

Lumax Industries

Sensex: 32238

CMP: INR 1350

Target : INR 1346



Auto ancillary

Lumax Industries Ltd. (Lumax) reported revenues of INR 3483 mn (up 15% YoY & down 9.7% QoQ), EBIDTA of INR 245 mn (up 5.1% YoY & down 3.5% QoQ) with EBIDTA margin (Excl. Other Income) at 7% (7.7% YoY). Consolidated PAT was reported at INR 152 mn (up by 17.8% YoY and up 113.4% QoQ). RM cost as % of sales jumped to 66.4% in 1Q FY18 (63.7% YoY) as ~ INR 65 mn increase in RM cost has been passed by vendors but the company is still negotiating with clients for price hikes. With positive outlook for the Passenger vehicle (CAGR of 10-12% between FY17-19E) & Two wheeler industry (CAGR of 5-7% between FY17-19E) and esteemed clientele consisting of Maruti (35% of revenue), M&M (11%), HMTI (9%), Honda Cars (9%) and Hero Motocorp (9%) among others, we expect Lumax Industries to clock revenue and PAT CAGR of 9.2% and 18% respectively between FY17-19E. We incorporate FY19 numbers and recommend HOLD rating with a target price of INR 1346 based on 20x FY19E earnings.

Revenue up 15%

Lumax's Q1FY18 revenue was up 15% YoY (down 9.7% QoQ) to INR 3483 mn as the company reported volume growth of ~3% YoY while remaining part of growth was attributed to higher value added products. The sales mix for the quarter for the lamps business stood as follows - Maruti- 31%, M&M- 11%, Hero Motocorp- 10%, HMTI- 12% and Honda Cars- 8%. Contribution from HMTI has gone up from 9% in FY17 to 12% in Q1 FY18. With exposure to fastest growing OEMS across the industries, we expect revenue of Lumax to grow at a faster pace than broader automotive industry.

Margins down 66.5 bps YoY

Lumax reported EBITDA (Excl Other Income) growth of 5.1% YoY to INR 245 mn and margins contracted by 66.5 bps YoY to 7% in Q1FY18. Raw material costs as a % of sales increased 268 bps YoY to 66.4% due to overall increase in commodity costs. The company has witnessed price increase from the vendors but are not able to pass on the same to the clients. Management estimated additional RM cost of INR 65 mn on the back of inability to pass on price increases. With negotiations being in advanced stages, we expect Lumax to pass on the incremental RM cost in next couple of quarters. Employee costs as % of sales fell 13 bps to 12.4% whereas other expenses as % of sales witnessed sharp decline of 188 bps to 14.1%.

CAPEX plans

The company has no significant CAPEX plans and it intends to invest INR 450-500 mn in each of FY18 & FY19 for product

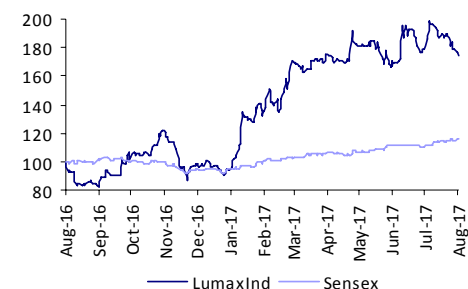
development and maintenance CAPEX. On the product development side, the company is working on LED light projects with OEMs like Maruti, Honda, Tata Motors, etc. Currently Lumax garners less than 5% of revenue from LED business and expects the same to grow to 15%-20% over the next 3-5 years. With increasing contribution of higher margin LED products, we expect EBITDAM to expand by ~89 bps by FY19. The current capacity utilization stands at ~85-90% and Lumax can increase the number of working shifts to increase capacity. Gujarat Facility is expected to be operational in November 2017. This facility will be catering to MSIL, Tata Motors and HMTI.

Outlook & Valuation

~40% market share in domestic passenger car industry coupled with superior technological knowhow places the company on a strong footing. Lumax, being a preferred choice of OEMs, is set to benefit from significant increase in production of cars (given the current low level of penetration of ~20 cars/1000 persons in India v/s ~126 in Brazil & 806 in USA and emergence of India as an export hub). In the near term, growth in PV Ind (FY17-19E CAGR- 10-12%) & 2-Wheeler Ind (FY17-19E CAGR- 5-7%) ensures decent revenue visibility. We expect Lumax Industries to clock revenue and PAT CAGR of 9.2% and 18% respectively between FY17-19E. We incorporate FY19 numbers and recommend HOLD rating with a target price of INR 1346 based on 20x FY19E earnings.

