LIL:CS:REG30:SE:2023-24 Date : 18.08.2023

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

Subject: Transcript of Analysts/Investor Earnings Conference Call Q1 FY 2023-24.

Dear Sir/Ma'am,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable Regulations, please find enclosed herewith the Transcript of Analysts/Investor Earnings Conference Call which was held on **Friday, August 11, 2023 at 11:00 A.M. (IST)** to discuss the operational and financial performance of the Company for the 1st Quarter ended June 30, 2023.

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

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

Thanking you,

Yours faithfully,

For **LUMAX INDUSTRIES LIMITED**

RAAJESH KUMAR GUPTA
Digitally signed by RAAJESH KUMAR GUPTA
Date: 2023.08.18 20:48:31 +05'30'

LUMAX INDUSTRIES LIMITED

RAAJESH KUMAR GUPTA
EXECUTIVE DIRECTOR & COMPANY SECRETARY
M.NO. A-8709

Encl: As stated above

"Lumax Industries Limited
Q1 FY 2024 Earnings Conference Call"
August 11, 2023

MANAGEMENT: **MR. ANMOL JAIN – JOINT MANAGING DIRECTOR – LUMAX INDUSTRIES LIMITED**
MR. SANJAY MEHTA – GROUP CHIEF FINANCIAL OFFICER– LUMAX INDUSTRIES LIMITED
MR. NAVAL KHANNA – HEAD CORPORATE, TAXATION – LUMAX INDUSTRIES LIMITED
MR. RAVI TELTIA – CHIEF FINANCIAL OFFICER– LUMAX INDUSTRIES LIMITED
MR. ANKIT THAKRAL – CORPORATE FINANCE – LUMAX INDUSTRIES LIMITED
MS. PRIYANKA SHARMA – HEAD CORPORATE COMMUNICATIONS – LUMAX INDUSTRIES LIMITED
SGA INVESTOR RELATIONS ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '24 Earnings Conference Call of Lumax Industries Limited. 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 of the company, and it may 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anmol Jain, Joint Managing Director of Lumax Industries Limited. Thank you, and over to you, Mr. Jain.

Anmol Jain: Thank you very much. A very good morning, everyone. I hope everyone is doing well. Along with me on this call today, I have Mr. Sanjay Mehta, Group CFO; Mr. Naval Khanna, Corporate Head Taxation; Mr. Ravi Teltia, CFO; Mr. Ankit Thakral of Corporate Finance; and Ms. Priyanka Sharma, Head Corporate Communications, along with SGA, our Investor Relations Advisors. The results and investor presentation are uploaded on the stock exchange and company's website. I do hope everybody has had an opportunity to go through the same.

The world economy managed to navigate through challenges better than expected, and the world GDP is expected to grow at around 3% for FY '24. However, the Indian economy is estimated to grow at around 6% to 6.5% at the various economic reports, positioning the country, as one of the world's fastest expanding economy.

The growth can be attributed to targeted initiatives by the government aimed at enhancing transportation, infrastructure, logistics and the overall business environment alongside robust private consumption. These advancements have not only been advantages for the domestic industry, but have also attracted foreign investments, strengthening India's appeal, as a favourable hub for international organizations. In the coming years, India is set to emerge, as a more formidable and rapidly evolving force.

Talking about the automotive industry. In the recent years, India has risen as a highly favoured global destination for producing high-quality automotive components steadily closing the gap with several well-established global peers. The automotive sector stands out as a key cornerstone of the economy. India continues to trail behind numerous global economies in terms of cars per capita, but the booming middle class within the world's fastest-growing economy has the potential to alter this scenario in the future.

In the last quarter, the automobile industry experienced a moderate increase across various segments. This increase was primarily propelled by new model introduction and an increased preference for SUVs and premium variants. The Indian government's proactive push for domestic manufacturing aided by incentives such as the PLI scheme and disruptions in China supply chain has led to a flourishing period for the country's automotive component manufacturers. The auto component industry recorded a turnover of $70 billion, largely driven by expansion in value-added component and a change in consumer preference towards larger and more premium vehicles, thereby increasing the per vehicle content.

Speaking of the automotive lighting industry, the automotive lighting industry is bound to grow, largely driven by shift towards LED lighting. LED lighting possesses multiple benefits over the conventional lighting, such as decreased power usage, heightened visibility and safety, heightened resilience, improved design flexibility for enhanced aesthetics and eco-friendly characteristics among various others. Additionally, governmental initiatives and regulations can play a pivotal role in propelling the integration of LEDs in the automotive sector.

Lumax Industries is dedicated on consistently improving its capabilities to produce a wide range of automotive lighting solutions. We aim to establish Lumax, as the favored partner and solution provider for the OEM, pioneering top-tier products and technologies across various segments.

During the last quarter, the company has started supply of tail lamp and high mount stop lamp to the recently launched Jimny model from Maruti Suzuki in the passenger vehicle segment, tail lamps to the Shine 100cc model from Honda Motorcycle and Scooter India, headlamp of Super Splendor model from Hero MotoCorp in the two-wheeler segment and headlamp and roof lamp to the new models of John Deere and Mahindra, respectively, in the CV and agro space.

