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Initiating Coverage Lumax Industries Ltd.

12-April-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto-Ancillary	Rs 1570	Buy at LTP and add on dips to Rs 1418	Rs 1708	Rs 1855	2 quarters

HDFC Scrip Code	LUMINDEQNR
BSE Code	517206
NSE Code	LUMAXIND
Bloomberg	LUMX:IN
CMP Apr 12, 2021	1570
Equity Capital (Rs cr)	9.3
Face Value (Rs)	10
Equity Share O/S (cr)	0.93
Market Cap (Rs cr)	1477
Book Value (Rs)	478
Avg. 52 Wk Volumes	19602
52 Week High	1783
52 Week Low	856

Share holding Pattern % (Dec, 2020)	
Promoters	75
Institutions	3.6
Non Institutions	21.4
Total	100.0

Fundamental Research Analyst

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Our Take:

Lumax Industries has been consistently evolving in its product innovation with its in-house design and development capabilities by introducing new generation LED products. Lumax Industries enjoys ~50% market share in domestic automobile lighting business. The company has gained access to new platforms of clients, thus enabling it to retain its market share. Company has a very strong partnership for almost 38 years with Stanley Electric. Both Stanley, Japan and Jain family has 37.5% stake each in the company. It supports completely on the technology transfer as well as the global relationships which they enjoy with customers. Stanley is in the top 2 lighting players in Japan and in the top 5 in the world. Company has been a preferred supplier for many key models of the OEMs.

The company is fairly insulated from any electric vehicle (EV) disruption as it has no exposure to engine and related parts in its product portfolio. Lumax is expected to be a major beneficiary due to its robust presence in automotive lighting with a strong clientele base. Company spends 2-3% of its revenue in R&D, which is likely to continue given need of continuous innovation in the business. In 2W segment, Honda Motorcycle (HMSI) and Hero Moto (HML) are top clients while in PV segment, Maruti Suzuki (MSIL), Honda Cars, M&M and Tata Motors are key clients for the company.

It derives ~75% of revenue from top-6 clients. Its 63% revenue comes from PV followed by 31% from 2-wheelers and 6% from CVs. OEM-wise MSIL is its largest client contributing 36% of revenues followed by HMSI (14%), HML (11%), M&M (9%), Tata Motors (8%) and others (22%). It has incurred capex of about Rs 250cr in the past two years towards setting-up a manufacturing facility for electronic components and maintenance of existing units, besides expansion for select OEMs.

The collaboration with Stanley Electric, Japan, has helped the company progress very well. Further, the strong partnership with SL Corporation, Korea, specifically for Korean OEMs in India, has given Lumax a strong competitive advantage. The other key players in the industry are Minda Industries, Fiem Industries, SL Lumax and Lumax Auto Technologies etc. Company is also expanding its product line to include Heating, Ventilation and Air Conditioning (HVAC) panels and electronic cables in collaboration with SECL, which would aid in diversification of product portfolio over the medium term.

View & Valuation:

Lumax Industries has registered 7% CAGR in revenue led by strong volume growth over FY15-20. EBITDA has grown at 22% CAGR on the back of better product mix (higher LED business) and cost control measures. Healthy topline and strong margin resulted into 34% CAGR in net profit over the same period. Company has been able to reduce the rejection rates from 5-6% in FY14 to 1.5% in FY20 and it further plans to reduce to less than 1% in the next couple of years.

Overall performance of the auto industry was strong during first half of FY19 and thereafter it started deteriorating on account of a series of factors like revised axle load norms, liquidity issues and general economic slowdown and Covid-19. During the last 4-5 years, the company has significantly focused on cost reduction and process improvement initiatives.

