LUMAX INDUSTIRES LIMITED

Industry	Auto Ancillary
Bloomberg	LUMX:IN
BSE Code	517206
NSE Code	LUMAXIND

01 August 2018

RATING	BUY
CMP	2034
Price Target	2353
Previous Target	2230
Potential Upside	16%

Stock Info

52wk Range H/L	2585/1170
Mkt Capital (Rs Cr)	1902
Free float (%)	26%
Avg. Vol 1M (,000)	5
No. of Shares (Crore)	1
Promoters Pledged %	NA

LED to drive future growth

Key Highlights

- ☑ LUMAXIND has been a market leader in India Automobile Lighting industry with a market share of 60%. Maruti, M&M, Honda and Hero Motocorp remained the marquee clients and holds over 63% of the revenue pie.
- ☑ The management expect LED lamps contribution to reach 40% by 2020 from 25%.The average shift from conventional to LED may increase the prices from 3x to 10x based on the technology.
- ☑ The management intends to reduce imports content to 30% with the help of localization and it may take two years. Currently, raw material import stands at 36-38% and it is majorly imported from South East Asia.
- ☑ LUMAXIND has added a new customer Morris Garages Motors India and received the order for supply of headlamps and tail lamps for its SUV, the SOP of which is expected in April 2019.

1Q FY19 Result:

LUMAXIND has once again reported a strong operational performance with 42%YoY revenue growth in 1QFY19. This robust growth was supported by whopping 36%, 42% and 59% YoY growth in passenger vehicle, commercial vehicle and 2 wheelers segment. The margin expanded by 117bps YoY to 8.2%. Further expansion in margins was restricted due to volatility in raw material cost and fluctuations in exchange rate (higher import content). PAT for the quarter stood at 20 crores with 116% YoY growth. PAT margin increased by 137 bps to 4%.

View and Valuation

The company maintained margins of over 8% for the consecutive 3rd quarter on the back of better product mix and operating leverage benefit arising on higher volumes. The management targets double digit margins through increasing localization and operating leverage benefit by FY20. The import content in LEDs remains higher so the management is working on to increase the localization going ahead. Considering the increasing usage of LEDs in automobiles, the management expects contribution to reach 40% from 25% by FY20 and this will lead to 3x to 10x increases in realization based on technology. We expect revenue and PAT to grow at 16% and 43% CAGR over FY18-20, respectively. We value LUMAXIND at 17x FY20e EPS to arrive at a target price of Rs.2353 and recommend 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	1986	2231
EBITDA	89	100	134	178	238
EBIT	51	59	86	118	180
PAT	37	45	63	82	129
EPS (Rs)	40	48	68	87	138
EPS growth (%)	126	21	40	29	58
ROE (%)	18	19	22	23	29
ROCE (%)	24	24	29	34	40
BV	218	259	313	375	477
P/B (X)	2	5	7	5	4
P/E (x)	10	28	32	23	15

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1Q FY 19 Results

Robust performance

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	348	380	371	559	496	42.4%	-11.2%	1,300	1,650	26.9%
Other Income	2	5	2	1	0	-79.6%	-62.9%	6	9	49.5%
COGS	231	246	234	387	333	43.9%	-14.1%	844	1,090	29.1%
Gross Margin	34%	35%	37%	31%	33%	-0.7%	2.2%	35%	34%	-1.1%
Employee Cost	43	45	47	53	54	24.0%	1.7%	161	189	17.3%
Other Expenses	49	58	56	72	69	40.0%	-4.8%	195	237	21.4%
EBITDA	25	30	33	46	41	66.2%	-12.3%	100	134	34.6%
EBITDA Margin	7%	8%	9%	8%	8%	1.2%	-0.1%	8%	8%	0.5%
Depreciation	11	12	12	14	14	21.1%	-2.3%	40	48	19.8%
EBIT	13	19	21	33	27	103.9%	-16.6%	59	86	44.6%
Interest	1	1	1	4	3	141.5%	-15.5%	11	7	-37.0%
PBT	14	22	22	30	25	75.7%	-18.3%	54	88	62.3%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	5	4	5	11	8	65.1%	-30.6%	9	25	175.0%
PAT	9	18	17	18	20	115.8%	13.1%	45	63	40.0%
PAT Margin	3%	5%	5%	3%	4%	1.4%	0.9%	3%	4%	0.4%

42%YoY revenue growth driven by strong growth across segments

LUMAXIND has once again reported a strong operational performance with 42%YoY revenue growth in 1QFY19. This robust growth was supported by whopping 36%, 42% and 59% YoY growth in passenger vehicle, commercial vehicle and 2 wheelers segment. The passenger vehicle segment generated revenue of 65% in 1QFY19, whereas the two wheeler and commercial vehicle segment generated 29% and 6% revenue growth respectively. On customer front, MSIL has contributed 32% of overall revenue, HMSI (17% of revenues), HML (9% of revenues), and M&M (9% of revenues) in 1QFY19. Further, growth was driven by Gujarat plant which caters popular Swift and Dzire models of Maruti and thus utilization level reached to 85% with 4-5 months.