To conclude, I would like to add that at Lumax with its long-standing OEM relationship, high-quality products and continuous adaptation of newer technologies to meet the needs of ever-evolving customer and industry demand, we are highly optimistic of being the first choice of customers, as a reliable supplier in the lighting industry and should outpace the industry growth for the years to come. This is also reflected in our strong order book of over INR2,000 crores that is currently on hand.

Now I hand over the call to Mr. Sanjay Mehta, Group CFO at Lumax for business update.

Sanjay Mehta: Good morning, everyone. I will just take you through the operational and financial performance for the Q1, FY '24. The share of LED lighting for the quarter stands at 35% and the conventional lighting at 65%. With increased demand of LED lighting on the back of demand for more premium segment vehicle, we are confident of higher sale of LED lighting going forward.

With respect to segment mix for Q1, as a percentage of revenue, 65% from passenger vehicles, 29% from two-wheelers and 6% from commercial vehicles. With respect to product mix for the Q1, as a percentage of total revenue, 66% of revenues from the front lighting, 25% from rear lighting and 9% from others.

About financial performance, I'm delighted to say that in Q1, our company has continued its strong performance with quarterly revenue standing at INR618 crores, depicting a growth of 21% on Y-o-Y basis. Revenue for Q1, FY '24 for our manufacturing business has grown by 16%. The company reported consolidated EBITDA of INR54 crores with a margin of 8.7% in Q1, FY '24, as against INR48 crores in Q1, FY '23, a growth of 12%.

PBT before exceptional expenses and share of associates is INR23 crores in Q1 versus INR23.5 crores in the corresponding quarter last year. The profit after tax and share of associates stood at INR23 crores in Q1, '24 versus INR20 crores in Q1, '23, a growth of 17%.

The effective tax rate for the quarter is 35.4%, which is expected to remain same for the full year. The greenfield project at Pune is as per schedule and commercial production is expected to commence in Q2 of the current financial year. The capex incurred during the quarter is INR10 crores, and the estimated capex for FY '24, including INR170 crores of Pune greenfield product is around INR300 crores.

With this, we can open the floor for question-and-answer.

Moderator: thank you very much. The first question is from the line of Aashin Modi from Equirus. Please go ahead.

Aashin Modi: My first question is regarding the margin performance. So...

Moderator: Aashin, sorry, but your voice is coming too low?

Aashin Modi: Just a second. I'll flip to the handset mode...

Moderator: The line for the participant dropped. We move on to the next participant. Next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: So my first question on the margin performance basically, this quarter, we have seen a contraction in the margin. So I just wanted to understand what is the reason of the higher employee expenses? And what kind of the margin we are looking for the FY '24?

Anmol Jain: So thank you, Abhishek, first and foremost, your observation is correct. If I compare Q1 of the current fiscal from Q1 of last year, there is a contraction in the margin. There are certain reasons for it, which are specific to one time.

Number one, there was a subsidy gain in the last year quarter 1, which is not there in the current quarter. That by itself has pulled down the margin by about 0.7%. Owing to that, there is an increase in raw material consumption if you compare on a year-on-year basis, by about 0.5%, but you see it on a consecutive quarter basis, it is pretty much in line or rather better than the full year FY '23.

So we do expect raw materials to slightly become better because there are certain products, which have just hit SOP and the price actualization on those have yet to come from the OEMs. And the third reason is there is a slight increase in the manpower costs, largely because of the new plant in Pune. It will go on stream, as Mr. Mehta said, later part of quarter 2. And once it does go on stream, there will be additional revenues and the manpower cost as a percentage should get neutralized to more like 12%, 12.5% to revenues. So these are the three fundamental reasons why you see a contraction in the current quarter.

My guidance for the full year is that definitely, we will be going back to a double-digit EBITDA and perhaps the meeting or exceeding the FY '20, which was peak EBITDA, which we had reported in terms of the margin. So we should definitely fare better. But a double-digit EBITDA is what we are envisaging for the full year.

Abhishek: Sir, effective tax rate has gone up to 35%, and you were mentioning that it would be at the same level of 35% in the rest of the year. So what would be the next year guidance, especially for the FY '25, will it come down to 26% or it will be the same?

Sanjay Mehta: It will come down maybe around 30% to 33% for the full.

Abhishek: And in this quarter, we have seen a significant revenue growth from the Honda, is it because of the new business you won for Honda Shine?

Anmol Jain: So Honda, there is a 27% growth, and that is largely because of the volume growth. There has been a contraction in the value. However, with HMSI because one of their high selling models converted back from LED to conventional lighting, as per the customer demand. But because there has been a significant ramp-up in the volumes, that's the reason we see a big jump in Honda's revenue for the quarter.

Abhishek: Okay. And sir, you had a guidance of 20% to 25% kind of the growth in FY '25. So you maintained your guidance for the 25% growth and double-digit EBITDA margin for the FY '24?

