

Short-term hiccups, long-term faith intact

Lumax Industries (LIL) 4Q results were below our estimates, affected by 1) slowdown in PVs sales 2) decline in the tooling business 3) fall in LED revenue (led by sharp fall in HMSI's Activa volume). Despite the slowdown in PV sales, the company reported double digit growth in revenue and PAT in FY19, respectively led by increasing penetration of LED lighting. We expect a 13% EPS CAGR over FY19-21E, primarily driven by an 8% growth in revenue. We recommend a BUY rating for the stock, with a TP ₹ 1,800 (based on 18x FY21E EPS).

In Q4FY19 revenue de-grew 22% YoY to ₹ 4.33bn, while EBITDA margin contracted 139bps YoY to 7.1%, due to a negative operating leverage and an adverse product mix. The management expects import content of LED to decline to 50% (~60% currently) in FY20, which will help to expand operating margin. Although in the short term LIL's earning outlook is weak, led by slowdown in PV segment (~67% of FY19 Revenue), a reversal in interest rate, pick-up in rural volume, and pre-buying for BSVI will help to revive PV demand from 2HFY20E and support earnings.

Positioned well to reap the benefit of LED migration

We expect the company to be a key beneficiary of the increasing penetration of LED lighting in both 2W and 4W, along with the changing perception towards auto lighting as a styling product. The rising proportion of LEDs in LIL's revenue mix will not only benefit top line growth, but also help to improve profitability. The price of LED is at least ~2-3x higher than conventional lighting, hence even if rising demand provides economies of scale going forward, the price of a LED light will continue to remain significantly higher than the conventional counterpart. During last three fiscal years, the share of the LED business in the company's overall revenue has increased to 33% in FY19, from 8% in FY17. Although at a nascent stage, the LED business is expected to o quantum leap in the next three years. The company has added a new customer, Morris Garages (MG) Motor India and TVS Motors, (expected to add ₹ 450mn incremental revenue in FY20.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	4,327	5,601	(22.8)	4,308	0.4
Total Expense	4,019	5,125	(21.6)	3,928	2.3
EBITDA	307	476	(35.4)	380	(19.1)
Depreciation	190	139	36.8	142	33.5
EBIT	118	337	(65.1)	238	(50.5)
Other Income	88	10	742.2	13	573.7
Interest	46	36	25.7	42	9.3
EBT	159	289	(65.1)	605	(73.6)
Tax	42	111	(61.9)	134	(68.5)
RPAT	143	177	(19.6)	486	(70.7)
APAT	143	177	(19.6)	90	58.0
			(bps)		(bps)
Gross Margin (%)	34.5	30.9	363	36.3	(178)
EBITDA Margin (%)	7.1	8.5	(139)	8.8	(171)
NPM (%)	3.3	3.2	13	11.3	(799)
Tax Rate (%)	26.6	38.5	(1197)	22.2	435
EBIT Margin (%)	2.7	6.0	(329)	5.5	(280)

CMP	₹ 1,393
Target / Upside	₹ 1,800 / 29%
BSE Sensex	37,985
NSE Nifty	11,407

Script Details

Equity / FV	₹ 93mn / ₹ 10
Market Cap	₹ 13bn
	US\$ 186mn
52-week High/Low	₹ 1,838/₹ 1,386
Avg. Volume (no)	2,181
NSE Symbol	LUMAXIND
Bloomberg Code	LUMX IN

Shareholding Pattern Mar'19(%)

Promoters	75.0
MF/Banks/FIs	1.2
FII's	0.7
Public / Others	23.1

Valuation (x)

	FY19A	FY20E	FY21E
P/E	16.6	14.0	13.1
EV/EBITDA	9.4	8.3	7.4
ROE (%)	26.0	19.4	17.3
RoACE (%)	13.8	14.9	13.6

Estimates (₹ mn)

