

Q4FY20 ahead of estimates; FY21 will be a challenge

Lumax Industries' Q4FY20 performance was ahead of estimates with revenue declining by 11% YoY to Rs391 cr v/s est. of 19% fall. This was ahead of the decline of its largest customers MSIL and HMSI. EBITDA margin came in at 9.7% in-line with our estimate and PAT was at Rs 16.4 cr, up 15% YoY on back of lower depreciation and taxes. The path ahead looks very challenging with April and May a near washout. Management remains cautiously optimistic about the second half of FY21 with presence in popular models across PV and 2W segment

Key Result Highlights

Revenue: Q4FY20 revenue de grew by 11% YoY and was flat QoQ. The result was ahead of our estimates mainly because of better performance of the model it serves even as MSIL and HMSI (its two largest customers) fell much sharply. FY20 revenue declined by 13% YoY to come at Rs 1602 cr. Volume decline for Lumax was at 18% YoY.

Margins: Gross margin for Q4FY20 was up 200 bps on lower commodity costs and localization of electronic components and the GM benefit trickled down to EBITDA margin which came in at 9.7% up 70 bps on a YoY basis (but down ~175 bps QoQ). For the full year margins stood at 10.3% up 150 bps on a YoY basis and margin profile should remain above 10% in FY21, given the structural benefits of localization.

PAT: Consolidated PAT in Q4FY20 was at Rs 16.4 cr (up15% YoY, down 13% QoQ) on account of lower depreciation cost and lower tax. For the full year PAT was down 5% on a YoY basis.

Key Con Call Highlights

Production and ground situation: Management said that all plants are now functioning at near normal capacity and supply chain has been re-established smoothly.

Demand: Management refrained from giving any guidance of demand outlook and are unprecedented and their focus will remain on conserving cash and cutting costs. remains very promising with MSIL and Heromoto Corp as their largest customers at segment will weigh favorably for Lumax.

Outlook And Valuation

The challenges of FY21 will be unprecedented, having said that, Lumax Industries is a good play on PV and 2W segments and is present in most models that are doing well. Being a market leader in the lighting segment we believe it will be able to withstand and outperform peers. We tweak revenue for FY21 and FY22 upwards by 9%/2% and upgrade the stock from SELL to HOLD valuing it at 16X FY22E EPS estimate of Rs63.6 to come at a TP of Rs 1018.

Key Financials (Consolidated)

| Y/E March (Rs. cr) | FY19 | FY20 | FY21E | FY22E |
|-------------------------|------|------|-------|-------|
| Net Sales | 1863 | 1609 | 1427 | 1660 |
| EBIDTA | 165 | 165 | 142 | 182 |
| EBITDA Margin | 9% | 10% | 10% | 11% |
| Net Profit | 76 | 72 | 49 | 59 |
| EPS (Rs) | 81 | 77 | 52 | 64 |
| PER (x) | 10 | 14 | 21 | 17 |
| EV/EBIDTA (x) | 6 | 6 | 7 | 6 |
| P/BV (x) | 2 | 2 | 2 | 2 |
| Debt/Equity (x) | 0 | 1 | 1 | 1 |
| Interest Coverage ratio | 11 | 8 | 4 | 6 |
| ROE (%) | 25 | 15 | 10 | 11 |

Source: Company, Axis Research

(CMP as of June 25, 2020)

| | |
|----------------------------|----------|
| CMP (Rs) | 1100 |
| Upside /Downside (%) | -7% |
| High/Low (Rs) | 1200/475 |
| Market cap (Cr) | 1043 |
| Avg. daily vol. (6m) Shrs. | 3761 |
| No. of shares (Cr) | 0.93 |

Shareholding (%)

| | Mar-20 | Dec-19 | Sep-19 |
|-------------|--------|--------|--------|
| Promoter | 75 | 75 | 75 |
| FIs | 0.73 | 0.72 | 0.63 |
| MFs / UTI | 0.91 | 0.87 | 0.97 |
| Banks / FIs | 0.02 | 0.03 | 0.03 |
| Others | 23.34 | 23.38 | 23.37 |

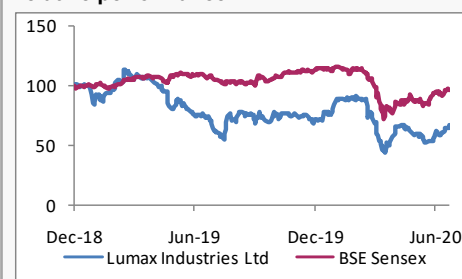
Financial & Valuations

| Y/E Mar (Rs. Cr) | 2020E | 2021E | 2022E |
|------------------|-------|-------|-------|
| Net Sales | 1,609 | 1,427 | 1,660 |
| EBITDA | 165 | 142 | 182 |
| EPS (Rs.) | 77 | 52 | 64 |
| RoE (%) | 15.3 | 9.8 | 11.5 |
| D/E | 0.6 | 0.7 | 0.8 |
| PER (x) | 14.3 | 21.1 | 17.3 |
| P/BV | 2.17 | 2.11 | 2.00 |
| EV/EBITDA | 5.9 | 7.0 | 5.5 |