Anmol Jain: Yes. So we still maintain, as I mentioned, a 20% to 25% top line growth overall for the current year based on our orders in hand. And yes, we will definitely be attaining a double-digit EBITDA for the full year.

Abhishek: And my last question is on this other income, that is down significantly. Is there any one-offs there, or what is the reason?

Anmol Jain: That's exactly what I mentioned. The subsidy -- there was a INR3 crores subsidy income in the previous year quarter 1, which is not there in the current quarter, and that's the only reason why the other income has dropped.

Sanjay Mehta: So Abhishek ji, we have taken as a conservative view because of there is a delay in the subsidy disbursement from the Gujarat government. So as a conservative, we have not accrued, although, it is already accrued. And as and when we receive that income will come.

Abhishek: Is there any other impact on other operating income also?

Sanjay Mehta: No, no.

Moderator: Thank you. Next question is from the line of Aashin Modi from Equirus. Please go ahead.

Aashin Modi: Sir, my first question is regarding this order book. So we have -- every quarter, we continue to grow our order book and now it's approximately INR2,000 crores. So could you give us some colour on that from which customers is this? And what sort of growth do we see from different customers? And also how much percentage of this will be from entity?

Anmol Jain: So the current order book stands almost close to INR2,200 crores, out of which, I would say that almost 60% to 65% of this would be in the passenger car space, about 30% would be in the two-wheeler and three-wheeler space and about residual left about 5% to 6% would be in the commercial and agro space. This growth is various customers. I would say about 25% of the order book is actually with EV models across four-wheelers and two-wheelers and almost close to 65% to 70% of this order book is actually new business and only about 30% to 35% would be a replacement business.

So that's just to give you a fundamental view. But the biggest takeaway is that almost 85% of this order book is actually on LED lamps. And we do envisage a huge shift in the LED ratio, at least over the next two years when this order book is fully realized from the current 35-65 ratio.

Aashin Modi: Sir, on a follow-up question on that. So while we see different players' LED contribution consistently rising, but ours has remained at 35%. So based on the ramp-up of this M&M, which is expected by Q3 in Chakan plant. So when could we expect to see substantial increase from this 35% level, if you can talk about in terms of customers, Maruti, which are -- and other major customers, which are here for us, who will lead to that LED penetration growth?

Anmol Jain: Such an interesting question, and let me try to explain this. If you look at FY '18, which was literally five years ago, the LED penetration for us was 25% and conventional was 75%. So in a span of, let's say, five years, give or take, and if you were to discount the COVID period because a lot of the launches were delayed, let's say, in a matter of three years to four years, we have moved from 25% to 35%. And that's pretty much the gestation or the lead time for lamp development on a four-wheeler. It's almost as close to, let's say, 18 months to 24 months. And on a two-wheeler, it's more like 12 months.

Now compared to my order book currently, if we look at this revenue of INR2,200 crores, 100% of this would come in FY '26. And as I mentioned, 85% of this is LED and almost 65% is new business, even the replacement business of 35%, there is a huge shift from conventional to LED. So I do envisage that this 35%, 65% would probably move up to more like 50%:50% by FY '26. That is what we are envisaging for the next, let's say, two years, give or take, based on our order book at hand.

Aashin Modi: Thanks a lot for that detailed explanation. Sir, my last question is this profit from associates, so sir, that has increased significantly from INR10 crores per annum sort of a number to almost INR40 crores run rate, and that's a significant percentage of our PAT. So could you give us some understanding on what to estimate this going forward? And what sort of a number is possible in this profit from associates given that Hyundai Kia continue to grow strongly in the country?

Sanjay Mehta: So as mentioned in the past also, the SL Lumax is present to a single customer Hyundai and Kia. And we are holding around 21% in that company. So we always mention that we should see their full year performance because on quarter-on-quarter, it will vary because of lot many factors. So in this quarter, they have the sales of around INR634 crores against the last year of INR522 crores.

Anmol Jain: But I think I would only add to that, I think for SL Lumax, it is always wise to look at the full year performance and not on a quarterly basis. If you were to compare with Q1 of last year, you're absolutely right, it is more than doubled.

Aashin Modi: No, no, that's only sir. I was just asking that -- so from a INR10 crores per annum number, we have now shifted to a INR40 crores per annum number. So on an annual basis, what sort of a number -- sustainable number should we take going ahead in the SL Lumax entity?

Anmol Jain: I think if I look at the current quarter, it is pretty much in line with the full year number of last year at a PAT level. And I would say that current year would continue to be in the same vicinity as last year. And please understand that Hyundai Kia, both are challenged currently with capacity constraints and that's the reason while the output, we are not expecting at SL Lumax will significantly go up in the current year because both Hyundai and Kia are scouting for additional capacities to meet the market demand.

Moderator: Thank you. Next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Yes. Just wanted to know this INR2,200 crores of order book, how it will be spread over next three years means there's ballpark, where start executing from this year onwards and post this year, next year, how will you -- how has the execution be?