We estimate EBITDA margins to improve by 290bps over FY21-23E on better product mix and cost optimization initiatives. We expect topline to register 6% CAGR during FY20-23E. LED constituted around 34% of the company's overall business in 9MFY21. We expect LED lighting contribution in the company's revenue mix will be ~40% in the medium to long term. Healthy revenue coupled with margin expansion would lead to 8% CAGR in net profit over the same period. At CMP, Lumax trades at 16.1x FY23E EPS. We feel that investors' can buy the stock at LTP of Rs 1570 add more on dips to Rs 1418 for base case fair value of Rs 1708 (17.5x FY23E EPS) and bull case fair value of Rs 1855 (19x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	446	383	16.4	397.3	12.3	1,852	1,602	1,381	1,682	1,909
EBITDA	48	43	11.4	37	30.9	153	158	101	161	194
Depreciation	17	16	6.8	16.5	4.2	60	64	65	69	77
Other Income	2	1	90.0	4.5	-57.8	12	7	10	9	12
Interest Cost	7	6	15.0	8.3	-16.9	16	22	29	25	19
Tax	16	6	146	7.4	109.5	31	20	9	24	32
RPAT	20	19	4.8	7.3	175	104	72	15	64	91
EPS (Rs)						111.2	77.1	16.2	68.8	97.7
RoE (%)						26.1	16.3	3.4	14.0	17.8
P/E (x)						14.1	20.4	96.7	22.8	16.1
EV/EBITDA (x)						11.1	10.8	16.9	10.6	8.8

(Source: Company, HDFC sec)



Q3 FY21 result highlights

Lumax Industries' reported healthy set of numbers for the quarter mainly on account of favourable product mix and profit by associate company SL Lumax. Company reported 16% yoy growth in sales at Rs 446cr. PAT for the quarter grew 5% yoy at Rs 19.8cr driven by strong performance by the subsidiary SL Lumax where Lumax's share of profit was at Rs 9.5cr in the quarter (vs. Rs 3.1cr in Q3FY20).

Company aggressively controlled employee and other expenses. Despite 270bps contraction in gross margin, the company was able to control decline in EBITDA to a significant extent. Moreover, demand scenario is expected to further improve in Q4FY21 and FY22, and LED penetration should also increase. Thus, we expect the company to register strong growth in revenue and profitability.

FY22 is expected to be a better year for normalization (compared to FY19/20 levels) with growth expected to gain pace by 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 reach 50:50 share of conventional lighting: LED lighting over next couple of years (9MFY21 ratio of 67:33).

Conventional lighting contributed 67% to the revenues while the LED lighting contributed to the rest in 9MFY21 while the ratio for Q3FY21 was 70:30 on account of relatively tepid response to the models featuring LED lighting; Management is confident of increasing shift towards LED and reaching the target of 50:50 ratio over long term.

Passenger cars contributed 63% to the revenues in Q3FY21 while the 2W sector contributed 31% and rest came from CV segment while the breakup of revenues between front light: rear light: others was almost stable at 66:25:9. Contribution from Maruti was at 36% of revenue though it continues to be the lead customer followed by HMSI at 14% and Hero Moto at 11% in Q3FY21.

Company expects strong demand across models and robust recovery across OEMs in FY22 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, the company is targeting 25% market share for LED lamps in CV/ Farm Equipment segment. Management guided that HVAC panel business would start from H2FY22.

Sharp spike in raw material prices is a concern. However, the company has commodity price pass-through agreements with customers, which would be realized from Q4FY21. Management aims to maintain EBITDA margins in double digits over the next few quarters.



Recently, the company has announced capex of Rs 80cr for setting up a new manufacturing unit at Sanand, Gujarat to fulfil the orders received from MG Motors and other clients. It will be funded by mix of debt and internal accruals and peak revenue expected would be ~Rs 150cr post commissioning. Management also said that the company will spend money for core capacity debottlenecking in FY22. As on Dec-2020, net debt stood at Rs 290cr, which comprised of short-term working capital loans (Rs 280cr) and term loans (Rs 10cr).

Strong positioning in the domestic lighting industry

Lumax Industries is a leading supplier of automotive lighting solutions in the domestic market with its product portfolio of automotive lighting systems such as head lamps (65-70% of revenues), tail lamps (~25%), sundry and auxiliary lamps. It is the leading supplier of lighting solutions for the PV segment and the third largest in the 2W segment after FIEM Industries and Minda Industries.

