Near-term Headwinds Persist; Long-Term Outlook Intact

Lumax Industries (Lumax Inds) reported a weak set of results in Q3FY22 which stood below our estimates. It reported revenue for the quarter at Rs 435 Cr (our estimate – Rs 467 Cr), registering a de-growth of 4% QoQ. Q3FY22 EBITDA declined to Rs 34 Cr (our estimate – Rs 40 Cr) from Rs 37 Cr in Q2FY22 and posted an EBITDA margin of 7.9%. This was primarily led by higher than expected employee costs & other expenses resulting in a margin of 7.9% (our estimate – 8.5%). The EBITDA margins also remained impacted due to timing lag on account of recovery of a steep increase in raw material prices from the OEMs. PAT declined significantly to Rs 6.8 Cr (our estimate – Rs 19 Cr) as against Rs 15.3 Cr in Q2FY22. This was primarily on account of an exceptional item of Rs 10.4 Cr during the quarter. The company had introduced a Voluntary Separation Scheme (VSS) and recorded a provision of Rs 10.4 Cr for employees who accepted to be part of VSS as an exceptional item in the consolidated financial results.

Lumax Inds continues to command a higher revenue share (65% in Q3FY22) in the PV segment, closely linking its fortunes to the PV recovery, which is being witnessed from Q2FY22 onwards. The rise in the sales of PVs, and especially Maruti (contributed 36% in Q3FY22), would help improve both revenues and profitability of the company. The company has forayed into the Agri (tractors) and CV segment (which currently contributes just 7% of the revenues) to diversify its revenue source. FY22 is expected to be a year of normalization with growth expected to pick pace in FY23 driven by the fast-track localization, sourcing of electronic components for LED, and a rising share of LED in the revenues. We tweak our estimates lower to account for near-term headwinds which are expected to impact volumes and margins. We expect the company to report Revenues/PAT growth of ~14%/70% CAGR over FY20-24E. **We retain our BUY rating on the stock with a revised target price of Rs 1,350/share (earlier Rs 1,600/share), implying an upside of 26% from the CMP.**

Key Highlights

- **Lighting Mix:** Conventional lighting contributed 67% to the company's total revenues in 9MFY22 while LED lighting contributed to the rest. The LED lighting contribution is expected to further improve to 45-50% in the next 2 years.
- **Product and Segmental Mix:** PV contribution to the Q3FY22 revenues increased by 200bps YoY to 65% while the 2W sector contribution declined to 28% (from 31% in Q3FY21) and the rest came from the CV segment. The breakup of revenues between Front Light: Rear Light: Others stood 65:24:11 vs 66:25:9 in Q3FY21.
- **OEM Presence:** Maruti commanded a 36% share of Q3FY22 revenue, followed by HMSI at 14% and Hero Moto, M&M and Tata motors in the range of 7-9% each. The balance of 20% (i.e Rs 234 Cr) is contributed by others.
- **RM Cost Inflation & Margins:** There stands a time lag of 1-2 quarters in RM cost pass through. The company is still witnessing some RM price escalation in a few commodities which will be compensated in Q4FY22 and Q1FY23. Management has guided for margin expansion to ~10.5% levels in the near to medium term on the back of an uptick in volumes whereas the long term guidance of ~12-13% EBITDA still holds.
- **Order wins:** The company has received an LOI for the first Maker layout for the HVAC panel from one of the OEM's, the SOP of which is expected in FY24. The company has also added two new customers to its portfolio, namely Matter Motors on the EV platform (SOP is FY23) & PSA for the PV model (to be sold overseas) (SOP is FY24). This order from PSA could generate ~18K units annually. (LOI – Letter of Intent; SOP – Start of Production).

Valuation & Outlook

The expectation of an improved demand scenario from FY23E is encouraging for the company. With growth momentum improving, we believe Lumax Ind's product mix will also catch up. This should help the company increase its volumes. Although the shortage of semiconductors is a lingering concern for the overall automobile industry and may impact production to some extent in FY22, the underlying demand scenario remains healthy. The long-term outlook remains promising in the wake of varied growth levers such as the company's market leadership position, long-lasting OEM relationships, a rising share of the high-margin LED segment, localization strategy and constant innovation of new products. **Currently, the stock is trading at a P/E of 11.1x its FY24E EPS estimates. We maintain a BUY rating on the stock with a revised target price of Rs 1,350/share (Rs 1,600 earlier) valuing it at 14x of FY24E P/E, implying an upside of 26% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY21A	FY22E	FY23E	FY24E
Net Sales	1,426	1,705	1,911	2,105
EBITDA	99	120	154	181
Net Profit	18	51	72	90
EPS (Rs)	19.4	54.9	76.8	96.4
PER (x)	82.6	19.6	14.0	11.1
EV/EBITDA (x)	15.4	8.9	7.2	6.4
P/BV (x)	3.3	2.1	1.9	1.7
ROE (%)	4.0	10.5	13.9	16.0