Anmol Jain: About 40% to 50% of this order book will come into the current year revenue itself, largely the new platform of Mahindra for which the Chakan plant is being put up, that is one of the most significant contributors in the current year, but 40% to 50% of this order book would come into the revenue this year. Next year, we envisage may be close to around 80% of this order book in total. So 45% would go to 80%, and the balance 100% of this order book will come into FY '26.

Apurva Mehta: Okay. And we are looking at our share from Maruti is decreasing over the period of time, and we are not in the -- one of the best models, which are there in which Maruti is selling today. Where is the disconnect in -- wherein Maruti means, it is there because of pricing or whatever it is or high competition? Or can you just let us know that? And what is the future of that?

Anmol Jain: So I think I've explained this before, and I'll just like to re-explain this. I think there is a misconception that we are losing because of pricing. Let's be very clear from a strategic intent, Maruti Suzuki was always known, and their main forte was small passenger cars, and that's exactly how Maruti's market share was at around 48%. We did for the longest time, and we still do command single-source status on all of their small products, be it the Swift platform, be it the Alto platform, be it the Wagon R platform.

However, in the last three years to four years, the entire market has moved towards SUVs. So these SUVs were nominated to the competition almost four years to five years ago because, as I mentioned, there is a two-year lead time for development of lamps. And we give -- and I wouldn't say we give, but let's say the competition to this because Maruti has also overall balanced their wallet share between, let's say, 3 lighting players. However, in this order book, I'm very happy to note that we have obviously gone back to Maruti and very strongly put our point across that the small car space is declining, and hence, our wallet share in Maruti has also taken a little bit of a hit. So we definitely need to enter the SUV space in our order book. And in the order book, the next model of SUV has already been nominated to us. along with also the first EV model, which has already been nominated to us.

So out of this INR2,200 crores, I would say roughly around INR800 crores would be Maruti. And as you know, all future models of Maruti are in the SUV space. So we do expect in the next 2 years, we will be back in terms of our dominant market share or wallet share within Maruti Suzuki because we have orders in hand for their forthcoming SUVs.

Apurva Mehta: That's great to hear. And sir, on the -- when we know that all new models are LED lights, so is there a margin differential between LED and the conventional and how much percentage, is this -- going forward, the shift of LED is very imminent, and we can see happening from now on. So what is the difference on the margin front and on the technology front also?

Anmol Jain: So I would say that not just EVs, but even for the non-EVs, the ICE engines, the technology is broadly the same of LED, whether it's applied to EV or it's applied to ICE. In terms of margin, I mean, first and foremost, the content per vehicle definitely goes up when it comes to LED. However, in terms of margins, it really differs from model to model based on the localization content. And I always maintain this, what we do in our electronics facility is basically the SM.

That is one part of the entire lighting system, which is localized. However, the LEDs per se and a lot of other electronic components are also imported. So the margins would differ lamp to lamp. But in generic, the margins would be greater than a conventional lamp. And since the content per vehicle is higher in absolute amount that goes significantly higher.

Apurva Mehta: But ballpark, around 200 basis points, 300 basis points, but normally, what would be your assessment?

Anmol Jain: I mean it's very difficult to say that. As I mentioned, it would differ lamp to lamp. It's not so generic that on all lamps, it goes up by x basis points. So I would not like to give you a wrong guidance.

Apurva Mehta: Okay. And on the localization point, where do we stand? In next two years, three years, if the today on the -- for an LED, we are localized up to maybe 30% or 35%. And over the next three years, where do we see ourselves localized vis-a-vis our competitors also. Can you share something about them also?

Anmol Jain: I think across competition, the LED modules are still important. Nobody has really localized the LED modules, but the SMP and other electronic subcomponents are localized. And for us, I would say that from a 30% localization, perhaps we should look at maybe around 50% localization in the next two years to three years.

Apurva Mehta: And same way will go for the competition also, they will be also on that same platform kind of thing or we are ahead of them?

Anmol Jain: Well, I would not like to comment on the competition. But clearly, this is dependent on OEM to OEM. Certain OEMs still prefer the imported route and certain because of cost pressures do push deeper localization. It really depends on the specifications of the lamp, driven by the OEM R&D. So it's not really one size fits all. But overall, I would say that, yes, the localization should go up from the current level of 30%, 35% to maybe around 50%.

Sanjay Mehta: Apurva ji, Stanley is the only company, which manufacture -- lighting company manufactures LED also. So definitely way forward, we have that advantage as well as whenever the localization drive -- more drive is there.

Apurva Mehta: And the last thing on the new age companies, which are there and are we hunting for them also, or we are still not looking at that company?

Anmol Jain: On what companies, can you repeat that?

Apurva Mehta: The new age two-wheelers, like Ola, and all these -- Ather and all these companies, which are there where we...

