

Lumax Ancillary Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.00	CARE BBB (RWP)	Placed on Rating Watch with Positive Implications
Long Term / Short Term Bank Facilities	4.00	CARE BBB / CARE A3+ (RWP)	Placed on Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Lumax Ancillary Limited (LAL) have been placed on 'Rating Watch with Positive implications (RWP)', following the information received from management of the company regarding proposed amalgamation/merger of LAL (transferor company) with the holding company, Lumax Auto Technologies Ltd. (LATL, transferee company). As informed by the management of the company, LATL acquired the remaining 85.69% stake in LAL during January 2024 and consequently, LAL became a wholly owned subsidiary of LATL. Further, the management informed CARE Ratings Limited (CARE Ratings) that LATL had filed a draft scheme of arrangement with National Company Law Tribunal (NCLT) in July 2024, for the amalgamation/merger of LAL with LATL. Once the scheme is approved by the NCLT and gets all other requisite approvals, LAL will be merged in LATL and would cease to exist post-merger completion. Proposed merger is expected to bring in operational efficiencies and administrative synergies, largely arising out of the simplification of corporate structure, integration of business functions and management by common promoters' group. Also, both the companies are engaged in similar line of business i.e., related to automotive sector. CARE Ratings will closely monitor the developments of the amalgamation/merger process and will take the rating action once greater clarity emerges.

Furthermore, the ratings continue to derive strength from the experience of the promoters in the auto ancillary industry, strong parentage (LAL is a part of Lumax DK Jain Group Companies) and group's established position in automotive lighting segment. The ratings continue to derive comfort from the strategic location of its manufacturing units and long track record of operations with reputed clientele (group entities). LAL being a backward integrated company for its holding company, LATL and other group entities, mainly Lumax Industries Limited (LIL), will continue to receive financial support from these group entities, whenever required. However, the ratings continue to remain constrained by the customer concentration risk, working capital-intensive operations, low profitability margins, cyclical nature of the automotive industry and its moderate financial risk profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operations with PBILDT (profit before interest, lease rentals, depreciation, and taxation) margin above 6% on a sustained basis.
- Improvement in the working capital cycle with average collection period below 80 days on a sustained basis.
- GCA (gross cash accruals) of more than Rs. 8 crores on a sustained basis.

Negative factors

- Decrease in the scale of operations as marked by total operating income (TOI) falling below Rs.120 crore and/or sustained subdued profitability margins.
- Any un-envisaged debt-funded capital expenditure or significant increase in debt levels deteriorating its capital structure.
- Any further increase in the exposure to group entities, leading to a deterioration in liquidity profile of the company.

Analytical approach: Standalone financials of LAL, while factoring operational support from group entities.

Outlook: Not applicable

Detailed description of the key rating drivers

Key strengths

Experienced Promoters

Mr. D.K. Jain, the Chairman of LATL (Lumax Auto Technologies Ltd.) and the Chairman Emeritus of LIL (Lumax Industries Ltd.), aged 80 years has an extensive experience of over 50 years in the automotive components industry. He holds an MBA degree from University of Delhi and has completed President Management Program from Harvard Business School. Mr. Deepak Jain, the Chairman and Managing Director (MD) of LIL, is a business graduate from Illinois Institute of Technology, USA, having an industry experience of around two and half decades. Mr. Anmol Jain, the MD of LATL and the Joint MD of LIL, holds bachelor's degree in business administration in finance and supply chain management from Michigan State University, USA, having more than two decades of industry experience. The management of the company also informed CARE Ratings about recent change in the company's board of directors. The company's operations are now being look after by Mr. Rajesh Kumar Gupta (Executive Director of LIL and Group Legal Head), Mr. Sanjay Mehta (Group Chief Financial Officer (CFO)) and Mr. Naval Khanna (Group Direct Taxation Head). Moreover, group's management team comprise of industry professionals having significant experience in the related domain of business operations.

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

LAL is part of the Lumax DK Jain Group Companies. The Lumax DK Jain Group is a leading manufacturer of automotive lighting components in India and has an established market position in the auto lighting products industry. The group mainly supplies two-wheeler/three-wheeler (2W/3W) and passenger vehicle (PV) lighting products. The group has a wide network of more than 400 distributors across India for aftermarket sales. The group is a preferred supplier to Original Equipment Manufacturers (OEMs) in India and technically competent with in-house Research and Development (R&D), design centre and manufacturing capabilities.

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 group 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 LIL (Lumax Industries Limited) and LATL (Lumax Auto Technologies Limited). LAL supplies wiring harness to LIL and LATL which is a component for lights supplied by these entities hence providing revenue visibility over the medium term considering the healthy relationships of its group companies with different OEMs. LAL supplies around 98% of its sales to its group companies. 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. However, LAL has gradually started diversifying its customer base and entered into supply of wiring harness to EV manufacturers.

