

# Lumax Industries Ltd.

Industry Auto Ancillary  
Bloomberg LUMX IN  
BSE CODE 517206

## LEDs and new launches by OEMs will drive growth

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>1512</b>
<b>Price Target</b>	<b>1824</b>
<b>Potential Upside</b>	<b>21%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	2,585/1,386
Mkt Capital (Rs Cr)	1413
Free float (%)	26%
Avg. Vol 1M (,000)	2.30
No. of Shares (Cr.)	0.93
Promoters Pledged %	0%

### Research Analyst

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### 3QFY19 Result Update

- ❑ LUMAXIND has posted healthy revenue growth of 16.2% YoY at Rs. 431 crores (vs our estimates of Rs. 426 crores) during this quarter.
- ❑ Gross margins expanded by 351bps QoQ largely on account of softening commodity prices, new launches leading to better product mix, negotiations with the customers and improved localization content in raw material.
- ❑ Despite higher employee expenses EBITDA margins increased by 178 bps QoQ to 9.61% due to increased gross margins and reduced other expenses.
- ❑ PAT for the quarter stood at Rs. 51 crores on account of higher other income and an exceptional item with a gain of Rs. 36 crores on sale of a building.
- ❑ CAPEX planned by the management is Rs. 80 crores and Rs. 100- 120 for FY19 and FY20 respectively. However, for FY20 capex plan includes only brown field expansion of Bawal plant, Bengaluru Plant and Sanand plant at Gujarat and maintenance CAPEX for the year.
- ❑ Increase in the finance cost during the quarter was largely due to higher interest rates by 1.3% YoY, capitalization of interest cost by Rs. 2 crores due to commencement of production at sanand plant and higher working capital requirement due to increased inventory level led by lower demand in 3QFY19.

### View and Valuation

EBITDA margin has expanded by 178bps on a sequential basis on account of softening commodity prices, new launches leading to better product mix, negotiations with the customers and improved localization content in raw material. The industry demand scenario remains sluggish and there will be pressure on the volumes in near future. However the company continues to post strong growth on the back of increase in content value. On the back of new customers on board (TVS and Toyota) and increase in energy efficient products demand, the management is confident of achieving 18-20% revenue growth in FY19. The management is constantly working on to reduce the import content in order to achieve its stipulated margin guidance of 10% by 2020. Though, any negative movement in currency may lead to contraction in margins due to higher import content of LEDs (65% of raw material imported). Going ahead, we remain optimistic about the growth potential of the company as increasing penetration of LED lamps on account of BS-VI and other energy saving norms will shoot up the realizations going ahead. We largely maintain our estimates for FY20 but considering the demand side headwinds we value LUMAXIND at 16x FY20e EPS (earlier 18x) to arrive at target price of Rs.1824 and maintain BUY.

### Key Risks to our rating and target

- ❑ Sharp appreciation USD may lead to margin contraction: import content 40%
- ❑ Higher dependence on passenger vehicle industry: 66% of revenues

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1255	1300	1650	2060	2327
EBITDA	89	100	134	177	216
EBIT	51	59	86	120	154
PAT	37	45	63	117	107
EPS (Rs)	40	48	68	125	114
EPS growth (%)	126%	21%	40%	84%	-9%
ROE (%)	18%	19%	22%	30%	23%
ROCE (%)	24%	24%	29%	31%	34%
BV	218	259	313	412	490
P/B (X)	1.9	5.3	7.0	3.7	3.1
P/E (x)	10.5	28.2	32.2	12.1	13.2

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## 3QFY19 Results

## Strong revenue growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	371	559	496	518	431	16%	-17%	1,300	1,650	27%
Other Income	2	1	0	1	5	187%	400%	6	9	50%
Total Income	373	560	497	519	436	17%	-16%	1,306	1,659	27%
COGS	234	387	333	348	275	17%	-21%	844	1,090	29%
Staff Cost	47	53	54	55	55	17%	0%	161	189	17%
Other Exp.	56	72	69	74	59	5%	-19%	195	237	21%
Expenditure	338	513	455	477	389	15%	-18%	1,200	1,516	26%
EBITDA	33	46	41	41	41	26%	2%	100	134	35%
Depreciation	12	14	14	14	14	21%	3%	40	48	20%
EBIT	21	33	27	27	27	28%	2%	59	86	45%
Interest	1	4	3	4	4	271%	14%	11	7	-37%
PBT	22	30	25	24	28	30%	18%	54	88	62%
Excpt. Item	-	-	-	(36)	-			-	-	
Tax	5	11	8	5	14	206%	175%	9	25	175%
PAT	17	18	20	21	51	192%	143%	45	63	40%

**Revenue growth led by value addition of new technology lighting components**

Net sales grew by 16.2% YoY to Rs. 431 crores largely on account of value growth despite Volume growth remains flattish during the quarter. Segment contribution of revenue by 2W, PV and CV stood at 28%, 66% and 6% respectively. 35% of total revenue is contributed by LED Lamps. On pricing front variation in conventional and LED lighting varies from 2x to 4x based on various models across segments. Management expects revenue growth of 18-20% for FY19.

