



Disappointing Q2FY21; long term growth story remains intact...

Lumax Industries' reported dismal set of Q2FY21 numbers mainly on account of adverse model mix of the OEMs and loss reported by associate company SL Lumax following one time price reduction taken with Hyundai. The company reported sales of Rs 397 cr (down 7% YoY); EBIDTA of Rs 36.6 cr (down 14% YoY) and PAT of Rs 7.2 cr (down 64% YoY). Lumax Ind.s has high dependence on Maruti and in this quarter the volumes for Swift and De'zire models of Maruti (where Lumax Ind.s is present) were relatively tepid leading to lower sales for Lumax Ind.s. Similarly, SL Lumax had to take one time price reductions with Hyundai thereby posting a loss of Rs 1.8 cr (Lumax Ind.s share in SL Lumax loss) on consolidation against profit of Rs 3.6 cr in Q2FY20.

Lumax Ind.s has higher revenue share from the passenger cars segment, hence the recovery in the latter would help improve both revenues and profitability. The company has made a foray into agri (tractors) and CV segment (which currently contributes just 5-6% to the revenues) to diversify its revenue source. FY22 is expected to be a year for normalization (to FY19/20 levels) with growth expected in FY23 and beyond driven by fast track localization, insourcing of electronic components for LED along with rise in share of LED in the revenues- management has plan to have 50:50 share of conventional lighting: LED lighting over next couple of years (FY20 ratio of 66:34).

The automobile sector recovery is already seen in 2W, PV driven by need for personal mobility; post festive season, if the month-on-month numbers are positive, it would give a renewed confidence that the worst is behind. We expect the company to report Revenues/PAT at CAGR of 6%/6% over FY20-23E. **We retain BUY with a target price of Rs 1463 (earlier target Rs. 1557).**

Key Highlights

- Conventional lighting contributed 65% to the revenues while the LED lighting contributed to the rest of the share; Passenger cars contributed 60% to the revenues while the 2W sector contributed 35% and rest came from CV segment while the breakup of revenues between frontlight:rear light: others was more or less stable at 66:25:9.
- Contribution from Maruti dropped to 37% of the revenue share though it continues to be the lead customer followed by HMSI at 18% and Hero Moto at 13%.
- Management expects strong demand across models and robust recovery across OEMs in H2FY21 led by 2W, PVs and tractors. LED is being adopted by tractors and CV maker OEMs; all the leading CV and tractor OEMs are on-board and being the leader in LED technology, Lumax Ind.s is targeting 25% market share for LED lamps in CV/ Farm Equipments segment.

Valuation

We expect the company to improve its profitability near to FY20 levels by FY22 and as demand normalizes by FY23, the EBIDTA margins are expected to bounce back to double digits driven by increasing LED penetration and benefits of backward integration. The return ratios are expected to improve by FY23 led by improvement in net profit margins (approaching 4.5%(peak 5.6% seen in FY19)) and asset turnover crossing 2.5x (peak of 4x seen between FY15-19). We retain BUY with a target price of Rs 1463/-.

Key Financials (CONSOLIDATED)

(Rs. Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,851	1,602	1,289	1,720	1,930
EBIDTA	153	158	79	163	193
Net Profit	76	72	6	67	85
EPS (Rs)	81	77	6	72	91
PER (x)	9.9	14.3	196.4	17.1	13.5
EV/EBIDTA (x)	6.7	6.6	14.7	7.7	6.6
P/BV (x)	2.4	2.3	2.6	2.5	2.2
ROE (%)	24.8	15.8	1.3	14.2	16.6

Source: Company, Axis Research

(CMP as of Nov. 12, 2020)

CMP (Rs)	1236
Upside /(Downside (%))	18%
High/Low (Rs)	1696/702
Market cap (Cr)	1155
Avg. daily vol. (6m) Shrs.	8,267
No. of shares (Cr)	0.93

Shareholding (%)

	Mar-20	Jun-20	Sep-20
Promoter	75.0	75.0	75.0
FII/FPIs	0.7	0.7	0.6
MFs / UTI	0.9	1.0	1.0
Banks / FIs	0.0	0.0	0.0
Public	23.3	23.3	23.4

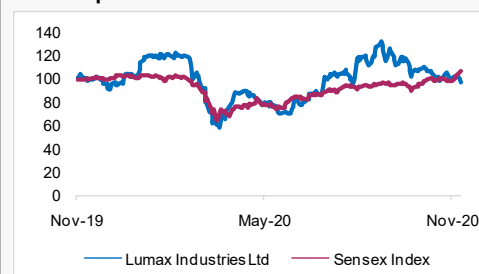
Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
Net Sales	1,289	1,720	1,930
EBIDTA	79	163	193
Net Profit	6	67	85
EPS (Rs)	6	72	91
PER (x)	196.4	17.1	13.5
EV/EBIDTA (x)	14.7	7.7	6.6
P/BV (x)	2.6	2.5	2.2
ROE (%)	1.3	14.2	16.6

Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Revenue (%)	2.3	1.9	1.9
EBITDA (%)	6.6	1.8	0.9
PAT (%)	(54.4)	(5.1)	(6.1)

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Highlights:

- Company has made an aggressive foray in agri segment, which would help diversify revenues; higher focus would be given for CV segment. Sonalika, ITL tractors would be launching their new models with LED lights from Lumax Ind.s.
- New models from M&M (Thar, Bolero), HMSI (Harness), Suzuki (Access) and Piaggio would be featuring LED lighting systems made by Lumax Ind.s.
- Product wise sales mix for Q2FY21- Front lighting 66%, rear lighting 25% and others 9% by value
- Segmentwise sales mix for Q2FY21- PV: 60%, 2W : 35% and CV: 5%
- Company has focused on localization, and insourcing of electronic components for LED; Localization would be fast tracked and can happen in next 9-12 months thereby supporting margin expansion. Company is backed by R&D from its promoter Stanley, Japan. Along with R&D, technology in designing, packaging and production of LED becomes the entry barriers in the lighting sector.
- Ample scope for growth in LED space as the penetration is around 40% in 2W, 25% in 4W and barelt 5% in CV and tractors space. Currently imports in LED lightings (in auto industry) are around 20% in 4W and 5% in 2W segment; fast track localization would help reduce the import content.
- Company is planning to foray into production of HVAC panels and electronic cabling (both of which are currently imported) systems.

