhaps one of the largest into this take. It is also again in terms of the number of subscribers it has, it has approximately 1.5 million subscribers currently, which are using its product and is also a multinational being listed on the NASDAQ. So clearly the collaborator partner has a very, very deep understanding of the Telematics space. Going forward, as I mentioned the industry is fast moving into this space and we feel that we have the right partner and with Lumax's relationships with the OEMs we should be able to start generating revenues in FY2020 as mentioned earlier.

Manish Bhandari: You have on various calls you said that each joint venture should be scaled up to Rs.100 Crores and above, so are you standing with that same number or you have changed that goalpost by any chance?

Anmol Jain: No, we stand with the same numbers that every new joint venture over the first three to four years should get to Rs.100 Crores topline mark. That is our basic filter to get into a joint venture agreement.

Manish Bhandari: Sir my next question is the discounting by Bajaj Auto impacting our margin also with Bajaj Auto?

Anmol Jain: No, it is in fact helping us because the volumes have grown and as a Tier-1, we can only hope for better volumes. So our volumes and margins both have grown with Bajaj Auto primarily because of their strategy of discounting and perhaps also penetrating deeper market share into the end market.

Manish Bhandari: Another question was regarding the aftermarket, what are the challenges you are facing to accelerate the growth in the aftermarket, is there any challenge you have seen, now you have put up your strategy half way and what are the tweaking you need to do and can we surpass our number of Rs.500 Crores target what we have initially on a three to three-and-a-half-year horizon?

Anmol Jain: Absolutely, I think I am very, very bullish on the aftermarket. As I mentioned our short term target is to double the aftermarket revenue in the next three to four years timeframe. A Rs.500 Crores mark definitely is achievable and over the next let us say five years if I were to give a little more midterm perspective, I think we should be definitely looking at a much higher number. The challenges are well the same. There is a little blip in the aftermarket currently because we are very noteworthy of the cash flow realizations. Here the volume is not the challenge because your growth is dependent on only yourself. How much you are able to put out and how much you are able to gain. But we are very cautious of making sure our debtor realization are constantly moving. We do not want to just fill and increase the revenues and then be later on having some bad debt. So that is possibly for me the biggest challenge. The growth is not a challenge, maintaining the margin should not be a challenge because the company enjoyed a very strong goodwill in the aftermarket. We will be expanding our product portfolio as well. In the lighting space, which is currently the largest product for the aftermarket as I mentioned we have also launched some more than 200 SKUs in the current fiscal year which is very well accepted by the aftermarket channel partners. But I think the biggest challenge would be the cash flow realizations on time going forward with this growth.

Manish Bhandari: Sure. Another question was regarding the other income in the P&L, shall we treat all the other income as an operating income for all practical purposes for years to come? and for this year if you could give the breakup of this other income and the role of Lumax management services in this other income?

Sanjay Mehta: It is largely of the operational nature from the auditor's point of view it has been taken in the other income.

Anmol Jain: Manish, I will just say that almost 80% of this would be treated as a part of the operating income because it is coming from our OEM customers. For some reasons, we have to treat and report it as a nonoperating income, but a majority part of it will continue to come out of the operations.

Manish Bhandari: Thank you and I have few more questions, which I will join the queue afterwards.

Moderator: Thank you very much Sir. We have next question from the line of Abhishek Jain from HDFC Securities. Please go ahead.

Abhishek Jain: Thanks for taking my question and first of all congrats for decent set of numbers in a tough time. My first question is related with the seat metal business that has gone up significantly by 120% in FY2019 owing to acquisition of the new business the company is also coming with the new facilities for seat metal in Pune and Aurangabad for Bajaj Auto. So just wanted to understand how much incremental revenue would be added post commissioning of these two plants?

Anmol Jain: In nine months, we have added incremental revenue of about Rs.70 Crores in the fabrication business and approximately Rs.100 Crores would be the incremental revenue, which would be envisaged on an annualized basis once we hit to the peak capacity utilization.