Anmol Jain: So we have -- we already have one of them like Matter Motors, as our customer. So it's again, we are not very bullish on the new age company. However, we continue to engage with them. And as case-to-case basis, if there is a good business, let's say, proposition from certain RFQs, we definitely do entertain that.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I have two questions. One on the SL Lumax. The math says that you're making about 8% net margin there. In the past con calls, we used to say because of the equity investment that we have in SL Lumax the margin in that business is low. However, now we are making 8%, which is even higher than what we have been reporting in Lumax Industries. So if you could tell us if there is any change in the arrangement in SL Lumax? And to what extent do you think that these numbers are sustainable? That's the first question. I have one more question, but I'll ask later, once you're done with this answer.

Anmol Jain: Pritesh, thank you very much. I think number one, I've always maintained for SL Lumax, please look at the full year. Current...

Pritesh Chheda: Sir, I'm looking at the full year itself because even last year was the first year, where we had a P&L associated line of INR40 crores, which has never happened in the past 10 years numbers. So that's why from a full year perspective, if you could tell us?

Anmol Jain: Correct. But if I look at the quarter 1 of last year, we were at 4%. So for the full year, it was 8%. And for the current quarter, it's also 8%. But please understand that servicing one single customer does have its own pros and cons in terms of the cost structures. And it is geographically literally one facility, which operates at a high margin and services one customer. So I would not necessarily compare their margins to Lumax Industries' margin.

My guidance on SL Lumax is that as it is dependent on Hyundai Kia, Hyundai Kia's sourcing policy also changes, let's say, with time. So whether this 8% is sustainable or this 8% is going to go down is something, which I would not be able to comment at present, but I would say that, yes, it should be a sustainable margin going forward for the full year. Quarter-on-quarter may vary for sure.

Pritesh Chheda: And beyond this full year?

Anmol Jain: Well, I think Hyundai and Kia are very optimistic about India. Currently, as I mentioned, they are continuously facing a capacity crunch at both Hyundai and Kia facilities, and that's one of the reasons. If you look at SIAM data, Hyundai and Kia have actually really not reported any growth because they're literally operating at 95% to 100% capacity. Until and unless a new capacity is put in by Hyundai and Kia, they would not be able to grow their output, and hence, I would say that SL Lumax probably would continue to have a similar or a single-digit growth for the remaining part of the year.

Pritesh Chheda: And what explains the swing in these margin numbers in the last one year from net margin of 1%, 2% to net margin of 8%?

Anmol Jain: Well, I think SL Lumax would have got a better pricing or it would be something different from Hyundai and Kia. From an operational standpoint, I think it's pretty much the same. But I think on the -- either the order book, they would have probably garnered a better product portfolio. That's the only reason I could think of. But again, I'm not too sure of why the margins have expanded from 2%, 3% to 8%. But again, I'm saying that I would not be surprised if this 8% goes back to 4%. Please understand that Koreans have a very different way of, let's say, the Tier 1 management from a cost structure point of view.

Pritesh Chheda: May I intervene any reason why probably, and we don't know because we own 21% in the company, so there will be some idea or we do not have any idea there?

Anmol Jain: Well, I said I have an idea. We are not running the day-to-day company. We are holding 21% as the strategic equity. So we're not running the daily management. It is run by SL, as is run by Koreans. Most of the decisions for India are also happening in the Korean headquarters. So we're very much aware, we are very much at the Board, we are very much at a strategy thinker completely integrated, but day-to-day matters are handled at a local and a headquarter level.

Pritesh Chheda: Okay. And my second question is, sir, we have gone through this last four years of LED improvement in our business, and there was some backward integration also happening at every point in time considering the capex's that we've been doing. So there's two parts to this question. One, why did the margin for our company did not change in the pace, where we have seen other players seeing these transitions, but margin improvement has happened. So first part is why it has not happened?

And second, when these changes keep on coming on the LED side in terms of your mix and the backward integration that you're saying it will move from 30% to 50%. What will be the margins in the business?

Anmol Jain: So you're absolutely right. The margins have not expanded to the desired levels. The -- so -- and again, I would like to just reiterate that there was a -- there is a margin expansion purely because of the electronic insourcing. However, there are certain other costs, there are certain other, let's say, additions to the R&D, which have overall at a company level, the margins may not have shown or may not have seen that overall increase, which came from electronics per se.

Going forward, as I mentioned, I'm very clear because of the order book, the LED penetration in our revenue pie will definitely go up from the current 35% to, as I mentioned, 50% over the next, let's say, give or take, two years. The margin, typically, I would say, for the lighting business overall, if I look at only manufacturing operations plant to plant, I mean, I would be running at maybe upwards of even 15%. However, at a consolidated level, after I take care of all my R&D expenses and everything else, I would say that sustainable margins for this business should be anywhere upwards of 12%. Our endeavour is to get into the teen margins. But I do expect the margin expansion, not just on account of LED transformation, but also on account of rationalization of our internal cost structures.

And again, when we put up a greenfield plant, the cost structures for greenfield plant are hugely different. And majority of this order book are going to come in the greenfield plant, which will operate at a much, much higher margin. So those are some of the reasons why I'm pretty confident that the margins will get boosted over the next couple of years.