It has been consistently evolving in its product innovation with its in-house design and development capabilities by introducing new generation LED products, like LED tail lamps, LED headlamps etc. Company has gained access to new platforms of clients, thus enabling it to retain its market share. Lumax is present across all key domestic OEMs such as Maruti Suzuki, Honda Cars, HMSI, Hero MotoCorp, Tata Motors, M&M etc. Its product portfolio includes Front, Rear lighting and Moulds. Over the years, it has been able to enhance its presence in all the leading OEMs across vehicle segments, driven by consistency in the product quality and ability to scale up its product technology. Company has registered 7% revenue CAGR over FY15-20 with a strong and emerging customer base in two-wheeler, Passenger vehicle, and Commercial vehicle.

Advantage of LED lamps

LED Lamps are easy to install, carry low maintenance requirements, are energy efficient, have higher visibility and are Fuel Efficient. With minimum tools and simple instructions, you can install the LED headlights in your car. These lights emit much less heat and come in a solid state and last long with the same capability as halogen or xnon lights. LED lights provide you a brighter and purer quality lighting but they are very much energy efficient and draw a little energy from your car. The high lumen output of the LED lights provides a much longer range of visibility and thereby improves the safety level for a driver too.

Access to technology from key shareholder, Stanley Electric

Stanley Electric Corporation (SECL) is one of the leading suppliers of automotive lighting solutions, globally and it developed the first LED high mount stop lamp for the automotive sector. Strong technical support from its collaborator helps the company in evolving trends in



the lighting industry, such as LED. Lumax is also expanding its product line which include HVAC panels and electronic cables in collaboration with SECL. Company will be putting in investments in HVAC panels to ensure that they are able to localize the product line. The product will be localized and manufactured at the newly set up electronic facility at Bawal, Haryana. The production line is expected to start from H2FY22. Thus, the addition of PCB verticals and localization of HVAC panels will aid to company's operating margins by reducing their inherent cost respectively.

In FY19, Lumax Industries acquired the plant and machinery of Lumax Auto technologies for Printed Circuit Board (PCB) a core component of an automotive lighting system. Going ahead, the joint venture with Stanley Electric will help to enhance their PCB segment along with an extension of the product line to electronic parts and components. With a good market opportunity over the next three to five years, especially given the thrust of government Atma Nirbhar Bharat, local manufacturers would be beneficiary.

Backward integration helped in margin expansion

Over the past few years, company's operating profit margins have been consistently improving aided by cost rationalisation measures such as localisation of certain parts, improvement in capacity utilisation and increasing share of LED lamps in the overall revenues of the company. In FY20, Operating margin further improved to 10.4% (from 8.7% in FY19) primarily aided by the in-house manufacturing of PCBs. Earlier, the PCB manufacturing process was undertaken by its group company, Lumax Auto Technologies Limited (LATL). However, Lumax Industries had bought the assets of the PCB manufacturing unit from LATL for a consideration of Rs 22.5 crore during Q1FY20. The PCB division had PBT margins of 10-12%, and the company's expenses declined significantly by acquiring this division, while its overall EBITDA margins improved by more than 100bps in FY20.

Increasing penetration of LED segment to augur well for long term

Usage of LED in automotive lighting has seen significant rise for the last few years. Better visibility, superior design, and higher energy efficiency have been key drivers for it. Sighting a structural demand shift in the industry, the company has started focusing on expanding its LED offerings in the last 2 years. Further new emission norms i.e. Bharat Stage (BS) VI which aims to substantially reduce emission from current levels, will lead OEMs to architect almost all their current models in order to comply with new norms. This will thereby boost the usage of energy-efficient technologies across different components and LED will likely be the one that will replace conventional halogen or xenon lighting systems. During the last three fiscals, the share of LED business in overall revenue has increased to 34% from almost nil in FY15. Increased usage of LED in compact and midsize cars in the domestic market during the last one year is leading to a sharp spurt in the demand for LED lightings which previously were used only in premium and luxury cars.



Auto components market outlook

Domestic auto-components industry is driven by strategic technological alliance and in-house R&D setup of the industry players. The automobile demand has led to advancement and introduction of innovative solutions enabling industry to grow at strong pace. The industry contributes ~3% to the total GDP. However, export opportunities, competencies and policy support is expected to be in India's favour in the medium to long term.