Abhishek Jain: How much incremental revenue you are expecting in FY2020 from these two plants?

Anmol Jain: Approximately Rs.100 Crores would be the annual incremental revenue, which the company would generate.

Abhishek Jain: What is your current capacity utilization sheet metal business?

Anmol Jain: Current capacity utilization on sheet metal in totality would defer from line to line. In totality, it is at about 75% to 80%, but some lines would be operating even at 60% and some lines would be operating at as high as 90%.

Abhishek Jain: Sir my next question is related with the SMT business that has gone up around 160% during last nine months and maximum business is coming from the Lumax Industries. So as the Lumax Industry may also try to start its own productions, so will it impact your business or what is your take on SMT business for the next two years?

Anmol Jain: I have always mentioned that SMT business is a captive business where it is intra group customer. The endeavour going forward is to expand the electronic business as Tier-1 value add player in the market directly with OEM and that is the reason we are very bullish on the electronic space. But we are in talks with multiple partners to get new product lines in electronics division to cater to OEMs directly. Currently, we are battling some quality issues on the SMT and some serious quality issues have been reported in the last two to three months, because of which we are currently having a hold on let us say future growth discussion. We are trying to fix our house in order currently.

Abhishek Jain: What kind of the revenue visibility you are finding for the next two years in SMT business to earn around it is Rs.1.42 billion in the last nine months. So what kind of the numbers we can expect in the next two years?

Anmol Jain: Well it would depend on the industry growth as well, but if all goes well then we should be able to continue the same trend going forward as well.

Abhishek Jain: As Lumax Industry may start its own production in SMT line, so will it impact your business?

Anmol Jain: Yes, if it does it will impact our business.

Abhishek Jain: When they are talking to start their business it will start to impact your business?

Anmol Jain: I have not got any clear-cut indicator that they are starting and from when they will be starting. But I am giving you a very clear cut in general thing that if they start in house production then surely there will be some cascading effect and our demand will also reduce.

Abhishek Jain: Apart from the Lumax Industries who are the other customers in SMT?

Anmol Jain: Currently, we have none. Currently, 100% of our revenue comes from Lumax Industries for the SMT products. But as I had mentioned, going forward, we are getting into also oxygen sensors even though it is part of the electronics business for us, but it will be housed in a separate joint venture. Some revenue growth will come from there and it should set off any muted growth of SMT.

Abhishek Jain: Sir Growth in the plastic molded part that was 9% in the last nine months. What sort of the growth the company is looking for the FY2020 given capacity increased by HMSI? So what is the current capacity utilization and are you looking to increase your capacity in this particular plastic mold part?

Anmol Jain: Current capacity utilization of plastic business stands at about 70%. The reason is that HMSI as a customer has also had very muted Q3. We do not anticipate any major change in the revenue in FY2020 from the current set of customers. However, we are in deep discussions with another OEM customer to expand our plastic business. If that go through, I foresee that in FY2020-21, we should be able to get a significant growth on the plastic business. Also, to give you a perspective of midterm strategy, the company is engaged in discussions with various OEMs to increase our plastic content per vehicle instead of going with very simple shoot and ship products to go into kinematic parts and those are technologically more advanced products and thereby helps us in realizing a better higher contribution per vehicle.

Abhishek Jain: Are you also looking to supply these plastic molded parts to four wheeler OEMs?

Anmol Jain: Absolutely. Currently, we do not have a customer of four wheeler for the plastic business, but we are in talks with a couple of them to perhaps get into that space.

Abhishek Jain: Sir my next question is on revenue from the new businesses like oxygen sensor, urea tanks and Telematics, so what kind of the revenue you are targeting for the next two years from these three products?

Anmol Jain: I continue to maintain my stance that every new joint venture which we get into, the endeavour is to achieve and obtain a Rs.100 Crores revenue mark in the three to four years time period. Most of these JVs, which you mentioned FAE, Ituran are new joint ventures. So I continue to give the same amount of guidance in terms of the revenue. Current outlook is that for FAE, we have already got some business confirmation. As I mentioned we should be looking at some may be Rs.50 Crores of revenue and also for urea tank it should be about the similar mark.