Result Update (Consolidated)

(Rs Cr)

(Rs.Cr.)	Quarterly Performance				
	Q2FY21	Q2FY20	% Change (YoY)	Q1FY21	% Change (QoQ)
Sales	397	429	(7)	78	409
Other Op. Inc	0.0	0.0		0.0	
Total Revenue	397	429	(7)	78	409
Expenditure					
Net Raw Material	252	268	(6)	54	363
Personnel	50	53	(6)	36	37
Other Exp	59	66	(10)	22	166
Total Expenditure	361	386	(7)	113	220
EBIDTA	36.6	43	(14)	-35	(205)
EBIDTA Margin	9.2%	9.9%	(72)	-44.7%	5392.5
Other Income	4.6	1.2		2.9	
Interest	8.3	5.0	66	7.7	7
Depreciation	16.5	15.9	4	13.8	20
Exceptional	0.0	0.0	NA	0.0	NA
PBT	16.3	22.9	(29)	(53.5)	NA
Share of profit of Associates	(1.8)	3.6	(149)	(5.2)	(66)
Tax	7.4	6.4	15	-27.1	(127)
PAT	7.2	20.1	(64)	(31.6)	(123)
EPS (Rs.)	7.7	21.5	(64)	(33.8)	(122.9)

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,851	1,602	1,289	1,720	1,930
Other operating income	0	0	0	0	0
Total income	1,851	1,602	1,289	1,720	1,930
Cost of goods sold	1,618	1,369	1,147	1,475	1,644
Contribution (%)	12.6%	14.5%	11.0%	14.2%	14.8%
Advt/Sales/Distrn O/H	80	75	63	82	92
Operating Profit	153	158	79	163	193
Other income	12	7	14	14	10
PBIDT	165	165	93	177	203
Depreciation	60	64	64	70	75
Interest & Fin Chg.	16	22	32	33	34
E/o income / (Expense)	36	0	0	0	0
Pre-tax profit	125	80	(3)	73	94
Tax provision	30	20	(11)	18	24
(-) Minority Interests	0	0	0	0	0
Associates	9	12	(2)	12	15
Adjusted PAT	79	72	6	67	85
Reported PAT	104	72	6	67	85

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Total assets	615	818	802	816	898
Net Block	549	618	604	659	709
CWIP	50	32	13	31	31
Investments	79	123	123	123	123
Wkg. cap. (excl cash)	(65)	7	10	(4)	(0)
Cash / Bank balance	2	38	51	6	34
Misc. Assets	0	0	0	0	0
Capital employed	615	818	802	816	898
Equity capital	9	9	9	9	9
Reserves	426	437	431	462	510
Pref. Share Capital	0	0	0	0	0
Minority Interests	0	0	0	0	0
Borrowings	163	349	339	319	349
Def tax Liabilities	17	23	22	26	29

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Sources	165	(100)	47	84	157
Cash profit	143	157	102	171	194
(-) Dividends	39	29	12	37	37
Retained earnings	104	129	90	134	158
Issue of equity	0	0	0	0	0
Change in Oth. Reserves	(11)	0	0	0	0
Borrowings	36	183	(10)	(20)	30
Others	36	(411)	(33)	(30)	(31)
Applications	165	(100)	47	84	157
Capital expenditure	124	(217)	30	144	125
Investments	(8)	44	0	0	0
Net current assets	49	38	3	(14)	4
Change in cash	1	36	14	(45)	28

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Sales growth	9.4	(13.5)	(19.5)	33.5	12.2
OPM	8.3	9.8	6.1	9.5	10.0
Oper. profit growth	14.1	3.0	(50.0)	106.4	18.4
COGS / Net sales	87.4	85.5	89.0	85.8	85.2
Overheads/Net sales	4.3	4.7	4.9	4.8	4.8
Depreciation / G. block	5.7	7.7	7.3	7.0	6.7
Effective interest rate	13.0	9.6	10.2	10.9	11.1
Net wkg.cap / Net sales	(0.07)	(0.06)	(0.06)	(0.05)	(0.04)
Net sales / Gr block (x)	1.7	1.9	1.5	1.7	1.7
RoCE	23.5	19.7	5.2	18.1	18.8
Debt / equity (x)	0.32	0.72	0.71	0.62	0.62
Effective tax rate	31.1	21.6	210.5	21.5	21.7
RoE	24.8	15.8	1.3	14.2	16.6
Payout ratio (Div/NP)	37.9	39.9	207.6	54.4	42.9
EPS (Rs.)	81.1	76.9	6.3	72.1	91.4
EPS Growth	6.2	(5.2)	(91.8)	1,045.3	26.8
CEPS (Rs.)	175.5	144.9	74.7	147.4	171.6
DPS (Rs.)	35.0	23.5	10.0	30.0	30.0

Source: Company, Axis Securities

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