Indian automotive consumer has developed a taste for best in-class features and lighting is one of them. The aesthetic look and rising safety measures play a vital role in driving the Indian automotive lighting industry. This is further enabling the automobile manufacturers to adapt strategies by introducing new lighting system, other drivers and pedestrian communication. Rising eco-consciousness is leading the lighting market to shift from traditional to LED lighting, owing to efficiency.

The vehicle consists of different lights to increase the visibility in darkness and bad weather conditions along with the increase in complicity. The lighting system comprises lighting and signaling devices, which are placed at different locations such as front, rear, side, and interiors. Lighting provides illumination for the driver and helps other vehicle drivers and pedestrians on the road to detect the vehicle's position, direction of movement, and size.

Company Background

Lumax Industries is one of the leading players in the domestic automotive lighting industry. Company provides premium quality automotive lighting solutions for Four-Wheelers (4Ws), Two-Wheelers (2Ws), Commercial Vehicles (CVs) and Tractor/Farm Equipment Segment (FES) product portfolio of automotive lighting systems, such as head lamps, tail lamps, sundry and auxiliary lamps. However, sales of the PV segment remain dominant with ~66% contribution in FY20. The company is one of the leading suppliers of automotive lightings to MSIL and enjoys a strong share of business with OEMs such as HMSI and HMCL. At present, it has 10 manufacturing units spread across Haryana, Uttarakhand, Maharashtra, Karnataka and Gujarat. It has continuously increased revenue share from LED lightings in the last five years.

Company was founded as a trading company in 1945 under Late S.C. Jain. In 1955, the company set up an automotive lighting equipment manufacturing unit that later diversified into manufacturing automotive filters and rear-view mirrors. Company went public in 1984 and entered into a technical collaboration with Stanley Electric Co. Ltd., Japan (SECL), that same year. The SECL Group and the Indian



promoters (D. K. Jain and family) each hold 37.5% equity stake in the company. Through other entities, the Group is present in other automotive segments such as gear shifters, moulded parts and sensors. Lumax Industries & Lumax Auto Technologies along with its subsidiaries, JVs & Associates have 33 manufacturing plants with three R&D centers in India.

Key Risks

Dependent on OEMs

The e-mobility push, BS-VI norms compliance, rising input and insurance costs are together pushing the overall vehicle price. As a result, consumers may defer or postpone their purchase for a particular time. Auto industries spending is discretionary which makes it cyclical in nature. Consumer might postpone their purchase of vehicle. Company's sales are highly dependent on sales by OEMs. Therefore, any slowdown can dampen their revenue growth.

Higher dependency on few clients

Major part of revenue comes from few OEMs. Company stands vulnerable to different risks associated with OEMs, such as: losing out a major customer, significant decrease in order volumes, decreased sales volume of the overly exposed vehicle models. This could impact operational and financial performance.

Heightened Competition

Strong long-term industry outlook has led new players entering the market, resulting in an intense competition. In case, the company doesn't focus on its R&D and deliver at reasonable price according to demand, then this could impact its performance.

Higher dependence on imported raw materials

It imports certain parts of its raw material from overseas, which exposes the company to foreign currency risk. Also, its dependence on third party suppliers can result in late delivery or failure from their end which could impact production schedule.

Shortage of semi-conductors is a growing concern for the automobile industry, which may also impact production to some extent in Q4FY21 and Q1FY22.