Moderator: Sir I am sorry to interrupt please come back in the queue. We have the next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Sir thank you for the opportunity and congratulations on a decent set of numbers. I have two questions. One is you talked about the other income you said I think in the previous comment that 80% is coming from the OEMs, so what exactly is the nature of that and how sustainable that is if you can just elaborate on that?

Sanjay Mehta: It is relating to mold modification, design charges, which are of continuous in nature in our business. We expect continuity of same.

Bharat Gianani: Do you said designing charges and any other?

Sanjay Mehta: Mold modification charges.

Anmol Jain: There is a lot of prototyping. There is a lot of mold designing, products designing, mold modifications, which happened over the course of development, those are billed for us as a part of the operating income because it is coming from the mainstream business. But for audit reasons, it is disclosed as a non - operating income. That would be almost close to 80% of the total nonoperating income and the rest 20% would be coming from let us say the interest and the rental income, etc., So I would say that yes the 80% would continue to be a part and parcel of the business.

Bharat Gianani: Sir another question is that given whatever businesses that you highlighted that would come up in a big way as regulatory things progress and also we are also staring at the potential loss of business or may be a growth, which will not be there in Lumax Industries that we supply to, so considering all the factors, what is your revenue guidance for FY2020 if you can just throw light on that?

Anmol Jain: I would not be able to give you off the hand figure for FY2020. As I mentioned the annual operating budgets would only get finalized by Q4 and again I am repeating that as of now we do not anticipate any major changes in the line of things. We would still feel that we should grow on double digit revenue next year, but again we will be only able to throw some light once the annual operating budgets are finalized close to Q4.

Bharat Gianani: Sir just last question coming on the other income side because since it appears that most of it is on the operating income. So, the other income has basically seen a very sharp jump so is that sustainable going forward as well FY2020?

Sanjay Mehta: I think already mentioned it is relating to the prototype mold, which is common in our business. So yes, it is like that only and we are in discussion with the auditor even to take the view to put in operating income way forward as it is in regular kind of income.

Bharat Gianani: Thank you and all the best Sir.

Moderator: Thank you Sir. We have next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you Sir for the opportunity. Sir my question is on this SMT you just mentioned about some technical issues and all and we are seeing this quarter-on-quarter fall mainly because of Lumax Auto is not growing and industries is also not growing, any detailed colour on this technical matter and at what stage we are coming out from those issues?

Anmol Jain: Well, we are facing a quality issue because of which there have been some very high level deep discussions with our OEMs. Our teams are working both with Lumax Industries as well as the partner of Lumax Industries, which is Stanley Electric Corporation to try and find a permanent solution to this problem. I would say it is still ongoing. We do not have a permanent counter measure yet, but it is a very technical issue and we do anticipate that in the next perhaps one to two months timeframe, we should be able to come with a permanent measure for this problem.

Sunil Kothari: Great Sir. Sir you said that the next two to three quarters seems to be volatile, so how prepared we are in those situation and which other product line or may be customer will be helping us to maintain this double digit growth rate and any guidance or your indicative guidance on margin trend? Thank you.

Anmol Jain: I think the margin trend should continue to be at the same level. The reason is, even there is a lot of volatility in the markets, I personally feel that with Bajaj Auto based on their recent strategy of getting a deeper wallet share in the market, I think that growth would continue even though the two wheeler industry or overall the growth may slow down. But I personally feel that Bajaj Auto's growth trend would continue and Bajaj being the largest customer that helps us directly. Also I am very bullish on the aftermarket. If you look at the aftermarket numbers, they have grown in high double digits over the nine months in terms of revenue and they command better margins so that should insulate us from any volatility in the OEM segment.

Sunil Kothari: Thank you very much Sir. Wish you good luck.

Moderator: Thank you Sir. We have next question from the line of H R Gala from Finvest Advisors. Please go ahead.