Shareholding (%)	Jun-17
Promoters	73.53
FII's	2.21
DII's	1.66
Others	22.6

Relative Price Performance

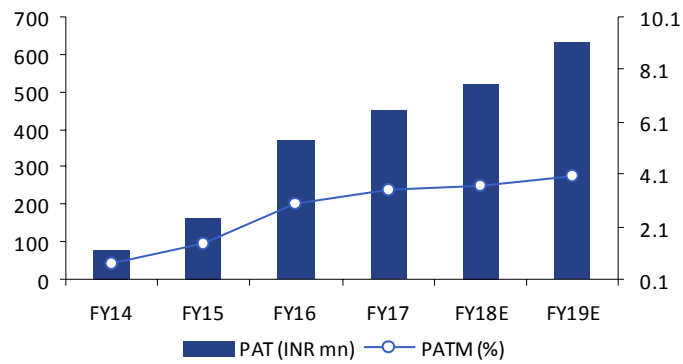
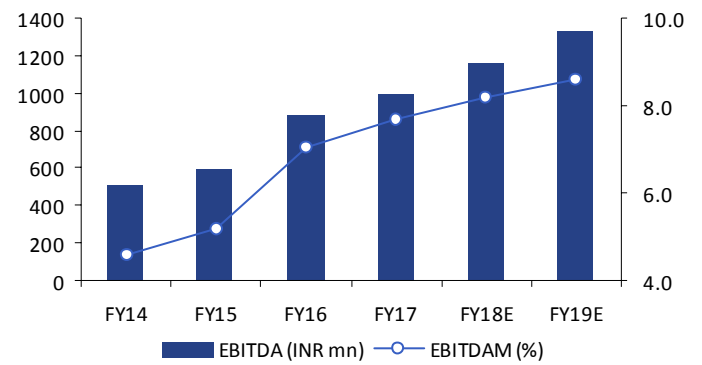
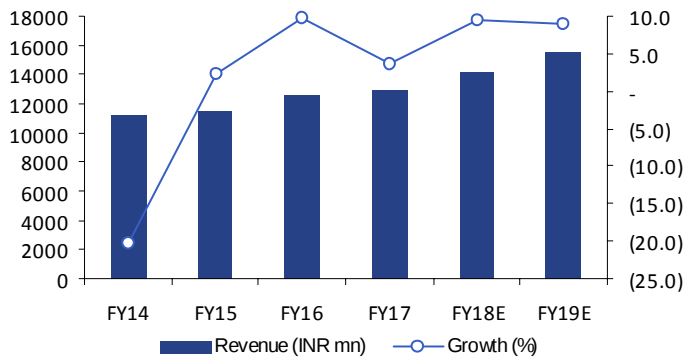


Key Data	
BSE Code	517206
NSE Code	LUMAXIND
Bloomberg Code	LUMX IN
Reuters Code	LUMA.BO
Shares Outstanding (mn)	9.35
Face Value	10
Mcap (INR bn)	12.97
52 Week H/L	1609.90/649.00
2W Avg. Qty.NSE	9027
Free Float (INR Bn)	3.43
Beta	1.59

(INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	12552	12998	14224	15497
Growth (%)	9.9%	3.6%	9.4%	9.0%
EBIDTAM (%)	7.1%	7.7%	8.2%	8.6%
Adj. PAT	374	452	519	629
Growth (%)	125.5%	20.9%	14.8%	21.3%
Adj. EPS (INR)	40.0	48.3	55.5	67.3
P/E (x)	10.5	28.4	24.7	20.4
EV/EBIDTA	4.4	12.2	10.8	9.0
EV/Sales	0.3	1.0	0.9	0.8
RoACE (%)	7.1%	8.0%	8.6%	9.5%
RoAE (%)	19.4	20.3	20.0	21.0

Quarterly Financials

Particulars (INR Mn)	Jun-17	Jun-16	Mar-17	% Chg (YoY)	% Chg (QoQ)
Revenue (Net of Excise Duty)	3,483	3,028	3,859	15.0	-9.7
RM Cost	2,312	1,929	2,672	19.9	-13.5
Operating & Manufacturing Expenses	493	485	517	1.5	-4.7
Employee Cost	434	381	416	13.8	4.2
Miscellaneous Expenses				NA	NA
Total Expenditure	3,238	2,795	3,605	15.9	-10.2
EBITDA	245	233	254	5.1	-3.5
Depreciation	112	102	99	9.6	13.3
Other Income	19	13	20	44.6	-5.1
EBIT	152	144	175	5.5	-13.1
Interest	13	30	23	-58.1	-45.2
Exceptional Items	-	-	-	NA	NA
PBT	140	114	152	22.4	-8.2
Tax	59	22	45	167.2	29.2
Profit After Tax	81	92	107	-12.1	-24.2
Share of Associate	71	37	-36	93.2	-297.5
Consolidated PAT	152	129	71	17.8	113.4
Equity	93.5	93.5	93.5		
Face Value	10.0	10.0	10.0		
EPS	16.2	13.8	7.6	17.8	113.3
% of Sales				bps	bps
Raw Material Cost	66.4	63.7	69.2	267.9	-286.9
Employee Expenses	12.4	12.6	10.8	-13.1	166.7
Other Expenses	14.1	16.0	13.4	-188.3	74.6
OPM Excl Other income	7.0	7.7	6.6	-66.5	45.5
EBITDAM	7.6	8.1	7.1	-55.4	48.2
PATM	2.3	3.0	2.8	-71.7	-44.2