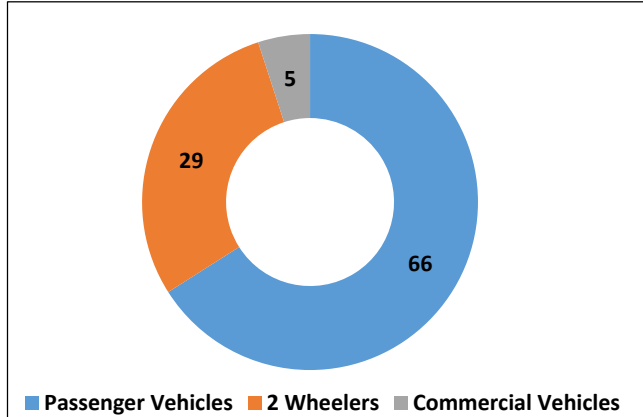
Peer Comparison

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Lumax Industries	1477	1602	1381	1682	1909	9.8	7.3	9.6	10.2	72	15	64	91	16.3	3.4	14.0	17.8
Fiem Industries	757	1379	1293	1566	1707	11.4	9.7	11.2	12.0	75	59	96	111	14.8	8.4	14.9	16.0
Lumax Auto Tech	1154	1141	1061	1301	1484	8.0	8.2	8.8	9.1	58	44	63	74	12.2	9.6	12.7	13.6
Sandhar Technologies	1285	1943	1638	1968	2235	9.6	9.5	10.7	11.1	57	29	73	102	8.2	4	9.2	11.5

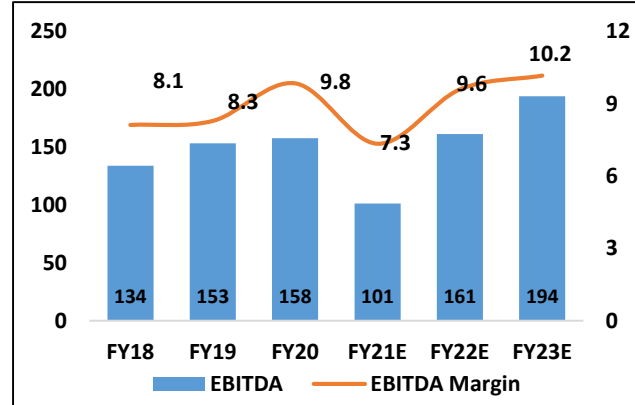
Company	EV/EBITDA				P/E			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Lumax Industries	10.8	16.9	10.6	8.8	20.4	96.7	22.8	16.1
Fiem Industries	5.0	5.5	4.1	3.4	9.8	12.4	7.6	6.7
Lumax Auto Tech	12.0	12.9	9.7	8.3	19.2	25.3	17.7	15.1
Sandhar Technologies	8.8	10.0	7.4	6.3	21.7	42.6	16.9	12.1

Source: HDFC sec Research, Bloomberg

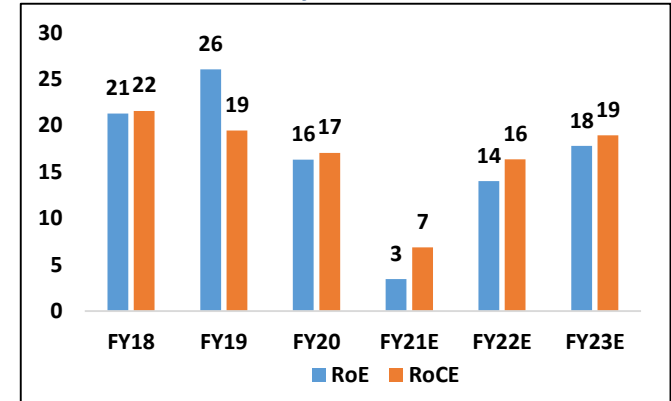
Revenue Mix (%)