H R Gala: Congratulations for good set of numbers. Sir can you just share your broad vision that at one point in time we were looking at FY2021 to be more than Rs.2,000 Crores type of business, I think looking at the current growth rate we should be able to achieve it if we can grow at 20% to 25% type of rate, now in that scheme how much would be the standalone contribution and how much will our JVs, etc., will contribute?

Anmol Jain: Currently, if you look at the numbers the standalone is approximately 60% of the consolidated revenues. Going forward, I think that mix should largely remain unchanged. After the merger obviously that would probably change a bit because after the 100% subsidiary being merged that numbers will also get part of standalone entity. So because of that accounting change the 60% mark will perhaps change, but from a business point of view, I would say that it would be largely remaining the same going forward. FY2021, I think yes, we still are bullish in achieving those numbers. As I had mentioned, the company is constantly striving and engaged in deep discussions with future joint venture partners and our customers across segments two wheeler and passenger car. We are trying to get into new product lines, which see a big demand based on the new trends of electrification and the BS-VI regulations in the industry. So I am personally pretty bullish of achieving that guidance of FY2021 and perhaps in the next long term strategy plan of FY2025 and FY2027 I should be able to give you even a better picture going forward.

H R Gala: Thank you very much Sir.

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

Kashyap Jhaveri: We had an aspiration to have about 100 BPS yearly EBITDA margin expansion including the other income, which has been about 60 basis points. If I exclude the other income that is fairly about 10 basis points and this is after about 100 basis points lower RM to sales. So you have highlighted that you still aspire to do the same, but what then could be the driver again here is there anything including in other opex, which one should look at for adjusting this EBITDA?

Anmol Jain: If you look at the EBITDA margins on a consolidated basis for the nine months it is at 11.1%, which is up by 50% BPS compared to the nine months FY2018. I would like to also add here that there has been a foreign exchange loss in the current fiscal year to almost to the tune of Rs.2.5 Crores in the consolidated entity, which was not there in the last year. If you factor that loss also the EBITDA expansion instead of 50 BPS would have been almost 75 BPS in the nine months FY2019. Going forward, as I mentioned, we would like to sustain the current EBITDA margins with growing at a double digit that would be the first endeavor. Once, we get into these new technologies and new product lines the endeavour is to expand our EBITDA margins further because those would be more value and high technology products, which we would be getting into those spaces.

Kashyap Jhaveri: The second question is on if you can give the breakup within the gear shifter in terms of MT and AT?

Anmol Jain: As I had mentioned, the breakup is about 80:20. 80% would be manual transmission levers and 20% would be the automatic transmission levers. This is in terms of value. Obviously, the numbers would be different. The number mix would be much more skewed towards manual transmission and automatic the contribution per vehicle is very high.

Kashyap Jhaveri: Thank you very much Sir.

Moderator: Thank you Sir. We have the next question from the line of Bibhishan Jagtap from IDBI Capital. Please go ahead.

Bibhishan Jagtap: Thanks for taking my question. My question is on Cornaglia business, what would be our market share in Tata Motors business for urea tank and who else is there for Tata Motors by the way?

Anmol Jain: Urea tank, as I mentioned is going to be driven by the BS-VI regulations. So currently urea tank is not a product, which is put onto the vehicle. It is a new product. We are one of the first movers into this phase with Tata Motors. There would be two other players in this space, one is KUS Auto and one would be a Hinduja Group company called Albonair. Those would be the other two players. In terms of market share, it is too premature because again this is a virgin market, which will be just opening up in April 2020, but as I mentioned for Tata Motors, we would be supplying close to about 40% of their requirement in the Pantnagar facility and for the model, which we have been awarded we would be almost at 100% in the Pune facility.

Bibhishan Jagtap: So, 40% overall CV or what?

Anmol Jain: For the model, which we are development. Overall, I would say that it would be close to about 20% to 25% of the Tata Motors wallet share commercial vehicle.