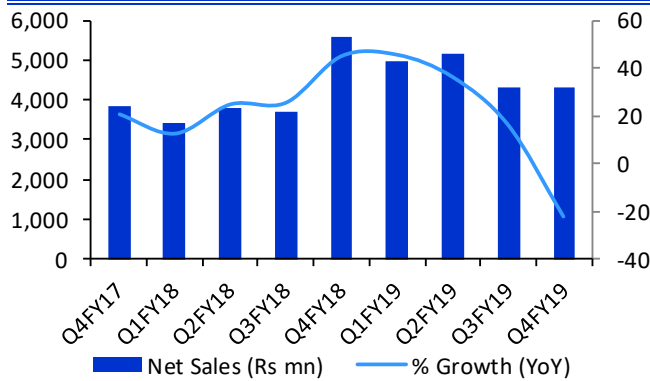
	FY19A	FY20E	FY21E
Revenue	18,515	19,626	21,588
EBITDA	1,532	1,669	1,793
PAT	785	933	993
EPS (₹)	84.0	99.8	106.2

Analyst: Abhishek Jain
Tel: +9122 40969739
E-mail: abhishekj@dolatcapital.com

Associate: Kushal Shah
Tel: +91 22 40969768
E-mail: kushals@dolatcapital.com

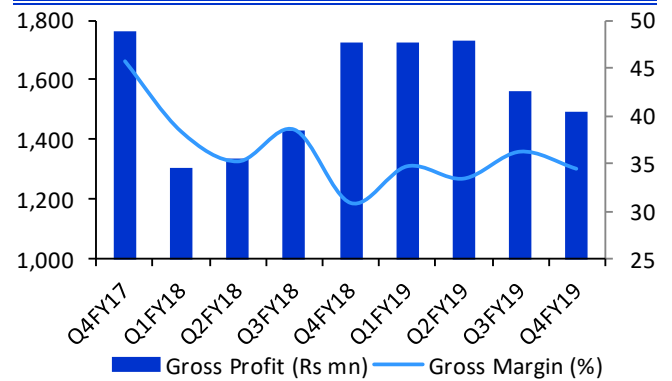
Associate: Ketul Dalal
Tel: +91 22 40969770
E-mail: ketuld@dolatcapital.com