Moderator: Thank you. Sorry to interrupt you, Pritesh, I will request you to join the queue again for a follow-up question. The next question is from the line of Dhruv Bhatia from Bank of India. Please go ahead.

Dhruv Bhatia: Sir, my first question, just a clarity. When you talked about double-digit EBITDA margins for FY '24, do you include other income or excluding other income?

Sanjay Mehta: Include other income.

Anmol Jain: It includes other income.

Sanjay Mehta: Yes.

Dhruv Bhatia: Okay. Secondly, your employee cost for the quarter was about INR76 crores, just wanted to understand that will this run rate continue for the entire year?

Anmol Jain: So as a percentage, my manpower cost was about 13.2% for the quarter, which is much higher than the full year last year, which was at 12.4%. As I mentioned, there has been, of course, certain appraisals and increment and wage agreement impacts compared to the last quarter, which is about maybe 0.5% to 0.6%. More than that, there has been addition of manpower, both at a blue and white collar for the new greenfield site, which has not yet kicked off in terms of revenue, where we do envisage SOP by end of quarter 2. And in quarter 3 for sure, you will start seeing a huge drop in the manpower cost. My guidance would be that I think around 12% to 12.5% as overall company is the manpower cost, which we are looking at for the full year.

Dhruv Bhatia: Understood. And could you just talk a little bit about the RM prices? I mean, how is the behaviour? Is it -- I mean, are you expecting that they have normalized the prices? And can we see an uptick in gross margins?

Anmol Jain: So I think the raw material prices per se are pretty much stable. We do not expect any significant increase or significant reduction going forward in the next, let's say, 8 months of this fiscal. However, as I mentioned, there are certain -- these order books, which are there, and as I mentioned, almost 40%, 45% of the order book is going to get into the revenue this year itself, a lot of actualization of prices happens only post SOP. So on that, usually, we feel that there could be some incremental price increase, which could then help on our gross margins.

Dhruv Bhatia: Okay. So just I've seen historically, you've been at about 35%, 36% gross margins, and some years, you've probably been north of 40% because of what you're talking about from 33%, 35% LED mix going to 50% in two years with profitability being better, should we look towards the direction of 40% gross margin over the next three years, four years?

Anmol Jain: So typically, when you go to a LED, actually, the gross margin does not increase because there is a very high value of also imported parts, specifically the LED. So on a gross margin, we don't necessarily get a huge incremental benefit. But because the content per vehicle is huge, all the other overhead costs get rationalized and then at an EBITDA level, you do see an expansion. But I would say that perhaps for me, more 35% to 37% gross margin is what we should be estimating going forward.

Moderator: Thank you. Dhruv, I would request you to join the queue again. The next question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah: I would like to understand from you the road path of our company since we are tracking this company since more than a decade, and we see the growth coming in the company from all the verticals from insourcing, adding a plant then increasing capacity, then insourcing, localizing R&D centres, bringing in new models, electronic Bawal new plant, and now we are spending INR300 crores capex also.

So in this -- the whole chain, I would like to understand first is that can you run us through the INR300 crores capex program, including the Pune greenfield and how that will help our company? And what will be the shape and size of our company after completing that capex? How we'll see Lumax in 2025 or to '26 or maybe '27. I'm not talking of margin, but in technology-wise or you understand my point.

Anmol Jain: Sanjay, I have understood your point. I think, first and foremost, from a technology, I would say, hands down from an R&D engineering strength, Lumax perhaps is the only lighting company, which has the largest R&D strength present both in India and along with our Taiwan and Czech offices. And that's the only reason why we've been able to get a handsome order book all the time because these demands a lot of engineering efforts, a lot of innovation.

Coming to your question on the capex, INR300 crores is the estimated capex for the full year, out of which around INR170 crores, INR175 crores by itself is the greenfield facility in Chakan. Again, if I look at servicing this order book of almost INR2,200 crores, I do expect my current asset turns at about 1.6%, and it's even if I were to say that it will increase and get better to, let's say, 2.5%, there is a significant capex, maybe around close to INR800-odd crores to INR900 crores, which would be required to service this INR2,200 crores revenue over the next, let's say, two years, three years.

Significant part is going into operations, not just in new facility, but even certain brownfield expansions on the current facility. As I mentioned before, I think our capacity utilizations overall are at about 85%. So we need to gear up in line with the OEM capacity expansion plan. So that's the -- one of the reasons why I envisage, I mean, where the capex is being parked.

Giving a horizon of about, let's say, two years to three years, I think we're very bullish on, a - the Indian automotive sector, and we are also very confident to continue to protect our leadership position in India. Given that, I would easily say that we should be looking at anywhere around upwards of INR4,000 crores revenue maybe in the next three years or so.

Moderator: Thank you. Next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, circling back on your margins, you mentioned that the target is to hit double-digit margins. Are we expecting it, say, by end of this year, sir, are we saying this, we want to hit it for the entire year FY '24?

Anmol Jain: So FY '24 for the full year, we would be looking at a double-digit margin at an EBITDA level.

