

Lumax Industries Ltd.

Industry	Auto Ancillary
Bloomberg	LUMX IN
BSE CODE	517206

Sliding LED mix to limit margin expansion

2QFY20 Result Update

- ❑ LUMAXIND has posted decline in revenue by 17% YoY at Rs. 429 crores (vs our estimates of Rs. 406 crores) during this quarter.
- ❑ The share of LED Lighting stands at 33% of the total Revenues & that of Conventional Lighting stands at 67% as on H1FY20.
- ❑ The Product Mix for 2QFY20 as a percentage of total revenues is 66% Front Lighting, 27% Rear Lighting & 7% other.
- ❑ The Segment Mix for 2QFY20 as a percentage of total revenues is 63% Passenger Vehicles, 31% two Wheelers & 6% Commercial Vehicles.
- ❑ Moulds revenue for the quarter stands at Rs 43.19 crores as against Rs. 5.19 crores in 2QFY19.
- ❑ Gross margins declined by 71 bps QoQ to 37.61% despite softening of commodity prices. However, EBITDA margins increased by 40 bps QoQ to 9.93% led by various cost control initiatives & increased sourcing from electronics business.
- ❑ PAT for the quarter declined by 31%YoY to Rs. 19 crores (vs our estimates of Rs. 13 crores). PAT margin improved by 95 bps QoQ to 4.42% led by improvement in EBITDA margin, lower tax rate and higher other income.
- ❑ The market share of the company is at 55% in 4Ws and 30% in 2Ws respectively.
- ❑ The company has added S-Presso and XL6 as a new customer from Maruti in the PV segment. It has also added N-Torq, Activa 125 cc and i-Smart BS VI from TVS Motors, HMSI and Hero Motocorp respectively.




View and Valuation

The overall LED penetration in existing products have slowed down due to sluggish demand situation. However the new launches in premium variants are equipped with LEDs. Based on reduction in OEM volumes the management expects revenue to decline by 10%YoY in FY20. Going ahead the management expects margins to reach 12-13 in next 3-5 years time led by faster adoption of LEDs. Though considering the uncertain demand environment (90% revenue contribution from OEMs) and limited margin expansion in near term because of reduction in LED mix (33% in 2QFY20 as against 37% in FY19) we value LUMAXIND at 15x FY21e EPS to arrive at a target price of Rs.1270 and maintain Neutral.

Key Risks to our rating and target

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

RATING	NEUTRAL
CMP	1280
Price Target	1270
Potential Upside	-1%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1,965/912
Mkt Capital (Rs Cr)	1197
Free float (%)	26%
Avg. Vol 1M (,000)	2
No. of Shares (Cr.)	1
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

SWATI SINGH

Swati.singh@narnolia.com

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1300	1650	1851	1715	1889
EBITDA	100	134	153	164	186
EBIT	59	86	93	101	116
PAT	45	63	107	63	79
EPS (Rs)	48	68	115	67	85
EPS growth (%)	21%	40%	70%	-41%	26%
ROE (%)	18%	22%	29%	16%	18%
ROCE (%)	24%	29%	25%	25%	26%
BV	265	313	398	423	466
P/B (X)	5.1	7.0	3.5	3.0	2.7
P/E (x)	28.2	32.2	12.1	19.0	15.1

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

2QFY20 Results

PAT above estimate

Financials	Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	518	431	433	402	429	-17%	7%	1,650	1,851	12%
Other Income	11	5	9	1	3	-68%	219%	9	26	176%
Total Income	529	436	441	403	433	-18%	7%	1,659	1,877	13%
COGS	348	275	283	248	268	-23%	8%	1,090	1,213	11%
Staff Cost	55	55	53	53	53	-4%	0%	189	218	15%
Other Exp.	74	59	65	63	66	-11%	5%	237	267	13%
Expenditure	477	389	402	364	386	-19%	6%	1,516	1,698	12%
EBITDA	41	41	31	38	43	5%	11%	134	153	14%
Depreciation	14	14	19	15	16	15%	5%	48	60	24%
EBIT	27	27	12	23	27	0%	16%	86	93	8%
Interest	4	4	5	5	5	36%	8%	7	16	116%
PBT	34	28	16	20	25	-26%	29%	88	103	17%
Excpt. Item	(36)	-	-	-	-			-	36	
Tax	7	14	4	6	6	-7%	11%	25	32	28%
PAT	27	51	12	14	19	-31%	36%	63	107	70%