Margins maintained over 8% for the consecutive 3rd quarter

LUMAXIND witnessed 100bps YoY expansion in EBITDA margin during the quarter. The company maintained margins of over 8% for the consecutive 3rd quarter on the back of better product mix and operating leverage benefit arising on higher volumes. Further expansion in margins was restricted due to volatility in raw material cost and fluctuations in exchange rate (higher import content).

Robust PAT growth of 116% YoY despite higher depreciation expenses

PAT for the quarter stood at 20 crores with 116% YoY growth. PAT margin increased by 137 bps to 4%. Depreciation cost remained on the higher side due to Gujarat Plant which gets operational in 4QFY18. Gradual decline in finance cost of the company on account of reduction in long term debt to almost zero level has provided some relief to the margins.

Concall Highlights :

- ✓ The management targets double digit growth in FY19.
- ✓ Multiple expansion plan will take place in Bangalore and Sanand Factory. Main focus will be on Gujarat plant where company will make plans after meeting the customers. The company may prepone the greenfield site at Gujarat by 2021 if it get nod for other Maruti models.
- ✓ HMSI and Hero have been ranked 2nd and 3rd in sales breakup in 1QFY19. Addition of New models during the quarter were: Passenger Vehicle – Toyota Yarris and HMSI Aviator in 2W.
- ✓ The company got confined orders from TVS in 3 platforms. Growth from TVS can be seen from 4QFY19 or 1QFY20
- ✓ Sanand plant – Capacity utilization at 80%. Company expects 95% utilization in FY20.
- ✓ LED business contributes about 35% of sales
- ✓ Customer Wise Mix – Maruti Suzuki grew by 57%, Honda 2W grew by 20%, Hero grown by 32% (9% of total sales) and Honda cars degrew by 25% because of global business not with Stanley.
- ✓ The company may reduce imports to 30% with the help of localization in next 2 years.

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Exhibit: Net sales (Rs. Crore) trend

robust growth was supported by whopping 46%YoY sales growth across segments.

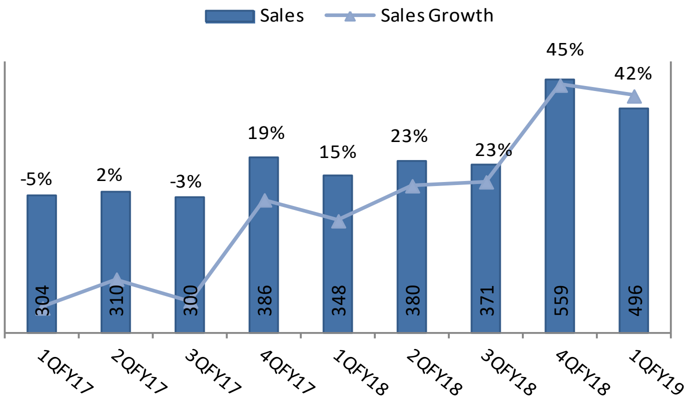


Exhibit: Segment Wise Revenue

Shifting the concentration from passenger vehicles to 2 wheelers and commercial vehicles

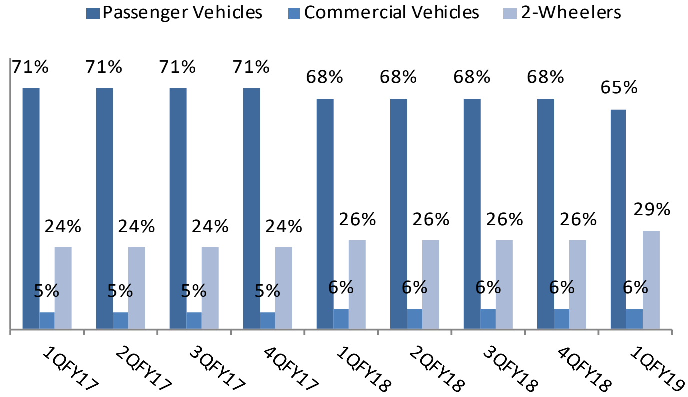


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins up by 117bps YoY on the back of better product mix and operating leverage benefit arising on higher volumes