Bibhishan Jagtap: Sir, As per our annual report, we paid royalty in the other expenses even though the number is not very high, but can you please help me understand and what is the logic behind that?

Sanjay Mehta: This royalty is in subsidiary, Lumax Mannoh, where we are paying the royalty to Mannoh, Japan and to LDK also in the terms of JV agreements. It is consolidated in our books, under which the LDK royalty is squared up.

Bibhishan Jagtap: Thanks.

Moderator: Thank you. We have next question from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: This is Apurva here. Sir just wanted to know the growth drivers for FY2020, what will be our growth drivers because seeing the SMT line, which is having issues, what can we look at SMT line over the next year and the growth drivers for FY2020.

Anmol Jain: I am again saying it is too premature for me to give you a number in terms of growth drivers for FY2020. However, we still feel that we would be able to continue to grow at a double digit topline in FY2020. Bajaj Auto, in my opinion would continue to outperform the two wheeler industry and we remain pretty well deeply engaged with Bajaj Auto for growth of the current product as well as the new products for new models. Aftermarkets, clearly would also be one key growth driver for us. As I mentioned earlier, we are looking at some inorganic activity, which if we get through should add a significant portion of our topline and contributing to the bottomline as well.

Apurva Mehta: Sir can you throw some line what will be our SMT contribution going forward because we were doing close to Rs.50 Crores of run rate and we dropped to Rs.29 Crores and this Rs.29 Crores is due to the quality issue majorly?

Anmol Jain: No. We have not dropped any revenue in SMT because of the quality issue. As I mentioned earlier, the revenue dropped in Q3 compared to Q2 of electronics of SMT is purely because of the industry demand being degrown by 16% to 17%. So again as the industry volumes have dropped and also there are some shutdowns in the month of December almost to the tune of one week to eight days with key customers like Maruti Suzuki. Because of that, the volume offtake was less and hence it added to degrowth in Q3. That is primarily the reason. The quality issue is something, which we are tackling and are trying to find a solution to it along with Lumax Industries Limited and their partners. As far as the revenue for the next year growth as I mentioned earlier, we should be able to maintain a similar growth.

Apurva Mehta: In Q4, we will have the same types of revenue, which was in Q3 or it will be much higher because Q4 is always a better quarter?

Anmol Jain: It should be better than Q3, but it clearly depends on the market. Please understand that Lumax Industries is also a Tier-1 supplier and their volumes are largely dependent on the industry offtake across segments of two wheelers and commercial and passenger cars as well. So I can only add here Maruti Suzuki for example has recast their guidance. You must have read in the media, the Chairman, Mr. Bhargava has also said that double digit growth for Maruti Suzuki in the current fiscal seems challenging and perhaps a single digit growth is what they would be looking at. So clearly that effect would come on Lumax Industries as well as Lumax Auto Technologies for the SMT business. If you look at the January numbers of Maruti Suzuki you will get the picture as where the industry is headed for Q4.

Apurva Mehta: In the new product line, which we are targeting to have a lot of new JVs, are we looking at some big JVs, which can drive our growth to close to like Rs.500 Crores kind of thing? For which new JV's, you are very excited that lead to great future for our company? any such JVs are there?

Anmol Jain: There are multiple joint venture discussions, which are going on and all of them and if even a 50% of them were to go through I would be able to say that there would be a significant improvement in the topline of the consolidated entity. These would be big joint ventures and these would be joint ventures with big partners. I would only be able to give you some guidance and throw some light in the next six to eight months timeframe. These do take time and some of them are Japanese partners, but again I would be able to only give you guidance in the next six months timeframe.

Apurva Mehta: Thanks a lot and wish you all the best.

Moderator: Thank you very much Sir. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing comments. Over to you Sir.

Anmol Jain: I would like to thank you all for joining into the call. I hope that we were able to answer all your questions. For any further queries, you may please get in touch with us or SGA directly. We will be happy to address all your queries. Thank you very much for your participation again.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Lumax Auto Technologies Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.