Source: Company, Axis Research

(CMP as of Feb 14, 2022)

CMP (Rs)	1,073
Upside /(Downside (%))	26%
High/Low (Rs)	1,820/1,018
Market cap (Cr)	1,003
Avg. daily vol. (6m) Shrs.	5,703
No. of shares (Cr)	1

Shareholding (%)

	Jun-21	Sep-21	Dec-21
Promoter	75.0	75.0	75.0
FII/FPIs	0.6	0.5	0.5
MFs / UTI	1.0	0.4	0.4
Banks / FIs	-	-	-
Public	23.4	24.1	24.2

Financial & Valuations

Y/E Mar (Rs. Cr)	FY22E	FY23E	FY24E
Net Sales	1,705	1,911	2,105
EBITDA	120	154	181
Net Profit	51	72	90
EPS (Rs)	54.9	76.8	96.4
PER (x)	19.6	14.0	11.1
EV/EBITDA (x)	8.9	7.2	6.4
P/BV (x)	2.1	1.9	1.7
ROE (%)	10.5	13.9	16.0

Change in Estimates (%)

Y/E Mar	FY22E	FY23E	FY24E
Revenue (%)	0.7	(0.5)	N.A.
EBITDA (%)	(1.3)	(17.0)	N.A.
PAT (%)	8.5	(23.2)	N.A.

Axis vs Consensus

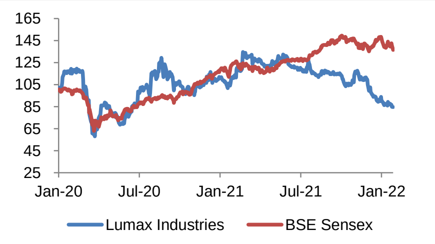
EPS Estimates	2022E	2023E	2024E
Axis	54.9	76.8	96.4
Consensus	41.6	83.4	95.1
Mean Consensus TP (12M)			**1,664**

ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021/20 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Highlights

- **Management Guidance:** 2W industry is expected to continue witnessing a muted demand however the management remains cautiously optimistic. PV industry, despite having strong demand, might see muted sales in FY22E on account of loss of volumes due to supply chain disruptions. The issue of semiconductor shortage is gradually easing. The company is witnessing some of its customers seeing the easing of semiconductor supplies and ramp-up of production. The Management expects its order book to improve going forward on the back of new product launches by the OEMs.

- **New Launches**

Category	Customer Name	Model	Product
2-Wheeler	M&M Yezdi	Roadster	Head Lamp, Tail Lamp, Front Blinker, Rear Blinker, Number Plate
		Adventure	
		Scrambler	
	TVS	Jupiter 125cc	Head Lamp

- **Capex/Production update:** The production at its plants are ramping up well. The order book also remains strong. The company incurred a Capex of Rs 23 Cr in YTDFY22 while it has earmarked Capex of Rs 125-130 Cr for FY22; This will be on account of capitalization of the new electronic facility and Sanand plant expansion (Rs 75 Cr). The company's new electronic facility at Bawal has commenced commercial production in Jan 2022 which will enable the company to enhance its localisation strategy in electronics. This facility will help in 1-1.5% margin enhancement at the EBITDA level over the next quarter. Also, the capacity expansion in Gujarat is expected to commence operations from Q4FY22. Incremental revenue of Rs 200 Cr p.a is expected post commissioning of the said plant. The Capex guidance for the next year is around Rs 100 Cr.

- **Others:** (1) Gross Debt stood at Rs ~400 Cr, out of which Rs 81 Cr is long term debt and balance around Rs 320 Cr of working capital loan. (2) Performance of SL Lumax Ltd (JV with SL Corporation): 9MFY22 Revenue – Rs 1,450 Cr, EBITDA Margin – 4.6%, PAT – 1.3%. (3) Mould Sales were impacted this year on account of ongoing headwinds and will reach Rs ~75 Crs in FY22E. The same is expected to bounce back to normal levels of Rs ~100 Cr next year onwards. (4) Exports currently form only 2% of Total Revenue (Rs 25 Cr in 1st 9 months). Share of Business on the 4W side (MSIL – 45%; M&M – 65%; Tata Motors – 30%) and 2W side (Hero – 45%; HMSI – 35%).