Concall Highlights

- The company expects to achieve 50% revenue from the LED business in a long term. Currently it stands at 33%. For FY20, the management expects a de-growth of 10%.
- The management expects there won't be much impact of pre-buy going ahead.
- Q2 has been a challenging quarter for the industry with production shutdowns at many OEMs. However, few new launches have done exceptionally well.
- The current festive season in October provided some relief with improvement in retail sales and it has resulted in reduction of dealer inventory. Dispatches remained strong in other segments including the luxury segments, except for the CVs.
- The company has done partnership with Stanley Electric to manufacture LEDs and it is expected to be commissioned from 4QFY20.
- Margins are expected to remain in the range of 12-13% over next 3-5 years.
- The LED import content is expected reduce to 30% in next 2-3 years. Currently it is at 60%.
- Moulds revenue for the quarter stands at Rs 43.19 crs as against Rs. 5.19 crs in 2QFY19.
- The market share of the company is at 55% in 4Ws and 30% in 2Ws respectively.
- The share of LED Lighting stands at 33% of total Revenues & that of Conventional Lighting stands at 67% as on H1FY20.
- The conventional and LED contribution in PV is 69:31 and in 2W is 59:45 respectively.
- The Product Mix for H1FY20 as a percentage of total revenues is 66% Front Lighting, 26% Rear Lighting & 8% other.
- The Segment Mix for H1FY20 as a percentage of total revenues is 64% Passenger Vehicles, 30% two wheelers & 6% Commercial Vehicles.
- The Company has made following new launches during the quarter :
 - PV - Maruti Suzuki – S-Presso (Head Lamp) and XL6 (Rear Combination Lamp, Tail Lamp)
 - 2-Wheeler - TVS Motors - N-Torq (Head Lamp), HMSI - Activa 125 cc (Front Turn Signal), Hero Motocorp - I Smart BS VI Motorcycle (Head Lamp, Tail Lamp, Front Rear Indicators)
 - Commercial Vehicle - International Tractors Limited – Solis (Head Lamp with Projector) and Sonalika (Head Lamp Front & Rear Fender Lamp)
- Capex guidance for FY20 is Rs. 135 crs out of which Rs. 75 crs will be spent on investments in Stanley Electric.

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

Revenue degrew by 17% YoY largely on account of production cuts done by the OEMs

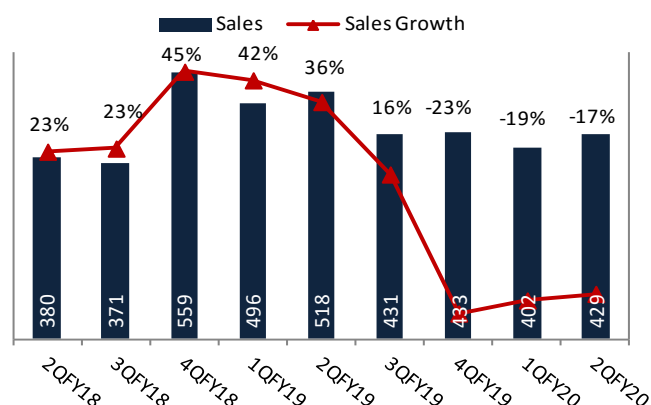


Exhibit: Segment Wise Revenue

Revenue growth across segments affected due to production cuts

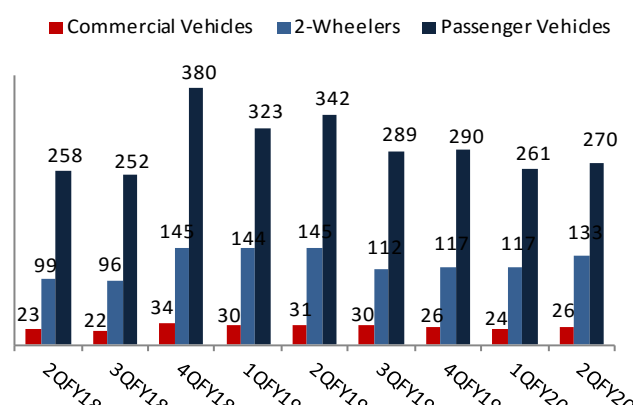


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Cost control initiatives and insourcing of electronic business led to increase in margins