Strategic location of LAL's manufacturing units

LAL is engaged in the manufacturing of wiring harness, signalling equipment and assembly of auto control cables. The product portfolio includes side indicators, head and taillight and its assembly, cable of speedometer etc. It has 3 manufacturing facilities located in the auto making hubs each in Bhiwadi (Rajasthan), Rudrapur (Uttarakhand) and Chakan (Pune, Maharashtra), with an installed capacity of 3.50 crores pieces per annum (ppa) for wire assembly and 1.50 crores ppa for lamp assembly (as on March 31, 2024). LAL's manufacturing units are located in proximity to the manufacturing facilities of group companies i.e., LIL and LATL which results in saving on the transportation cost since LAL generates revenue of around 98% of total sales made from its group companies. Further, LAL has been supplying majority of the wiring components to its group companies hence leading to operational synergies on both sides.

Key weaknesses

Moderate financial risk profile

LAL's financial risk profile continues to remain moderate as marked by modest networth base and thin profitability margins. The company had networth base of Rs.41.54 crore on March 31, 2024 (PY: Rs.39.65 crore), with adjusted overall gearing stood at 1.40x (PY: 3.19x) as on March 31, 2024. In FY24, interest coverage ratio stood at 1.14x (PY: 1.58x), total debt to PBILDT and total debt to GCA stood at 7.36x (PY: 10.14x) and 3.35x (PY: 9.59x) respectively. The company reported a healthy growth in revenue during FY24, wherein its TOI (total operating income) grew by 12.45% year-on-year to Rs.193.10 crore (PY: Rs.171.72 crore), however, the PBILDT margin moderated to 1.75% in FY24 (PY: 2.04%), largely due to additional cost incurred pertaining to shifting of the Gurgaon plant to Bhiwadi location during FY24. Going forward, profitability margins are expected to improve largely on account of the anticipated price revision in contract with group companies, better incentives from new suppliers and savings in the labour costs due to shifting of the plant to Bhiwadi location.

Exposure in group companies

LAL has invested in the preference shares of the group company, Lumax Finance Private Limited. The value of such investments as on March 31, 2024, stood at Rs.23.77 crore (approx. 57% of the tangible networth). The adjusted networth (after adjusting aforesaid investment) stood at Rs.17.77 crore as on March 31, 2024. Going forward, any further increase in exposure to group entities would remain a key rating sensitivity.

Working capital-intensive operations

Being operating in an auto ancillary industry, the operations of the company are working capital-intensive in nature. Since the company procures majority of the raw materials from its group entities and supplies the finished products to its group entities, the creditor's days as well as the collection days are elongated. The customers are allowed average credit period of close to 90 days, while payments to suppliers are made in 90-120 days on an average. However, the company is required to maintain the inventory of close to 35-40 days on an average.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to the 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.

Liquidity: Adequate

LAL's liquidity position continues to remain adequate, marked by sufficient cushion in accruals vis-à-vis repayment obligations. The repayment obligations of the company for FY25 are close to Rs.1.21 crore as against expected adjusted gross cash accruals of around Rs. 3.71 crore. Though, the utilization of working capital limits stood high at around 90% in trailing 12-months ended June 30,2024, LAL derives comfort from being part of the Lumax D.K. Jain group and has operational support from parent and other group entities.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

LAL is part of the Lumax DK Jain Group Companies. It was initially setup as a partnership firm in the year 1981, under name of 'Lumax Engineering Works', promoted by Mr. S.C. Jain. Subsequently, the constitution was changed to Private Limited Company in February 1982, under the name 'Lumax Engineering Private Limited'. The company's name was further changed to "Lumax Ancillary Limited" in October 2011. The company is primarily engaged in the manufacturing of wiring harness and lamp lights.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA) *
Total operating income	171.72	193.10	52.18
PBILDT	3.50	3.38	1.22
PAT	5.10	1.64	-0.10
Overall gearing (times)	0.90	0.60	0.62
Interest coverage (times)	1.58	1.14	NA

A: Audited, UA: Unaudited, NA: Not available, Note: 'the above results are latest financial results available'.

*Refers to the period from April 01, 2024, to June 30, 2024.

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: Annexure-4.

Lender details: Annexure-5.

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.00	CARE BBB (RWP)
Non-fund-based - LT/ ST-BG/LC		-	-	-	4.00	CARE BBB / CARE A3+ (RWP)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	11.00	CARE BBB (RWP)	-	1)CARE BBB; Stable (04-Sep-23)	1)CARE BBB; Stable (06-Dec-22)	1)CARE BBB; Stable (05-Jan-22)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	4.00	CARE BBB / CARE A3+ (RWP)	-	1)CARE BBB; Stable / CARE A3+ (04-Sep-23)	1)CARE BBB; Stable / CARE A3+ (06-Dec-22)	1)CARE BBB; Stable / CARE A3+ (05-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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