

# Lumax Industries Ltd.

Sector: Auto-ancillaries /Mid-Cap | Earnings Update – 2QFY19

**BUY**

29 October 2018

**Background:** Lumax Industries, part of DK Jain group, is the largest automotive lighting company in India. It manufactures Head lamps, Tail lamps, Sundry & Auxiliary lamps. Lumax has technological & financial collaboration with Stanley Electric of Japan. Stanley holds 37.5% in Lumax Industries and is its largest shareholder. Lumax provides high quality automotive lighting solutions for four wheelers, two wheelers, CVs & Tractors. It has 27 manufacturing locations across India. LED is currently sourced from Stanley, Japan. The company is working to develop in house capabilities for PCB and LED through its design center.

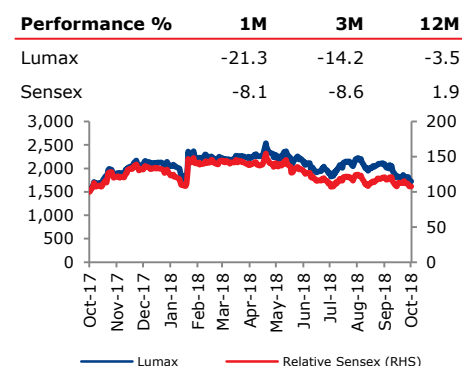
Sensex	33,519
Nifty	10,083
Price	INR 1,666
Target Price(12m)	INR 2,360
Recommendation	BUY
52 Week High/Low	INR 2,585/1,553
Bloomberg / Reuters	LUMX IN /LUMA.BO
Equity (shares in mn)	9.35
Mkt. Cap in bn	INR 15.6/\$ 0.21
Avg. Daily Vol. ('000)	6.35
Avg. Daily Vol. (mn)	INR 10.6/\$0.14

Shareholding	Sep 17	Jun 18	Sep 18
Promoters (%)	73.53	74.93	75.00
FII (%)	0.67	0.79	0.85
DII (%)	1.65	0.56	1.14
Others (%)	24.15	23.72	23.01
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	16.5	20.3	23.2
EBITDA	1.3	1.6	2.0
PAT	0.7	0.9	1.2
EPS	76.4	98.5	131.1
% growth	29.0	30.0	33.2
P/E	20.2	16.9	12.7
P/BV	5.8	4.8	3.8
EV/EBITDA	12.3	10.2	8.4
EV/Sales	1.0	0.8	0.7
Dividend Yield	1.4	1.3	1.7
ROE (%)	22.0	28.1	30.1

\*Consolidated earnings



## LEDs to drive growth going ahead

- In 2QFY19, Lumax Industries clocked robust revenue growth of 36.4% YoY to INR 5,178mn, led by 32%,36%and47%YoY growth in passenger vehicle, commercial vehicle and 2wheelers segment respectively. The share of LEDs currently stands at ~35%
- EBITDA came in at INR 405mn (+34.7% YoY) led by a shift towards LEDs in automotive lighting with EBITDA margin at 7.8% down by 40 bps sequentially on account of rising commodity prices and higher import content. Currently the import content for LEDs remains at ~65% and the management aims to reduce it to ~50% by FY20. The negative impact on the margins in the near term would be offset by higher realizations on LEDs (3x-10x compared to conventional lamps) as the usage of LEDs increase. The margins were also affected due to INR depreciation.PAT for the quarter was INR 209 mn. The bottom-line remained stable despite robust revenue growth owing to foreign exchange loss of INR 43mn.
- During the quarter, the company had several new launches across the vehicle segments. In the two-wheeler segment, Hero Motocorp's 'Destini-125' will aid revenues going forward along with other launches like Force Motor's 'Gurkha', Piaggio's 'Ape'.
- The company has recently added TVS Motor Company Ltd to its client base and has received LOI for first orders. Supply of the order would commence from the next year.
- Price negotiations would continue with OEMs considering the increase in raw material prices over the last few quarters. A 3-6 month lag exists for price negotiations with OEMs. The management is also targeting a 150-200 bps improvement in margins on the back of localization, better product mix and operating leverage benefit
- 2QFY19 revenue share based on Product mix: Front Lighting contributed 65% of overall revenues, Rear lighting (25% of revenues) and others (10% of revenues). Segment mix: revenues share from passenger vehicle was at 66% of total revenues, 2-wheelers (28% of revenues) and Commercial vehicle (6% of revenues). Customer mix: MISL (34% of revenues), M&M (8% of revenues), HMSI (14% of revenues), HML (11% of revenues), Tata(6% of Revenues) and Others (22% of revenues).

**Valuation:** We are positive on the company's growth prospects led by increase in demand for energy efficient products, and increasing mix of LED business on account of BS-VI norms and changing energy norms which would result in higher realizations. At CMP, the stock is trading at P/E of 16.9X/12.7x on FY19E/FY20E EPS, respectively. We arrive at a price target of INR 2,360 based on P/E of 18x FY20EPS and maintain a **BUY** rating on the stock. **Risks:** Sharp appreciation of USD may put pressure on margins (import content ~40%), slower than expected adoption of LEDs by OEMs.

## Results Summary 2QFY19

Y/E March ( INR mn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
Revenue	5,178	3,796	36.4%	4,962	4.3%
EBITDA	405	301	34.7%	408	-0.6%
Depreciation	138	116	18.9%	135	2.0%
Other Income	11	8	38.8%	4	177.9%
PBT	241	182	32.5%	245	-1.7%
Tax	51	42	21.2%	77	-34.0%
Reported PAT	209	207	0.8%	200	4.1%
Adj. PAT	209	207	0.8%	200	4.1%
EBITDA Margin (%)	7.8	7.9		8.2	
Effective Tax Rate (%)	21.1	23.1		31.4	
Adj. PAT Margin (%)	4.0	5.5		4	

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