Alisha Mahawla: Is this now currently looking slightly challenging because you mentioned earlier in the call that with Chakan coming onstream, obviously, there has been some increase in employee expenses, even in Q2, we'll see some of that and full-benefit from Q3 onwards. So the ask for the remaining six months is significantly higher than the 10% to be able to hit the double-digit number.

Anmol Jain: So ma'am, I never said that we will hit it for the year. I think Q2 onwards also, we should be looking at a double-digit number. And again, please understand that we have, apart from the Chakan greenfield, we also have eight, nine other manufacturing units, which significantly contribute to the revenue and the margins.

Alisha Mahawla: Okay. And you're expecting about 40% - 45% of the order book to generate revenue was to get commercialized this year, then the 25% growth is looking a tad-bit on the conservative side?

Anmol Jain: No, I would say that we are pretty okay on the -- see, if you look at the industry growth, we are looking at almost close to 8% to 10% growth. So on that, 40% - 45% of the order book you're seeing in totality, but some of this is also replacement business. It's not necessarily all new business, which is coming into the current year. As I mentioned, overall, that's a 65-35 approximate split between new business and replacement business.

Moderator: Thank you. Next question is from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: My question is on the order book. If I recall, I think last quarter, you had shared a number of about INR1,300 crores, and this quarter, you are sharing a number of about INR2,200 crores. So is it that we have received such a big amount of orders just in this quarter?

Anmol Jain: That's correct,

Jatin Chawla: And these orders that -- the order book number that you give out, this is per annum order, right, not like some others give out life cycle order, this is the per annum kind of number that you expect?

Anmol Jain: No, this is the per annum number. We do not give out life cycle numbers. If I do life cycle numbers, it would be significantly higher. But on a per annum, we have a INR2,200 crores order book, and I already gave the bifurcation in how much will come in FY '24, '25 and '26. We do estimate all of this will come in by FY '26 into the revenue stream.

Jatin Chawla: Understood. And typically, what we've seen in the past is that when companies start a new plant, it takes some time for them to reach optimum efficiency levels, and hence, the margins at least in the first few quarters are muted. So given that you are starting a new plant in 2Q, I was expecting that in the second half, you would have some challenges in kind of hitting the right efficiency levels. So tying that with your guidance that margins will improve significantly from 1Q, just wanted to understand what gives us the confidence that we'll be able to hit that kind of number?

Anmol Jain: So please understand that the new facility, let's say, we are looking at operational -- I mean, SOP in let's say end of Q2. And you're right, maybe in Q3, it will get stabilized and have the margins, which the new products are at. But the current facility is also continuously are improving on their cost efficiency also their volumes are going up because their OEM demand is going up as well. So the current plants will also add to the overall margin expansion apart from just the greenfield site.

Sanjay Mehta: Jatin ji, I'll just add, we -- this new plant earlier we thought it will be commissioned by Q3, end of Q3, but now it is preponed. So that period of that commercial production and the trial is reduced, so that will contribute, I mean, in that way to improving the time we got in time.

Moderator: Thank you. Next question is from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah: Yes. Sir, congratulations on good number, sir. So June quarter being a weaker quarter order still we crossed INR600 crores mark, that is really commendable. And sir, my question is on the debt side. What would be our debt position by, say, end of this fiscal?

Sanjay Mehta: So right now, if I had to take on the June, our long-term debt is around INR122 crores. So we are anticipating because this new plant is coming around, the net debt should be around INR200 crores to INR210 crores.

Saumil Shah: Long and short included?

Sanjay Mehta: No, no, I'm talking about long term. And if I take the working capital also, the – year-end should be around -- net debt should be around INR500 crores to INR550 crores.

Saumil Shah: INR500 crores to INR550 crores. Okay.

Sanjay Mehta: Right now, in 30th June, it is INR520 crores.

Saumil Shah: Okay. So it would be at similar level by year-end.

Sanjay Mehta: Yes.

Saumil Shah: Okay. And sir, as you mentioned that in next two years, we are looking for an LED share to go up to 50% from 35% mark. So for this year, can we assume it can go to 40%, 42% mark, LED share?

Anmol Jain: Not in this year because, as I said, next year, 85% of the order book gets into revenue stream next year, which is FY '25. So there should be a marginal improvement in the LED share this year, but I think the significant shift would only happen in FY '25. I would also like to just mention here, please understand that parallelly there are also a lot of models across OEMs, which are going back from LED to conventional.

However, bizarre it may sound, but that's the reality. So while we are gaining on LED on certain models and on our order book, there are fewer models, which are also moving from LED to conventional and certain models, where the projected volumes were, let us, say x, we are looking at a huge shortfall of almost 40% to 50% in that volume, which also pulls down our LED revenue for that particular model and customers.

So there is multiple dimensions and multiple reasons, which gives the final number. But I'm pretty optimistic that over the next two years, surely, this will move to the indicated numbers, and this year also, it should definitely inch up.

Saumil Shah: Okay. So next two years, in the sense you are talking about FY '25 or '26. 50% mark?

Anmol Jain: FY '24 is already started, its FY '26.