Exhibit 1: Net Revenue fallen down on high base



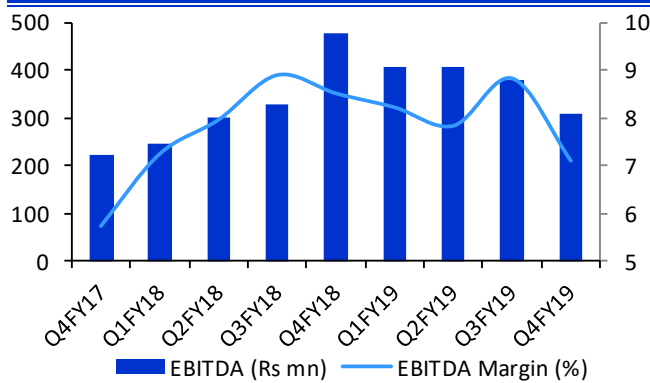
Source: DART, Company

Exhibit 2: Gross Margin under pressure



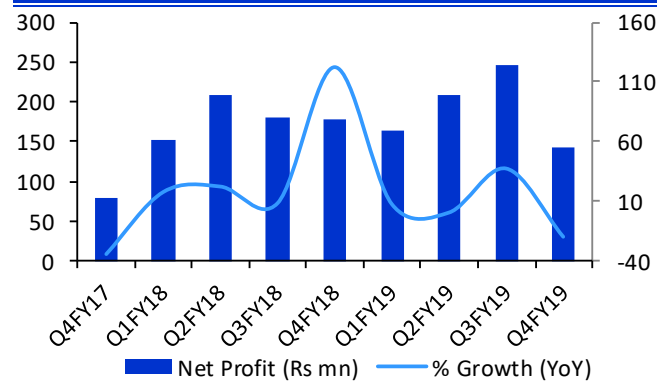
Source: DART, Company

Exhibit 3: EBITDA Margin down YoY/QoQ



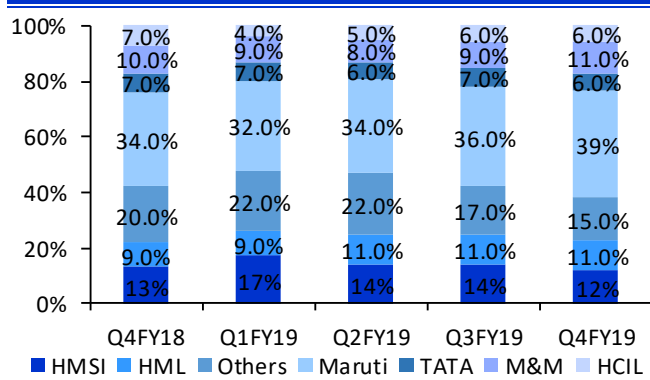
Source: DART, Company

Exhibit 4: Net profit Trend



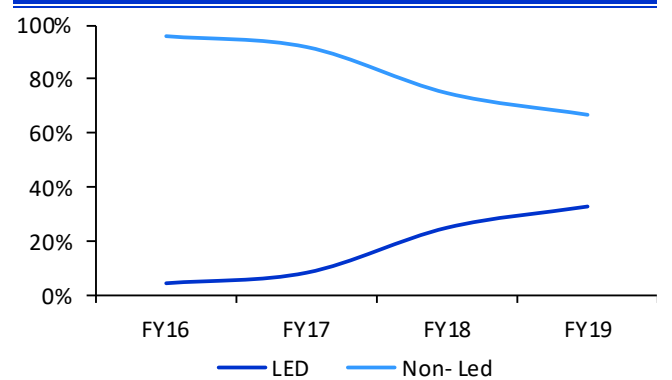
Source: DART, Company

Exhibit 5: Client wise revenue contribution



Source: DART, Company

Exhibit 6: Revenue contribution LED/Conventional



Source: DART, Company

Exhibit 7: Key Assumptions

Segment	FY18	FY19	FY20E	FY21E
Total Revenue	16,500	18,515	19,626	21,588
Y-o-Y growth	27.9	12.2	6.0	10.0
Passenger Vehicals	11,220	12,342	13,149	14,464
Y-o-Y growth	22.5	10.0	7.0	12.0
% of sales	68.0	66.7	67.0	67.0
2 wheelers	4,290	4,934	5,230	5,543
Y-o-Y growth	38.6	15.0	6.0	6.0
% of sales	26.0	26.6	26.6	25.7
Commercial Vehicals	990	1,240	1,247	1,581
Y-o-Y growth	53.5	25.2	0.6	26.8
% of sales	6.0	6.7	6.4	7.3
Y-o-Y growth	20.0	11.6	(5.1)	15.2
LED	4,125	6,110	7,850	9,715
Y-o-Y growth	433	48	28	24
% of sales	25.0	33.0	40.0	45.0
Non LED	12,375	12,405	11,776	11,874
Y-o-Y growth	2.1	0.2	(5.1)	0.8
% of sales	75.0	67.0	60.0	55.0

Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	16,493	18,515	19,626	21,588
Total Expense	15,156	16,983	17,957	19,795
COGS	10,901	12,132	13,148	14,485
Employees Cost	1,889	2,180	2,061	2,375
Other expenses	2,366	2,671	2,748	2,936
EBIDTA	1,337	1,532	1,669	1,793
Depreciation	479	603	570	627
EBIT	859	929	1,100	1,166
Interest	72	155	97	70
Other Income	55	115	127	140
Exc. / E.O. items	0	362	0	0
EBT	841	1,251	1,129	1,236
Tax	262	305	294	346
RPAT	714	1,038	933	993
Minority Interest	0	0	0	0
Profit/Loss share of associates	134	92	97	103
APAT	714	785	933	993