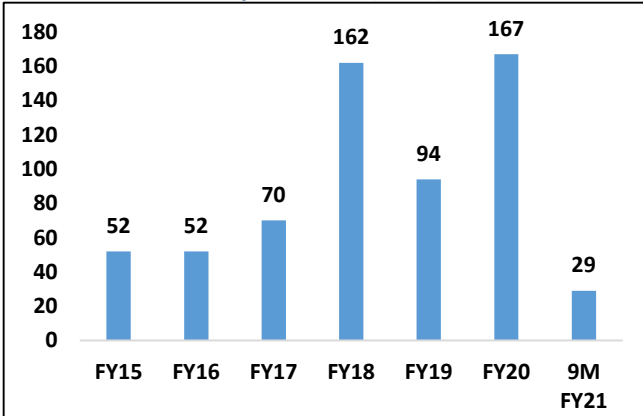
EBITDA and Margin Trend



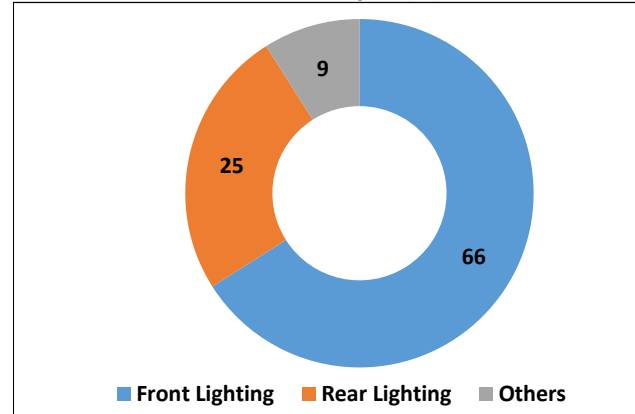
Healthy Return Ratio



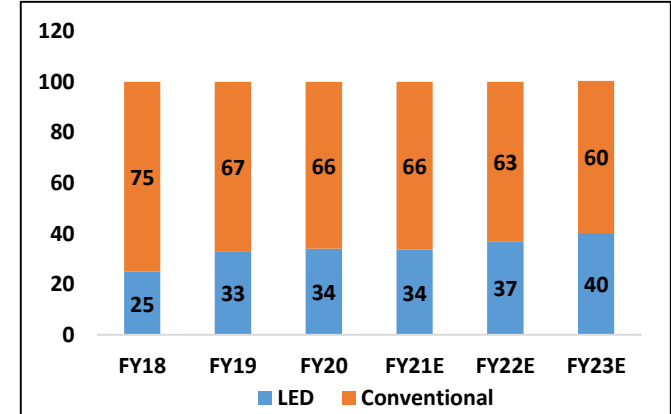
Capex Trend (Rs cr)



Revenue Split (%)



LED share to rise over FY20-23E (%)



Source: Company, HDFC sec Research

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Total Income	1852	1602	1381	1682	1909
Growth (%)	12.3	-13.5	-13.8	21.8	13.5
Operating Expenses	1698	1444	1279	1520	1714
EBITDA	153	158	101	161	194
Growth (%)	14.6	2.8	-35.8	59.3	20.3
EBITDA Margin (%)	8.3	9.8	7.3	9.6	10.2
Depreciation	60	64	65	69	77
EBIT	93	94	36	92	117
Other Income	12	7	10	9	12
Interest expenses	16	22	29	25	19
Exceptional Items	-	12	7	-	-
PBT	134	92	24	88	123
Tax	31	20	9	24	32
RPAT	104	72	15	64	91
Growth (%)	45.3	-30.7	-78.9	323.8	42
EPS	111.2	77.1	16.2	68.8	97.7

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	9.3	9.3	9.3	9.3	9.3
Reserves	426	437	427	472	535
Shareholders' Funds	435	446	436	481	544
Long Term Debt	1	54	35	25	15
Net Deferred Taxes	17	23	23	20	18
Long Term Provisions & Others	25	28	32	35	40
Total Source of Funds	477	552	527	562	617
APPLICATION OF FUNDS					
Net Block	593	669	650	675	663
Intangible Assets	6	16	16	16	16
Deferred Tax Assets (net)	5	8	8	8	8
Non-Current Investments	121	163	176	184	197
Total Non-Current Assets	725	854	849	882	884
Inventories	204	179	159	190	226
Trade Receivables	221	173	155	184	222
Cash & Equivalents	2	38	26	23	31
Other Current Assets	38	38	39	38	41
Total Current Assets	464	429	381	438	522
Short-Term Borrowings	137	266	253	239	207
Trade Payables	380	315	283	335	378
Other Current Liabilities	182	143	159	175	194
Short-Term Provisions	12	7	8	9	10
Total Current Liabilities	711	731	703	758	789
Net Current Assets	-247	-302	-322	-320	-267
Total Application of Funds	477	552	527	562	617