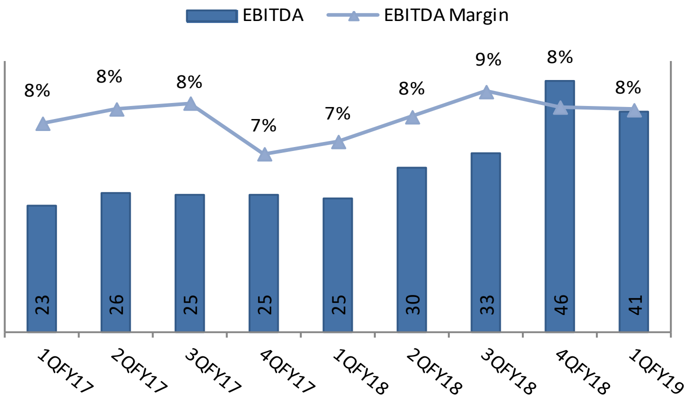


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin expanded by 137bps YoY on the back of improvement in EBITDA margins

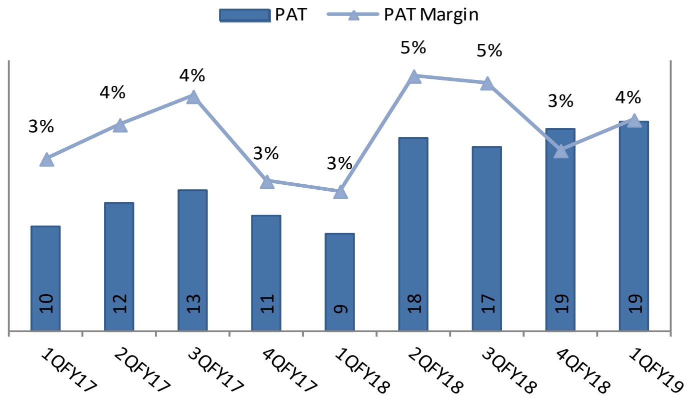


Exhibit: Customer Segment Revenue

Top 5 customers command over 70% of the revenue pie

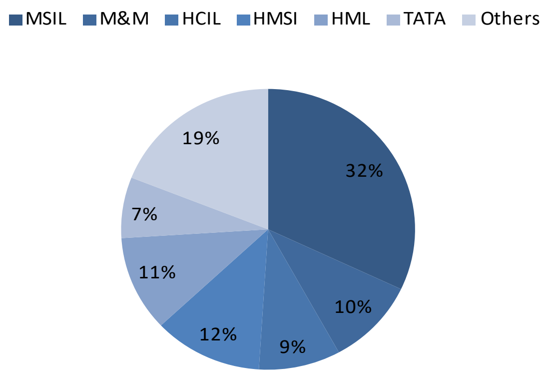
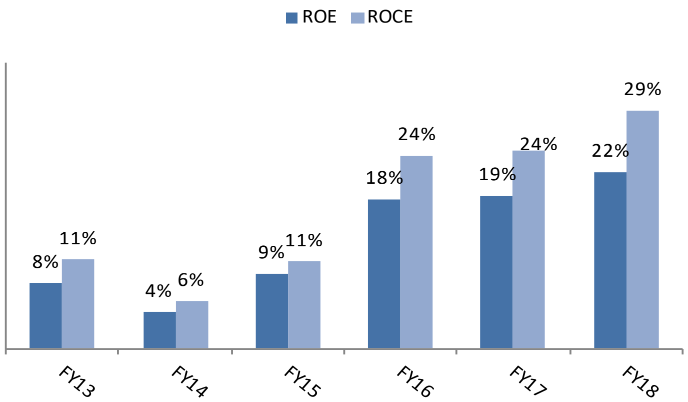