Axis vs Consensus

| EPS Estimates | 2021E | 2022E |
|--------------------------------|-------|-------------|
| Axis | 52 | 64 |
| Consensus | 47.6 | 71.3 |
| Mean Consensus TP (12M) | | 1332 |

Relative performance



Source: Capitaline, Axis Securities

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Other Key Concall Takeaways

1) Demand Outlook:

- ✓ Management refrained from giving any guidance of demand outlook and said that the challenges are unprecedented and their focus will remain on conserving cash and cutting costs.
- ✓ The customer portfolio remains very promising with MSIL and Heromoto Corp as their largest customers and any recovery in the segment will weigh favorably for Lumax.
- ✓ Management said that in the last 3 months, OEM's with large rural reach, with financing reach and with large presence in entry level cars and 2W are doing well

2) Segment wise performance: For the quarter the segmental breakup of revenue remained flat YoY with PV:2W:CV contribution 67%/28%/5% in Q4FY20 and for the full year segmental breakup was 66%/29%/5% in FY20 v/s 67%/27%/6% in FY19, a shift towards 2W segment. The top two customers MSIL and HMSI contributed 53% to revenue in FY20 v/s 50% in FY19.

3) Production: Management said that all plants are now functioning at near normal capacity and supply chain have been re-established smoothly.

4) New Launches: They have had a number of new launches in BSVI vehicles for both PV and 2W, namely, Honda: WRV, M&M: Bolero, Passion Pro, Super Splendor, Glamour 125 and Xtreme of HeroMoto Corp, Jawa of M&M and Unicorn from HMSI.

5) LEDification: LED to Conventional lighting in FY20 stood at 34%/66% v/s 33%/67% in FY19. Management maintained that the trend of LED in lighting is not changed despite a major slowdown as the appeal for LED lights from a consumer perspective outweighs the cost considerations

6) Capex: Capex for FY21 will be Rs 40 cr of cash outflow and Rs 75 cr of capitalized capex on localization initiatives. Focus will remain on conserving cash and localization initiatives will be shifted to H2FY21 and a call to go ahead with localization investments will be taken then.

7) On China: Management noted that a big positive that has come out from the COVID situation is that global manufacturers are looking for alternate players in other countries and Lumax being a large player will stand to benefit from this trend. Moreover on the raw material procurement side, Lumax has alternate vendors for all parts that come from China

8) Liquidity and leverage: Liquidity is not a problem as they have Rs 150 cr of un-utilized limits and have a good ability to raise debt if need be. However, their focus will remain on conserving cash.

9) SL Lumax: SL Lumax has outperformed in FY20 on back of strong performance of Hyundai and Kia Motors and management expects it to continue to do well in FY21 also.

10) On partnership with Stanley: Lumax is exploring the possibility of selling HVAC panels to Indian OEMs and thereby expand the relationship with Stanley from lighting to more electronic components. Also, there are discussions going on with Stanley to use Lumax as an exporting hub for Stanley products

Quarterly Performance (Consolidated)

| (Rs.Cr.) | Quarterly Performance | | | | |
|-----------------------------------|-----------------------|-------------|----------------|--------------|----------------|
| | Q4FY20 | Q4FY19 | % Change (YoY) | Q3FY20 | % Change (QoQ) |
| Sales | 387 | 433 | (10) | 383 | 1 |
| Other Op. Inc | 4.1 | 8.8 | (53) | 1.0 | 312 |
| Total Revenue | 391 | 441 | (11) | 384 | 2 |
| Expenditure | | | | | |
| Net Raw Material | 240 | 278 | (14) | 228 | 5 |
| Personnel | 50 | 53 | (7) | 54 | (7) |
| Purchase of traded goods | 0 | 5 | (100) | 0 | (100) |
| Other Exp | 64 | 65 | (1) | 58 | 11 |
| Total Expenditure | 354 | 402 | (12) | 340 | 4 |
| EBIDTA | 38 | 39 | (4) | 44 | (15) |
| EBIDTA Margin | 9.7% | 9.1% | 62 | 11.5% | (177.7) |
| Interest | 6.3 | 4.6 | 37 | 6.0 | 5 |
| Depreciation | 16.3 | 19.0 | (14) | 16.1 | 1 |
| Exceptional | 0.0 | 0.0 | NA | 0.0 | NA |
| PBT | 15.1 | 15.9 | (5) | 22.1 | |
| Share of profit of Associates | 2.3 | 2.5 | (11) | 3.1 | (28) |
| Tax | 1.0 | 4.2 | (76) | 6.3 | (84) |
| PAT | 16.4 | 14.3 | 15 | 18.9 | (13) |
| Other comprehensive income | 1.2 | (0.1) | NA | (0.6) | NA |
| Total Comprehensive Income | 17.6 | 14.2 | 24 | 18.3 | (4) |
| EPS (Rs.) | 17.5 | 15.2 | 15 | 20.2 | (13.5) |