**Increase in margins led by operating leverage**

Gross margins increased by 351 bps QoQ to 36.27% in 3QFY19 due to softening prices, new launches on better product mix, negotiations with the customers and localization content in raw material. In 3QFY19 import content stood at 23% of purchase which management is trying to reduce the same to further expand the margins. However, reducing import Content should be based on sub assembly of led which is currently imported from Japan. EBITDA margins grew by 178 bps QoQ at 9.61%. Management expects margins to improve by 150-200 bps by 2 years down the line.

**Adjusted PAT margins declined due to higher depreciation cost, interest & tax rate**

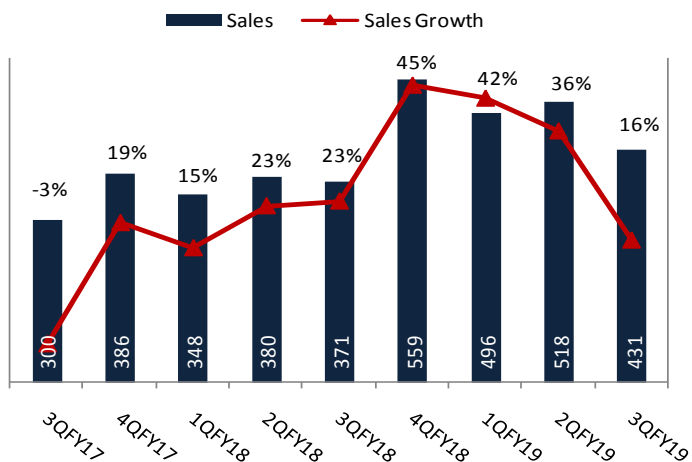
PAT for the quarter stood at Rs. 51 crores includes an exceptional gain of Rs.36 crores on sale of a building. Adjusted PAT margins declined by 68bps QoQ to 3.35% mainly on account of higher interest cost, depreciation expense and tax expense.

**Concall highlights**

- Domestic market reported growth of 4.37%, 25.86% and 18.85 % by PV segment , CV segment and 3W respectively based on SIAM. 2W grew by 9.6% largely driven by growth in motorcycle segment by 12.55%.
- As per the management Maruti Suzuki may limit the Gujarat plant capacity to 750000 units hence LUMAXIND has to go slow on the greenfield capacity at Sanand.
- Slowdown in Industry growth due to higher interest rates, tight liquidity issues, increase in insurance premium, volatile exchange rate and commodity prices.
- Management guidance of 18-20% revenue growth in FY19.
- Raw material % to sales dropped in 3QFY19 largely due to a) softening prices b) localization content c) new launches on better product mix and d) negotiation with customers.
- Management expects margins to improve by 150-200 bps by 2 years down the line.
- Currently, Import Content is 23% of purchases and management is trying to reduce the same to improve margins. Reducing import Content should be based on sub assembly of led which is currently imported from Japan.
- On pricing front variation in conventional and led lighting varies from 2x to 4x based on various models across segments.

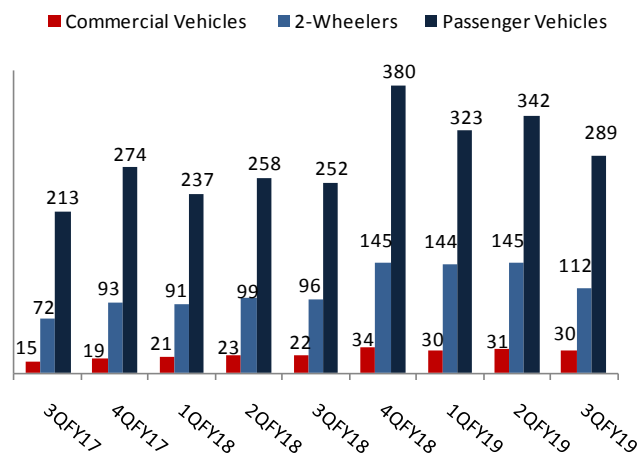
## Exhibit: Sales (Rs. Crore) and Sales Growth Trend

Revenue grew by 16% YoY largely on account of value addition by new technology lighting component