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	94	93	93	93
Minority Interest	0	0	0	0
Reserves & Surplus	3,527	4,255	5,168	6,140
Net Worth	3,620	4,349	5,262	6,233
Total Debt	1,145	1,379	1,270	970
Net Deferred Tax Liability	138	121	172	172
Total Capital Employed	4,903	5,849	6,704	7,375

Applications of Funds

Net Block	5,321	5,487	6,500	7,016
CWIP	338	498	498	498
Investments	877	814	981	1,079
Current Assets, Loans & Advances	5,774	5,046	5,502	6,213
Inventories	1,688	2,041	1,989	2,188
Receivables	3,182	2,210	2,688	2,957
Cash and Bank Balances	17	22	424	666
Loans and Advances	49	64	56	57
Other Current Assets	837	706	343	343
Less: Current Liabilities & Provisions	7,408	5,996	6,777	7,431
Payables	5,364	3,801	4,194	4,613
Other Current Liabilities	2,045	2,195	2,583	2,818
Net Current Assets	(1,634)	(951)	(1,275)	(1,218)
Total Assets	4,904	5,849	6,704	7,375

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	33.9	34.5	33.0	32.9
EBIDTA Margin	8.1	8.3	8.5	8.3
EBIT Margin	5.2	5.0	5.6	5.4
Tax rate	31.1	24.4	26.0	28.0
Net Profit Margin	4.3	5.6	4.8	4.6
(B) As Percentage of Net Sales (%)				
COGS	66.1	65.5	67.0	67.1
Employee	11.5	11.8	10.5	11.0
Other	14.3	14.4	14.0	13.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.2	0.2
Interest Coverage	11.9	6.0	11.3	16.6
Inventory days	37	40	37	37
Debtors days	70	44	50	50
Average Cost of Debt	7.0	12.3	7.3	6.3
Payable days	119	75	78	78
Working Capital days	(36)	(19)	(24)	(21)
FA T/O	3.1	3.4	3.0	3.1
(D) Measures of Investment				
AEPS (₹)	76.3	84.0	99.8	106.2
CEPS (₹)	127.6	148.5	160.8	173.3
DPS (₹)	1.4	2.5	2.2	2.3
Dividend Payout (%)	1.9	2.9	2.2	2.2
BVPS (₹)	387.3	465.2	562.9	666.8
RoANW (%)	21.3	26.0	19.4	17.3
RoACE (%)	14.5	13.8	14.9	13.6
RoAIC (%)	19.2	17.3	18.2	18.0
(E) Valuation Ratios				
CMP (₹)	1393	1393	1393	1393
P/E	18.3	16.6	14.0	13.1
Mcap (₹ Mn)	13,024	13,024	13,024	13,024
MCap/ Sales	0.8	0.7	0.7	0.6
EV	14,150	14,379	13,868	13,326
EV/Sales	0.9	0.8	0.7	0.6
EV/EBITDA	10.6	9.4	8.3	7.4
P/BV	3.6	3.0	2.5	2.1
Dividend Yield (%)	0.1	0.2	0.2	0.2
(F) Growth Rate (%)				
Revenue	29.8	12.3	6.0	10.0
EBITDA	32.5	14.5	9.0	7.4
EBIT	44.2	8.2	18.4	6.1
PBT	29.8	48.7	(9.7)	9.4
APAT	31.2	10.0	18.9	6.4
EPS	31.2	10.0	18.9	6.4
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	1,401	678	1,396	1,456
CFI	(1,284)	(619)	(762)	(693)
CFF	(112)	(354)	(526)	(868)
FCFF	75	(10)	796	856
Opening Cash	7	12	22	424
Closing Cash	12	22	424	666

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP – Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager – Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com