Financials

Income Statement

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	12552	12998	14224	15497
% Growth	9.9%	3.6%	9.4%	9.0%
RM Cost	8132	8020	8776	9562
% Growth	2.6%	-1.4%	9.4%	8.9%
Employee Expenses	1413	1583	1678	1779
% Growth	13.3%	12.1%	6.0%	6.0%
Oth Expense	2121	2396	2607	2827
Total Op Exp	11666	12000	13062	14168
EBIDTA (excl OI)	886	998	1161	1328
% Growth	49.3%	12.7%	16.4%	14.4%
EBITDA Margin %	7.1%	7.7%	8.2%	8.6%
Dep./Amortization	379	404	431	466
Other Income	44	62	29	64
EBIT	550	656	759	927
EBIT Margin %	4.4%	5.0%	5.3%	6.0%
Interest Expense	134	114	110	120
Exceptional Items	0	0	0	0
EBT	416	542	649	807
Tax Expenses	42	90	130	177
PAT	374	452	519	629
% Growth	125.5%	20.9%	14.8%	21.3%
APAT Margin %	3.0%	3.5%	3.6%	4.1%

Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E
Per Share Data (INR)				
Reported EPS	40.0	48.3	55.5	67.3
Adj. EPS	40.0	48.3	55.5	67.3
Growth (%)				
CEPS	80.5	91.6	101.6	117.1
DPS	12.0	14.5	16.7	20.2
BVPS	218.4	258.5	297.4	344.5
Return Ratios (%)				
RoACE	7.1%	8.0%	8.6%	9.5%
RoANW	19.4%	20.3%	20.0%	21.0%
RoIC	6.5%	6.9%	7.1%	7.7%
Liquidity Ratios				
Net Debt/Equity	0.5	0.3	0.2	(0.0)
Interest Coverage Ratio	4.1	5.7	6.9	7.7
Current Ratio	0.6	0.6	0.7	0.8
Quick Ratio	0.3	0.4	0.4	0.5
Efficiency Ratios				
Asset Turnover Ratio	1.61	1.59	1.61	1.59
Inventory Days	32.7	35.3	33.7	33.9
Debtor Days	52.7	53.6	52.3	52.3
Creditor Days	96.9	104.7	100.0	100.4
Valuation Ratios				
P/E (x)	10.5	28.4	24.7	20.4
P/BV (x)	1.9	5.3	4.6	4.0
P/CEPS (x)	5.2	15.0	13.5	11.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV/Net Sales (x)	0.3	1.0	0.9	0.8
EV/EBIDTA (x)	4.4	12.2	10.8	9.0

Balance Sheet

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Share Capital	93	93	93	93
Reserves and Surplus	1948	2323	2686	3127
Total Networth	2042	2417	2780	3220
Long Term Debt	106	36	0	0
Short Term Debt	848	790	896	977
Total Debt	954	827	896	977
Net Deferred Tax Liability	194	279	285	291
Other Liabilities	316	332	358	382
Sources of Funds	3507	3855	4320	4870
Net Block	4080	3874	3943	4007
CWIP	170	525	775	652
Investments	45	45	45	45
Current Assets	3322	3472	4026	5036
Current Liabilities	4437	4558	4922	5362
Net Current Assets	-1115	-1086	-895	-326
Other Assets	326	496	452	491
Application of Funds	3507	3855	4320	4870

Cash Flow

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
PBT	416	542	649	807
Add: Depreciation	379	404	431	466
Add: Interest paid	134	114	110	120
Change in Working Capital	(28)	(108)	237	190
Less: Taxes	(42)	(90)	(130)	(177)
Cash Flow from operations (a)	859	862	1,298	1,405
Change in Fixed Assets	(500)	(198)	(500)	(530)
Change in CWIP	92	(354)	(250)	122
Change in Investments	-	-	-	-
Others	(81)	(170)	44	(39)
Cash Flow from Investing (b)	(490)	(723)	(706)	(447)
Change in Equity	-	-	-	-
Debt Raised/(Repaid)	(270)	(69)	(36)	-
Dividend paid	(112)	(136)	(156)	(189)
Interest paid	(134)	(114)	(110)	(120)
Others	(7)	159	32	30
Cash Flow from Financing (c)	(524)	(160)	(271)	(279)
Net Change in Cash (a+b+c)	(156)	(21)	322	679
Opening Cash	190	35	14	335
Closing Cash	35	14	335	1,015

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