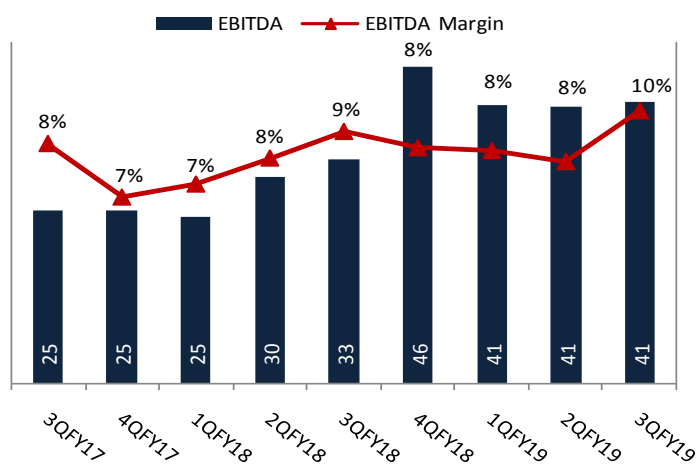
## Exhibit: Segment Wise Revenue

Growth in CVs remained over 30% while 2Ws and Passenger car posted growth of 16% & 14%.



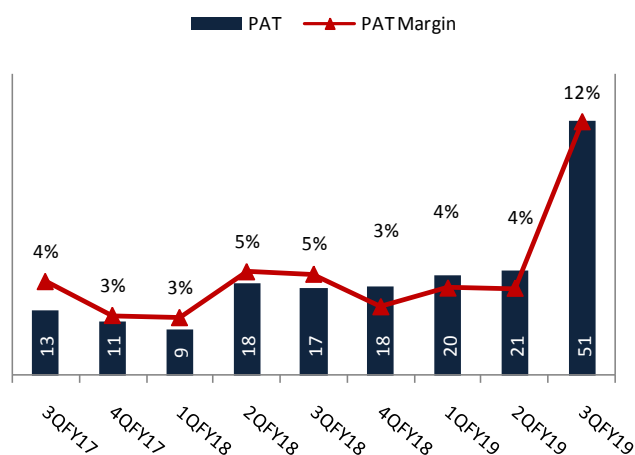
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Better product mix and increasing localization led to improvement in EBITDA margin



## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

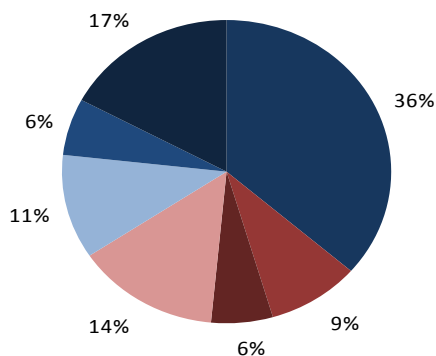
PAT margins increased due to an exceptional item of Rs.36 crores during the quarter.



## Exhibit: Customer Segment Revenue

More than 80% revenue contribution by these top six customers during the quarter

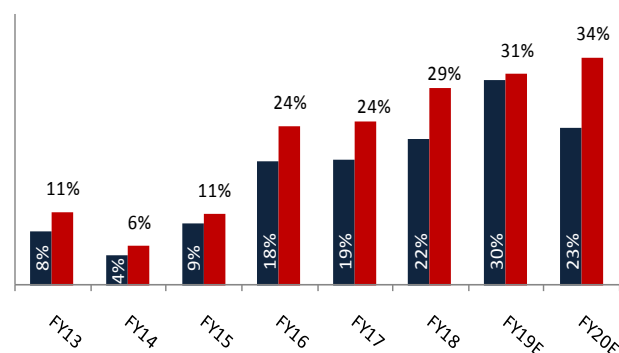
MSIL M&M HCIL HMSI HML TATA Others



## Exhibit: Return Ratios

Return ratios have improved with the improvement in profitability over the years.

ROE ROCE



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	9	9	9	9	9	9	9	9
Reserves	160	164	171	195	232	284	376	449
Networth	169	173	180	204	242	293	385	458
Debt	128	112	116	95	83	101	70	40
Other Non Cur Liab	56	52	50	54	61	33	33	33
Total Capital Employed	270	248	218	215	245	295	385	458
Net Fixed Assets (incl CWIP)	425	419	422	425	440	566	591	631
Non Cur Investments	5	5	5	5	5	5	5	5
Other Non Cur Asst	24	29	24	32	50	15	15	15
Non Curr Assets	454	452	451	461	494	586	611	651
Inventory	108	77	110	105	116	169	198	223
Debtors	110	131	144	181	191	318	367	383
Cash & Bank	28	16	19	3	1	2	23	23
Other Curr Assets	37	53	40	44	39	74	139	164
Curr Assets	284	277	313	333	347	562	727	793
Creditors	288	286	296	307	344	536	649	701
Provisons (both)	15	15	19	15	18	31	34	36
Other Curr Liab	87	97	112	128	105	173	187	196
Curr Liabilities	383	391	417	441	456	721	850	913
Net Curr Assets	(100)	(114)	(105)	(108)	(109)	(158)	(123)	(121)
Total Assets	737	729	764	794	841	1,148	1,338	1,444