Exhibit: Return Ratios

With improvement in profitability return ratios have improved sharply



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	341	437
Networth	169	173	180	204	242	293	350	446
Debt	128	112	116	95	83	101	60	40
Other Non Current Liab	56	52	50	54	61	33	33	33
Total Capital Employed	197	211	259	289	321	392	410	486
Net Fixed Assets (incl CWIP)	425	419	422	425	440	566	559	552
Non Current Investments	5	5	5	5	5	5	5	5
Other Non Current Assets	462	463	457	463	496	597	590	583
Non Current Assets	454	452	451	461	494	586	579	572
Inventory	108	77	110	105	116	169	190	214
Debtors	110	131	144	181	191	318	354	367
Cash & Bank	28	16	19	3	1	2	42	98
Other Current Assets	321	330	352	377	386	603	737	882
Current Assets	284	277	313	333	347	562	688	827
Creditors	288	286	296	307	344	536	626	672
Provisions	8	7	9	6	7	11	14	15
Other Current Liabilities	87	97	112	128	105	55	66	75
Curr Liabilities	383	391	417	441	456	721	824	880
Net Current Assets	(100)	(114)	(105)	(108)	(109)	(158)	(135)	(53)
Total Assets	737	729	764	794	841	1,148	1,267	1,399

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**	**1,986**	**2,231**
Change (%)	9	4	2	10	4	27	20	12
Other Income	5	7	6	4	6	9	7	16
EBITDA	**61**	**51**	**59**	**89**	**100**	**134**	**178**	**238**
Change (%)	33	(16)	16	49	13	35	32	34
Margin (%)	6	5	5	7	8	8	9	11
Depr & Amor.	32	37	36	38	40	48	59	58
EBIT	**29**	**14**	**23**	**51**	**59**	**86**	**118**	**180**
Int. & other fin. Cost	19	17	14	13	11	7	10	6
Other Income								
EBT	**16**	**4**	**14**	**42**	**54**	**88**	**115**	**190**
Exp Item	-	-	-	-	-	-	-	-
Tax	2	(4)	(2)	4	9	25	37	61
Minority Int & P/L share of Ass.	-	-	-	-	-	-	3	-
Reported PAT	14	8	17	37	45	63	82	129
Adjusted PAT	**14**	**8**	**17**	**37**	**45**	**63**	**82**	**129**
Change (%)	6	(43)	115	126	21	40	29	58
Margin(%)	1	1	1	3	3	4	4	6

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	8%	4%	9%	18%	19%	22%	23%	29%
ROCE	11%	6%	11%	24%	24%	29%	34%	40%
Asset Turnover	1.5	1.5	1.5	1.6	1.5	1.4	1.6	1.6
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	11.9	30.0
P/E	23.5	36.1	18.1	10.5	28.2	32.2	23.3	14.7
Price / Book Value	1.9	1.6	1.7	1.9	5.3	7.0	5.4	4.3
EV/EBITDA	6.4	6.6	5.4	4.5	12.8	15.2	10.5	7.6
FCF per Share	29	26	13	41	(2)	6	133	156

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	16	4	14	42	54	88	115	190
(inc)/Dec in Working Capital	27	22	22	10	(3)	3	8	17
Non Cash Op Exp	32	37	36	38	40	48	59	58
Int Paid (+)	19	17	14	13	11	7	10	6
Tax Paid	(2)	(3)	(0)	(8)	(12)	(17)	(37)	(61)
others	16	14	12	13	9	3	10	6
CF from Op. Activities	**84**	**61**	**59**	**87**	**100**	**139**	**185**	**208**
(inc)/Dec in FA & CWIP	(56)	(35)	(46)	(46)	(102)	(133)	(52)	(52)
Free Cashflow	29	26	13	41	(2)	6	133	156
(Pur)/Sale of Inv	-	0	-	-	-	-	(20)	(41)
others	(15)	11	16	1	1	4	-	-
CF from Inv. Activities	**(70)**	**(18)**	**(30)**	**(42)**	**(62)**	**(128)**	**(72)**	**(93)**
inc/(dec) in NW								
inc/(dec) in Debt	(1)	(29)	(34)	(32)	(23)	(8)	(2)	-
Int. Paid	(18)	(18)	(14)	(14)	(12)	(7)	(10)	(6)
Div Paid (inc tax)	(7)	(5)	(4)	(20)	-	(16)	(17)	(22)
others	(9)	6	39	6	(6)	20	(39)	(20)
CF from Fin. Activities	**(34)**	**(46)**	**(13)**	**(59)**	**(40)**	**(11)**	**(69)**	**(48)**
Inc(Dec) in Cash	(20)	(3)	16	(15)	(2)	(1)	45	66
Add: Opening Balance	**25**	**5**	**2**	**18**	**3**	**1**	**2**	**42**
Closing Balance	5	2	18	3	1	(0)	47	109

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