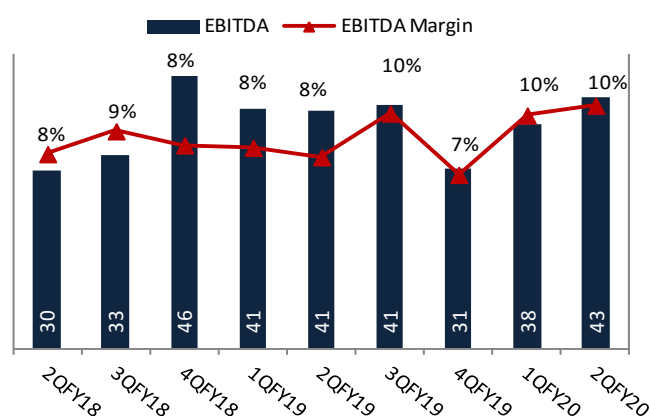


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins improved due to improvement in EBITDA margin, lower tax rate and higher other income.

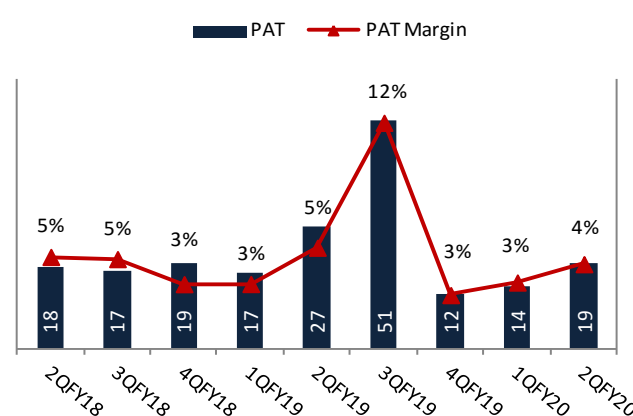


Exhibit: Customer Segment Revenue

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

MSIL M&M HCIL HMSI HML TATA Others

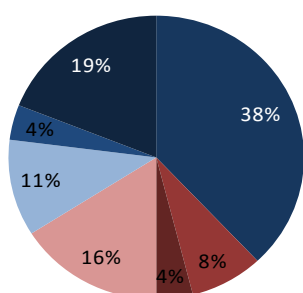
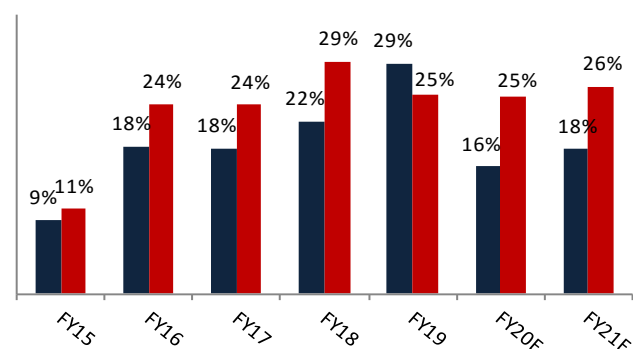


Exhibit: Return Ratios

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

ROE ROCE



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	9	9	9	9	9	9	9	9
Reserves	164	171	193	238	284	363	386	426
Networth	173	180	203	247	293	372	396	435
Debt	112	116	95	83	101	138	218	156
Other Non Cur Liab	52	50	20	25	33	30	69	69
Total Capital Employed	248	218	213	251	295	373	406	446
Net Fixed Assets (incl CWIP)	419	422	414	439	566	599	745	727
Non Cur Investments	5	5	5	5	5	5	5	5
Other Non Cur Asst	29	24	11	20	15	45	45	45
Non Curr Assets	452	451	431	463	586	649	795	777
Inventory	77	110	105	116	169	204	189	208
Debtors	131	144	181	0	318	221	188	207
Cash & Bank	16	19	3	1	2	2	63	65
Other Curr Assets	53	40	37	39	74	38	35	40
Curr Assets	277	313	331	348	562	465	476	520
Creditors	286	296	295	327	536	380	399	440
Provisions (both)	15	19	19	24	31	38	37	38
Other Curr Liab	97	112	144	122	173	182	176	184
Curr Liabilities	391	417	444	456	721	574	587	636
Net Curr Assets	(114)	(105)	(113)	(109)	(159)	(109)	(111)	(116)
Total Assets	729	764	763	812	1,148	1,114	1,271	1,297