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,070	1,117	1,143	1,255	1,300	1,650	2,060	2,327
Change (%)	9%	4%	2%	10%	4%	27%	25%	13%
Other Income	5	7	6	4	6	9	8	10
<b>EBITDA</b>	<b>61</b>	<b>51</b>	<b>59</b>	<b>89</b>	<b>100</b>	<b>134</b>	<b>177</b>	<b>216</b>
Change (%)	33%	-16%	16%	49%	13%	35%	32%	22%
<b>Margin (%)</b>	<b>5.7%</b>	<b>4.6%</b>	<b>5.2%</b>	<b>7.1%</b>	<b>7.7%</b>	<b>8.1%</b>	<b>8.6%</b>	<b>9.3%</b>
Depr & Amor.	32	37	36	38	40	48	56	62
EBIT	29	14	23	51	59	86	120	154
Int. & other fin. Cost	19	17	14	13	11	7	15	10
<b>EBT</b>	<b>16</b>	<b>4</b>	<b>14</b>	<b>42</b>	<b>54</b>	<b>88</b>	<b>113</b>	<b>154</b>
Exp Item	-	-	-	-	-	-	36	-
Tax	2	(4)	(2)	4	9	25	38	48
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>14</b>	<b>8</b>	<b>17</b>	<b>37</b>	<b>45</b>	<b>63</b>	<b>112</b>	<b>107</b>
<b>Adjusted PAT</b>	<b>14</b>	<b>8</b>	<b>17</b>	<b>37</b>	<b>45</b>	<b>63</b>	<b>117</b>	<b>107</b>
Change (%)	6%	-43%	115%	126%	21%	40%	84%	-9%
<b>Margin(%)</b>	<b>1.3%</b>	<b>0.7%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>3.5%</b>	<b>3.8%</b>	<b>5.7%</b>	<b>4.6%</b>

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	8.0%	4.4%	9.2%	18.3%	18.7%	21.6%	30.3%	23.3%
ROCE	10.9%	5.8%	10.6%	23.6%	24.2%	29.1%	31.2%	33.7%
Asset Turnover	1.45	1.53	1.50	1.58	1.55	1.44	1.54	1.61
Debtor Days	37	43	46	53	54	70	65	60
Inv Days	37	25	35	30	33	37	35	35
Payable Days	98	94	95	89	97	119	115	110
Int Coverage	1.6	0.8	1.6	3.8	5.2	11.9	7.9	15.6
P/E	23.5	36.1	18.1	10.5	28.2	32.2	12.1	13.2
Price / Book Value	1.9	1.6	1.7	1.9	5.3	7.0	3.7	3.1
EV/EBITDA	6.4	6.6	5.4	4.5	12.8	15.2	7.9	6.4
FCF per Share	29	26	13	41	(2)	6	107	92

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	16	4	14	42	54	88	113	154
(inc)/Dec in Working Capital	22	10	(3)	3	8	17	42	15
Non Cash Op Exp	32	37	36	38	40	48	56	62
Int Paid (+)	19	17	14	13	11	7	15	10
Tax Paid	(2)	(3)	(0)	(8)	(12)	(17)	(38)	(48)
others	(2)	(4)	(2)	(1)	(2)	(5)	-	-
CF from Op. Activities	84	61	59	87	100	139	189	194
(inc)/Dec in FA & CWIP	(56)	(35)	(46)	(46)	(102)	(133)	(82)	(102)
Free Cashflow	29	26	13	41	(2)	6	107	92
(Pur)/Sale of Inv	-	0	-	-	-	-	-	-
others	(14)	17	16	3	40	4	(56)	(18)
CF from Inv. Activities	(70)	(18)	(30)	(42)	(62)	(128)	(138)	(120)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(1)	(29)	(34)	(32)	(23)	(8)	(2)	-
Int. Paid	(18)	(18)	(14)	(14)	(12)	(7)	(15)	(10)
Div Paid (inc tax)	(7)	(5)	(4)	(20)	-	(16)	(17)	(22)
others	(9)	6	39	6	(6)	20	(29)	(30)
CF from Fin. Activities	(34)	(46)	(13)	(59)	(40)	(11)	(64)	(62)
Inc(Dec) in Cash	(20)	(3)	16	(15)	(2)	(1)	(13)	12
Add: Opening Balance	25	5	2	18	3	1	2	23
Closing Balance	5	2	18	3	1	(0)	(11)	35

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