Result Update (Consolidated) (Rs Cr)

(Rs Cr)	Quarterly Performance				
	Q3FY22	Q2FY22	% Change (QoQ)	Q3FY21	% Change (YoY)
Sales	**435**	**453**	(4)	**446**	(2)
Expenditure					
Net Raw Material	275	291	(6)	279	(1)
Personnel	63	60	5	57	11
Other Exp	63	65	(3)	63	1
Total Expenditure	**401**	**416**	(4)	**398**	1
EBITDA	**34.3**	**37**	**(7)**	**48**	**(29)**
EBIDTA Margin	***7.9%***	***8.2%***		***10.7%***	
Other Income	3.3	4.3	(24)	1.9	74
Interest	5.1	5.7	(10)	6.8	(26)
Depreciation	15.4	16.0	(4)	17.2	(11)
Exceptional	-10.4	0.0		0.0	
PBT	**6.7**	**19.6**	(66)	**25.8**	**(74)**
Share of profit of Associates	2.9	1.8	57	9.5	(70)
Tax	2.8	6.0	(53)	15.4	(82)
PAT	**6.8**	**15.3**	(56)	**19.8**	(66)
EPS (Rs.)	7.3	**16.4**	(55.8)	21.2	(66)
Adj, EPS	18.3	**16.4**	11.7	21.2	(14)

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Net sales	**1,426**	**1,705**	**1,911**	**2,105**
Other operating income	0	0	0	0
Total income	1,426	1,705	1,911	2,105
Cost of goods sold	1,262	1,509	1,673	1,832
Contribution (%)	*11.5%*	*11.5%*	*12.5%*	*13.0%*
Advt/Sales/Distrn O/H	65	76	84	93
Operating Profit	**99**	**120**	**154**	**181**
Other income	25	14	17	18
PBIDT	**125**	**134**	**171**	**199**
Depreciation	65	63	67	69
Interest & Fin Chg.	28	22	24	26
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**32**	**49**	**80**	**103**
Tax provision	15	14	26	34
(-) Minority Interests	0	0	0	0
Associates	2	16	18	21
Adjusted PAT	**18**	**51**	**72**	**90**
Reported PAT	**18**	**51**	**72**	**90**

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Total assets	**863**	**920**	**993**	**1,084**
Net Block	627	734	818	898
CWIP	47	43	38	38
Investments	90	90	90	90
Wkg. cap. (excl cash)	96	36	26	26
Cash / Bank balance	3	16	21	32
Misc. Assets	0	0	0	0
Capital employed	**863**	**920**	**993**	**1,084**
Equity capital	9	9	9	9
Reserves	451	470	509	566
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	370	404	434	464
Def tax Liabilities	33	37	41	44

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Sources	**109**	**119**	**139**	**161**
Cash profit	111	136	163	185
(-) Dividends	8	33	33	33
Retained earnings	103	103	130	153
Issue of equity	0	0	0	0
Change in Oth. Reserves	-0	0	0	0
Borrowings	17	34	30	30
Others	-12	-18	-20	-22
Applications	**109**	**119**	**139**	**161**
Capital expenditure	60	165	145	150
Investments	2	0	0	0
Net current assets	82	-59	-10	-1
Change in cash	-35	13	5	11

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY21A	FY22E	FY23E	FY24E
Sales growth	**(11.0)**	**19.5**	**12.1**	**10.2**
OPM	**7.0**	**7.1**	**8.0**	**8.6**
Oper. profit growth	(37.1)	21.2	27.7	17.6
COGS / Net sales	88.5	88.5	87.5	87.0
Overheads/Net sales	4.6	4.4	4.4	4.4
Depreciation / G. block	5.1	4.4	4.2	4.0
Effective interest rate	8.6	6.3	6.2	6.2
Net wkg.cap / Net sales	-0.02	-0.01	-0.03	-0.03
Net sales / Gr block (x)	1.1	1.2	1.2	1.2
RoCE	**10.8**	**12.0**	**15.4**	**16.6**
Debt / equity (x)	0.73	0.78	0.78	0.75
Effective tax rate	45.1	20.9	26.9	27.4
RoE	**4.0**	**10.5**	**13.9**	**16.0**
Payout ratio (Div/NP)	42.2	64.0	45.7	36.4
EPS (Rs.)	**19.4**	**54.9**	**76.8**	**96.4**
EPS Growth	(74.8)	182.5	40.0	25.5
CEPS (Rs.)	88.4	121.9	148.1	170.7
DPS (Rs.)	7.0	30.0	30.0	30.0

Source: Company, Axis Securities

Lumax Industries Price Chart and Recommendation History

Date	Reco	TP	Research
17-Jun-21	BUY	1,741	Result Update
09-Aug-21	BUY	1,616	Result Update
16-Nov-21	BUY	1,600	Result Update
15-Feb-22	BUY	1,350	Result Update

Source: Axis Securities

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Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.

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