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	134	92	24	88	123
Non-operating & EO items	-49	-7	-10	-9	-12
Interest Expenses	16	22	29	25	19
Depreciation	60	64	65	69	77
Working Capital Change	-27	-47	9	-4	-46
Tax Paid	-31	-20	-9	-24	-32
OPERATING CASH FLOW (a)	104	103	108	145	129
Capex	-112	-166	-48	-95	-65
Free Cash Flow	52	104	60	50	64
Investments	-35	-4	-13	-8	-13
Non-operating income	49	7	10	9	12
INVESTING CASH FLOW (b)	-98	-164	-51	-94	-66
Debt Issuance / (Repaid)	36	178	-15	-10	-7
Interest Expenses	-16	-22	-29	-25	-19
FCFE	44	144	16	15	38
Share Capital Issuance	0	0	0	0	0
Dividend	-26	-59	-25	-19	-28
FINANCING CASH FLOW (c)	-6	97	-69	-54	-55
NET CASH FLOW (a+b+c)	0	36	-12	-3	8

Source: Company, HDFC sec Research

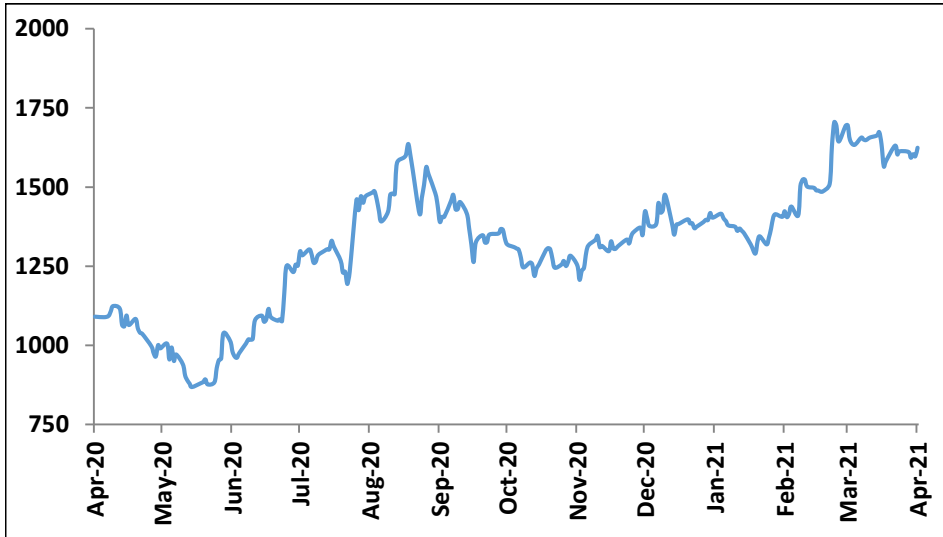
Key Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)					
EBITDA Margin	8.3	9.8	7.3	9.6	10.2
EBIT Margin	5	5.9	2.6	5.5	6.1
APAT Margin	5.6	4.5	1.1	3.8	4.8
RoE	26.1	16.3	3.4	14	17.8
RoCE	19.5	17.1	6.9	16.4	19
Solvency Ratio					
Net Debt/EBITDA (x)	0.9	1.8	2.6	1.5	1
D/E	0.3	0.7	0.7	0.5	0.4
Net D/E	0.3	0.6	0.6	0.5	0.4
Per Share Data					
EPS	111.2	77.1	16.2	68.8	97.7
CEPS	175.7	145.1	86	143.2	180.1
BV	466	478	467	515	582
Dividend	35	23.5	6.5	20.5	30.5
Turnover Ratios (days)					
Debtor days	44	39	41	40	43
Inventory days	37	44	42	41	43
Creditors days	97	97	99	97	98
VALUATION (x)					
P/E	14.1	20.4	96.7	22.8	16.1
P/BV	3.4	3.3	3.4	3	2.7
EV/EBITDA	11.1	10.8	16.9	10.6	8.8
EV / Revenues	0.9	1.1	1.3	1	0.9
Dividend Yield (%)	2.2	1.5	0.4	1.3	1.9
Dividend Payout (%)	31.5	30.5	40	29.8	31.2

Lumax Industries Ltd.

598.71	685.65	685.65	685.65	203.88	118.92	118.92
(-22.11)	(-14.51)	(-7.74)	(-11.01)	(-11.01)	(-11.01)	(-11.01)
142.09	167.22	154.12	393.13	-62.95	-187.58	-42.88
(-35.11)	(-17.44)	(-7.88)	(-7.88)	(-115.88)	(-71.48)	(-115.88)

One Year Price Chart





Disclosure:

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