Lumax Ancillary Limited

March 12, 2021

Ratings1

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	11.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	4.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Total Bank Facilities	**15.00 (Rs. Fifteen Crore Only)**		

1Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Lumax Ancillary Limited (LAL) continues to derive strength from its well experienced promoters and strong parent group (DK Jain Group Companies), strategic location of manufacturing units and moderate financial risk profile. The ratings also factor in dominant market position of parent group in automotive lights. However, the ratings are constrained by customer concentration risk, elongated collection and payable period, low profitability margins and cyclical nature of the automotive industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations beyond Rs. 150 crores on sustained basis
- Improvement in profitability margins marked by PBILDT margin of more than 8%
- GCA of more than Rs. 8 crores

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in profitability margin marked by PBILDT margin of less than 2%
- GCA of less than Rs. 3 crores
- Any un-envisaged debt funded capital expenditure or significant increase in debt levels deteriorating its capital structure with overall gearing of more than 0.5x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. D.K. Jain, the Chairman of Lumax Industries Limited (LIL), aged 78 years has an experience of over 50 years in the automotive components industry. He has done MBA from Delhi University and successfully completed President Management Program from Harvard Business School. Moreover, the management team comprises of industry professionals having significant experience in the related domain of business operations.

Strong parentage and group's established position in automotive lighting segment

Lumax Ancillary Ltd (LAL) is a part of the DK Jain group of companies. The DK Jain Group is a leading manufacturer of lighting automotive components in India and has an established position in the auto lighting products industry. The group mainly supplies two-wheeler / three- wheeler and passenger vehicle lighting products. The group has a network of over 400 distributers across India for aftermarket sales. The DK Jain Group, along with its companies, has an established position with approx. ~60% market share in the organized auto lighting products industry in India. The group is a preferred supplier to OEMs in India and technically competent with in-house R&D, design Centre and manufacturing capabilities.

Strategic location of LAL's manufacturing units with healthy capacity utilization

LAL is engaged into manufacturing of wiring harness, signaling equipment and assemble auto control cables. The product portfolio includes side indicators, head and tail light and its assembly, cable of speedometer etc. The company has 4 manufacturing facilities located in the auto making hubs in Gurgaon (1); Himachal Pradesh (1); Rudrapur, Uttarakhand (1); Pune (1) with an installed capacity of 300.50 lac pieces per annum (lppa) for wire assembly, 20 lppa for control cables, 205 lppa for lamp assembly and 50 lppa for LED bulbs as on March 31, 2020.

Long track record of operations with reputed Clientele (group entities) albeit revenue concentration

LAL's business risk profile continues to be supported by healthy relationships of its associate companies with various OEM's. LAL is a tier-II company which sells its products mainly to DK Jain Group of Companies and these companies further sells to

OEMs. Its major customer base includes Lumax industries Limited, Lumax Auto Technology, Lumax DK Auto Industries Limited and LAL supplies ~100% of its sales to its group associates. Any change in procurement policy of the ultimate customers of the group may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its group's customer future growth plans.

Financial risk profile marked by stable scale of operations and strong capital structure

The total operating income of the company remained stable at Rs. 124.15 crore in FY20 (PY: Rs. 127.66 crore; FY refer to the period from April 1 to March 31) exhibiting y-o-y modest decline of 3% owing to subdued demand in auto sector. However, the margins of the company improved on account of decrease in operating and other expense coupled with change in product mix. The PBILDT margin and PAT margin for the said period stood at 5.06% and 3.46% respectively (PY: 3.87% and 2.10% respectively).

The capital structure of the company is comfortable with overall gearing of 0.22x as on March 31, 2020. The debt availed by the company mainly comprises of working capital borrowings to fund operations which is inherent in the auto ancillary industry. Further during FY20, debt coverage indicators remained comfortable marked by total debt to GCA of 1.74x (PY: 2.38x) and PBILDT/Interest stood at around 10x for FY20 (PY: 9.40x).

Key Rating Weaknesses

Exposure in group companies

LAL has extended investments in group/associate companies to the tune of Rs. 23.00 crore as on March 31, 2020 (Rs. 19.08 crore as on March 31, 2019). The adjusted overall gearing (after adjusted investments, loans & advances to group associates) stood at 0.44x as on March 31, 2020. Going forward, any further support to group entities would remain a rating sensitivity. However, the investment is done for future expansion purposes for the group. The group is continuously looking for opportunities to innovate and develop new products in the auto ancillary sector.

Working capital intensive operations

Being in auto ancillary industry, the operations of the company are working capital intensive in nature. Since LAL procures majority of raw materials from its group companies and supplies the finished products to its group companies, the creditor's days as well as the collection days are elongated. The customers are allowed credit period of 100-110 days, while payments to suppliers are made in 110-115 days. However, the company is required to maintain inventory of close to 20-30 days. The operating cycle of the company remains between 25-35 days.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

Industry Outlook

After the initial two months of FY21, which witnessed near nil level of sales due to lockdowns, the automotive sector has rebounded quickly. On a sequential basis, all segments have shown impressive growth and are inching closer to previous year's levels, except for three wheelers, which is expected to take another 6-7 months for a full demand recovery. CARE expect YoY growth in Q4-FY21 for domestic sales of passenger vehicles at 4 to 9%, 2 wheelers of 3 to 8%, 3 wheelers of -50 to -55%, tractors of -3 to +2% and commercial vehicles of 18 to 23%.

Liquidity: Adequate

The liquidity profile of the company is marked by modest utilization of working capital facilities as average utilization for last twelve months ended December 2020 stood at around 64%. The company does not have any term loan, therefore the repayment obligations are nil for FY21, while the projected gross accruals are Rs. 1.70 crore in FY21.

The company has taken moratorium of six months from March 2020 till August 2020 on payments from its lenders as part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Analytical approach: Standalone financials of LAL and operational support from Group entities

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Manufacturing Companies
Criteria for Short-term Instruments
CARE's methodology for auto ancillary companies
CARE's methodology for financial ratios (Non-Financial Sector)
CARE's methodology for Factoring Linkages in Ratings

About the Company
Lumax Ancillary Ltd (LAL) is a part of the DK Jain group of companies. Incorporated in November 1981, LAL was initially setup as partnership firm under the name of Lumax Engineering Works promoted by Mr. S.C Jain who was Chairman of Lumax Industries Limited. The constitution was subsequently changed to Private Limited Company in February 1982 under the name Lumax Engineering Private Limited. Further, the company's name was changed into Lumax Ancillary Ltd in October 2011. LAL engaged in manufacturing of wiring harness, signaling equipment and assemble auto control cables.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	127.66	124.15
PBILDT	4.93	6.29
PAT	2.68	4.30
Overall gearing (times)	0.21	0.22
Interest coverage (times)	9.40	10.01

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	11.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	4.00	CARE BBB; Stable / CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	11.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-20) 2)CARE BBB; Stable (26-Apr-19)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (31-Mar-20) 2)CARE BBB; Stable / CARE A3+ (26-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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