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,117	1,143	1,255	1,300	1,650	1,851	1,715	1,889
Change (%)	4%	2%	10%	4%	27%	12%	-7%	10%
Other Income	7	6	4	6	9	26	7	7
EBITDA	51	59	89	100	134	153	164	186
Change (%)	-16%	16%	49%	13%	35%	14%	7%	13%
Margin (%)	4.6%	5.2%	7.1%	7.7%	8.1%	8.3%	9.6%	9.8%
Depr & Amor.	37	36	38	40	48	60	63	70
EBIT	14	23	51	59	86	93	101	116
Int. & other fin. Cost	17	14	13	11	7	16	23	17
EBT	4	14	42	54	88	103	85	106
Exp Item	-	-	-	-	-	36	-	-
Tax	(4)	(2)	4	9	25	32	22	27
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	8	17	37	45	63	107	63	79
Adjusted PAT	8	17	37	45	63	107	63	79
Change (%)	-43%	115%	126%	21%	40%	70%	-41%	26%
Margin(%)	0.7%	1.5%	3.0%	3.5%	3.8%	5.8%	3.7%	4.2%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	4.4%	9.2%	18.5%	18.3%	21.6%	28.9%	15.9%	18.2%
ROCE	5.8%	10.6%	23.8%	23.6%	29.1%	24.9%	24.8%	25.9%
Asset Turnover	1.53	1.50	1.65	1.60	1.44	1.66	1.35	1.46
Debtor Days	43	46	53	0	70	44	40	40
Inv Days	25	35	30	33	37	40	40	40
Payable Days	94	95	86	92	119	75	85	85
Int Coverage	0.8	1.6	3.8	5.2	11.9	6.0	4.4	6.7
P/E	36.1	18.1	10.5	28.2	32.2	12.1	19.0	15.1
Price / Book Value	1.6	1.7	1.9	5.1	7.0	3.5	3.0	2.7
EV/EBITDA	6.6	5.4	4.5	12.8	15.2	8.5	7.3	6.5
FCF per Share	26	13	41	(2)	6	(47)	20	123

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4	14	42	54	88	139	85	106
(inc)/Dec in Working Capital	10	(3)	3	8	17	(24)	62	9
Non Cash Op Exp	37	36	38	40	48	60	63	70
Int Paid (+)	17	14	13	11	7	16	23	17
Tax Paid	(3)	(0)	(8)	(12)	(17)	(33)	(22)	(27)
others	(4)	(2)	(1)	(2)	(5)	(54)	18	-
CF from Op. Activities	61	59	87	100	139	104	229	175
(inc)/Dec in FA & CWIP	(35)	(46)	(46)	(102)	(133)	(151)	(209)	(52)
Free Cashflow	26	13	41	(2)	6	(47)	20	123
(Pur)/Sale of Inv	0	-	-	-	-	-	-	-
others	17	16	3	40	4	53	0	(2)
CF from Inv. Activities	(18)	(30)	(42)	(62)	(128)	(97)	(209)	(54)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(29)	(34)	(32)	(23)	(8)	13	10	-
Int. Paid	(18)	(14)	(14)	(12)	(7)	(15)	(23)	(17)
Div Paid (inc tax)	(5)	(4)	(20)	-	(16)	(26)	(26)	(26)
others	6	39	6	(6)	20	23	71	(62)
CF from Fin. Activities	(46)	(13)	(59)	(40)	(11)	(6)	32	(106)
Inc(Dec) in Cash	(3)	16	(15)	(2)	(1)	1	52	16
Add: Opening Balance	5	2	18	3	1	1	2	63
Closing Balance	2	18	3	1	(0)	2	54	79

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (FormerlyMicrosec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFALis engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, it's associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and it's associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkgarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL)and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.