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

| Y/E March | FY19 | FY20E | FY21E | FY22E |
|-------------------------|--------------|--------------|--------------|--------------|
| Net sales | 1,851 | 1,602 | 1,424 | 1,657 |
| Other operating income | 12 | 7 | 3 | 3 |
| Total income | 1,863 | 1,609 | 1,427 | 1,660 |
| Cost of goods sold | 1,618 | 1,369 | 1,225 | 1,407 |
| Contribution (%) | 12.6% | 14.5% | 14.0% | 15.1% |
| Advt/Sales/Distrn O/H | 80 | 75 | 60 | 71 |
| Operating Profit | 165 | 165 | 142 | 182 |
| Other income | 0 | 0 | 0 | 0 |
| PBIDT | 165 | 165 | 142 | 182 |
| Depreciation | 60 | 64 | 67 | 66 |
| Interest & Fin Chg. | 16 | 22 | 33 | 32 |
| E/o income / (Expense) | 0 | 0 | 0 | 0 |
| Pre-tax profit | 89 | 80 | 42 | 84 |
| Tax provision | 30 | 20 | 12 | 24 |
| (-) Minority Interests | 0 | 0 | 0 | 0 |
| Associates | 9 | 12 | 18 | 0 |
| Adjusted PAT | 68 | 72 | 49 | 59 |
| Reported PAT | 68 | 72 | 49 | 59 |

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

| Y/E March | FY19 | FY20E | FY21E | FY22E |
|-------------------------|------------|------------|------------|------------|
| Total assets | 615 | 791 | 869 | 978 |
| Net Block | 549 | 586 | 644 | 703 |
| CWIP | 50 | 100 | 125 | 125 |
| Investments | 79 | 79 | 79 | 79 |
| Wkg. cap. (excl cash) | (65) | (83) | (88) | (83) |
| Cash / Bank balance | 2 | 109 | 109 | 153 |
| Misc. Assets | 0 | 0 | 0 | 0 |
| Capital employed | 615 | 791 | 869 | 978 |
| Equity capital | 9 | 9 | 9 | 9 |
| Reserves | 426 | 464 | 479 | 504 |
| Pref. Share Capital | 0 | 0 | 0 | 0 |
| Minority Interests | 0 | 0 | 0 | 0 |
| Borrowings | 163 | 288 | 348 | 428 |
| Def tax Liabilities | 17 | 30 | 33 | 36 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March | FY19 | FY20E | FY21E | FY22E |
|-------------------------|------------|------------|------------|------------|
| Sources | 120 | 239 | 145 | 174 |
| Cash profit | 143 | 157 | 148 | 157 |
| (-) Dividends | 39 | 34 | 34 | 34 |
| Retained earnings | 104 | 124 | 115 | 124 |
| Issue of equity | 0 | 0 | 0 | 0 |
| Change in Oth. Reserves | (1) | 0 | 0 | 0 |
| Borrowings | 36 | 125 | 60 | 80 |
| Others | (20) | (9) | (30) | (29) |
| Applications | 120 | 239 | 145 | 174 |
| Capital expenditure | 124 | 150 | 150 | 125 |
| Investments | (8) | 0 | 0 | 0 |
| Net current assets | 49 | (18) | (5) | 5 |
| Change in cash | (45) | 107 | 0 | 44 |

Source: Company, Axis Securities

Ratio Analysis

(%)

| Y/E March | FY19 | FY20E | FY21E | FY22E |
|--------------------------|-------------|---------------|---------------|-------------|
| Sales growth | 9.4 | (13.5) | (11.1) | 16.3 |
| OPM | 8.8 | 10.3 | 10.0 | 10.9 |
| Oper. profit growth | 17.8 | 0.2 | (13.9) | 27.8 |
| COGS / Net sales | 87.4 | 85.5 | 86.0 | 84.9 |
| Overheads/Net sales | 4.3 | 4.7 | 4.2 | 4.3 |
| Depreciation / G. block | 5.7 | 5.5 | 5.2 | 4.6 |
| Effective interest rate | 13.0 | 10.9 | 11.2 | 8.9 |
| Net wkg.cap / Net sales | (0.07) | (0.08) | (0.09) | (0.08) |
| Net sales / Gr block (x) | 1.7 | 1.4 | 1.1 | 1.2 |
| RoCE | 23.5 | 19.0 | 12.4 | 17.4 |
| Debt / equity (x) | 0.32 | 0.56 | 0.66 | 0.78 |
| Effective tax rate | 31.1 | 21.6 | 20.2 | 29.0 |
| RoE | 24.8 | 15.3 | 9.8 | 11.5 |
| Payout ratio (Div/NP) | 37.9 | 46.9 | 69.4 | 56.8 |
| EPS (Rs.) | 81.1 | 76.9 | 52.0 | 63.6 |
| EPS Growth | 6.2 | (5.2) | (32.4) | 22.3 |
| CEPS (Rs.) | 175.5 | 144.9 | 123.5 | 133.8 |
| DPS (Rs.) | 35.0 | 30.0 | 30.0 | 30.0 |

Source: Company, Axis Securities

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