Moderator: Thank you. Next question is from the line of Rusmik Oza from 9 Rays Equisearch. Please go ahead.

Rusmik Oza: Yes. Sir, I had a question on the greenfield project in Pune. As per the annual report, you're saying that optimum utilization, you should do a revenue of around INR600 crores. Just wanted to know a path this year, maybe in the second half, what could be the run rate of revenue coming from the Pune plant and can you hit the INR600 crores mark next year in FY '25. And as you said, margins from this new plant will be better, so will it be more than 2% EBITDA margin that looking at? And a related question is, will this plan be making only LED products just to get a clarification? Thanks.

Ravi Teltia: So for this year, we are projecting the revenue from this new plant near by around INR190 crores to INR200 crores. And the expected -- and next year is going to touch it to INR500 crores, INR400 crores plus. And the -- as we mentioned in the report also, the overall expectation from this plant is INR1,000 crores in next 3 years down the line.

Anmol Jain: So just to supplement that, I think the INR600 crores would probably the peak revenue would probably come in around FY '26. We do expect maybe anywhere between INR400 crores to

INR500 crores coming in FY '25 out of the new facility. The second part of this is that there will be a Phase 2, which will commence maybe in FY '26 onwards to service certain other customers. And the peak revenue after Phase 2, we envisage maybe in the next five years or so to probably be around INR800 crores, INR900 crores or maybe even around INR1,000 crores. So it would be a significant plant and a significant strategic operation for the company over the next five years to seven years.

Margins, I mean, I would just like to add that I think we yet do expect margins to be in line with some of the best facilities or even slightly higher. And we do have facilities even currently, which operate at upwards of 20% EBITDA margins in the lighting space with within Lumax Industries.

Rusmik Oza: Sir, I find that you might end up making around 20% EBITDA margin from this facility at optimum utilization?

Anmol Jain: Yes. That is absolutely the endeavour.

Moderator: Thank you. Next follow-up question is from the line of Dhruv Bhatia from Bank of India Investment Managers. Please go ahead.

Dhruv Bhatia: Yes. Just on the Chakan plant. I mean, what is the breakeven level for this plant?

Anmol Jain: So the Chakan specific plant, the breakeven level would be -- I mean, we would break even, we will actually make a profit this year by itself. But are you asking me for the breakeven revenue per month.

Dhruv Bhatia: No, I'm saying from -- yes, I mean, so I think you'll be commissioning this in Q3. So half years of -- you'll have half year of plant running. So at what level, would you be at 30% level as a plant level overall? Will you be at breakeven? What is the percentage level of breakeven?

Anmol Jain: Around 40% is what I reckon. 40% capacity utilization would be a breakeven.

Dhruv Bhatia: Okay. Because on a INR600 crores peak revenue at INR200 crores, that's about 33 – one-third of it. You're saying you still make profit, but you're saying at breakeven, it’s at 40%. So that doesn't mean match, right?

Anmol Jain: So 40% of the current year revenue, not the INR600 crores, which will come in FY '26.

Dhruv Bhatia: Okay. And just to understand, I mean, you mentioned FY '24, the revenue from Chakan plant will be INR200 crores, that actually makes it because it's half year. So you'll probably be running at -- if I annualize that, it becomes like almost about 70% utilization in a year in the first year itself. So is that correct?

Anmol Jain: That's correct. So we will have in FY '25 next year, full year, around that much utilization. And hence, I mentioned that there would be a Phase 2 kick off, which will probably happen from FY '26 onwards to service the future order book beyond the 0.5 million vehicle set capacity, which we've been created in Phase 1.

Dhruv Bhatia: Understood. And just lastly, in the last two years, you have got a government grant or I think a subsidy of roughly about INR7.5 crores to INR8 crores. Will that continue? And or will that increase? I mean, with this Chakan plant, do you have any subsidy or benefits?

Sanjay Mehta: Yes. We have a subsidy benefit in the Chakan plant also. Whatever we are accounted is relating to the Gujarat state government subsidy.

Dhruv Bhatia: Okay. And so how -- what is the -- I mean, benefits that you're going to get from Chakan plant in this quarter?

Sanjay Mehta: Chakan is the Maharashtra government almost around, they are giving the investment subsidy of amounting to a total of 40% of the investment in form of GST reimbursement, as well as some kind of cash investment subsidies.

Dhruv Bhatia: Okay. So I mean, is there a sort of number in particular, absolute number that you can talk there to, how much it will add to your government grants going forward?

Sanjay Mehta: So per annum, it will be around INR6 crores to INR8 crores.

Dhruv Bhatia: INR6 crores to INR8 crores.

Moderator: Thank you. Ladies and gentlemen, we do time constraint, that will be the last question. I now hand the conference over to the management for closing comments.

Anmol Jain: Well, I would like to thank everyone for joining on the call, and we continue to remain confident on the growing prospects of India and the auto component sector. I hope we were able to respond to all your queries adequately. For any further information, I request you to please get in touch with SGA, our Investor Relations Advisors. Thank you very much. Have a good day.

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