

LUMAX INDUSTRIES LTD

30 Nov 2018

Initiating Coverage (BUY)

CMP

INR 1641

Target Price

INR 1912

Stock Details

| | |
|---------------------------------|------------------------|
| Industry | Auto Parts & Equipment |
| Bloomberg Code | LMAX:IN |
| BSE Code | 517206 |
| Face Value (Rs.) | 10.00 |
| Market Cap. (Rs. mn) | 15,532 |
| 52wk. Low/High (Adjusted) (Rs.) | 1553.70/2585.00 |

Shareholding Pattern Sept '18

| | |
|-------------------------------|-------|
| Promoter (%) | 75.00 |
| FII (%) | 0.00 |
| DII (%) | 0.00 |
| Public - Other (%) | 25.00 |
| No. of Share Outstanding (mn) | 9,347 |

Valuation Summary

| | FY 17A | FY 18A | FY 19P | FY 20P |
|---------------|--------|--------|--------|--------|
| P/E (x)* | 28.53 | 24.58 | 18.00 | 17.00 |
| EV/EBITDA (x) | 12.18 | 10.83 | 9.48 | 8.58 |
| P/BV (x) | 5.33 | 5.30 | 4.36 | 3.63 |

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

| Rs. Mn | FY 17A | FY 18A | FY 19P | FY 20P |
|------------|--------|--------|--------|--------|
| Net Sales | 12,998 | 16,918 | 18,609 | 20,470 |
| EBITDA | 656 | 951 | 1,387 | 1,521 |
| Net Profit | 452 | 632 | 936 | 1,051 |
| EPS (Rs.)* | 48.3 | 67.7 | 100.2 | 112.5 |

*Un adjusted

Key Ratios

| | FY 17A | FY 18A | FY 19P | FY 20P |
|---------------------|--------|--------|--------|--------|
| EBITDA Margin (%) | 8.1 | 8.4 | 9.7 | 9.5 |
| EBIT Margin (%) | 5.0 | 5.6 | 7.4 | 7.4 |
| Net Pro. Margin (%) | 3.5 | 3.7 | 5.0 | 5.1 |
| Debt/Equity (x) | 0.02 | 0.01 | 0.01 | 0.00 |
| RoNW (%) | 20.3 | 23.7 | 27.5 | 23.9 |
| RoCE (%) | 15.7 | 19.9 | 24.8 | 21.9 |



We recommend 'BUY' on LUMAX INDUSTRIES LTD for a target of INR 1912 - valuing the company at P/E 17x of FY20E Earning.

INVESTMENT RATIONALE:

- Lumax Industries has 70 decades of Industry experience and expertise and 27 World Class Manufacturing facilities.
- Passionately focussed towards developing new products as well as better versions of existing products to meet the ever-changing needs of the automobile industry.
- Reliable supply chain is critical for providing the quality and service expected by customers.
- Responsive team that is moving faster than the pace of change to exceed customer expectations.
- High degree of customer understanding, process efficiency and speed to market enables them to foster long-standing relations with their customers as well as open opportunities to build new relationships.
- Lumax has evolved into a diverse, multi-location, multi-product, multi-partner organisation with a global footprint.
- Strong growth in realisation because of rising share of LED driving performance.

VALUATIONS AND VIEW:

Lumax as a leading company in the automotive industry with the latest technology and expertise to manufacture world class products, it aims to make most out of the opportunities in the near future. Lumax today has evolved into a diverse, multi-location, multi-product, multi-partner organisation with a global footprint. **We value the business at 17x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 1912 per share.**

RISK & CONCERNS:

- **High manufacturing costs:** High manufacturing cost is always a pain point, however, improved sourcing and more efficient operations is driving this down.
- **Availability of low-cost alternative:** While LED lighting is increasingly being preferred, availability of lower priced options from China is hurting Indian LED manufacturers.
- **Quality risk:** Inability of the Company to adhere to quality standards, essential for supplying products to OEMs, can lead to loss of customers
- **Technology risk:** Lack of appropriate technological competence could hinder the Company's ability to develop competitive products and reduce costs.
- **Competition risk:** Inability of the Company to manufacture relevant products catering to requirements of OEMs would result in loss of market share

COMPANY BACKGROUND:

Lumax Industries limited is a publicly traded entity, under the aegis of The D.K.Jain group has been in operations successfully since 1945 boasting of a market share of more than 60% in the Indian Automobile Lighting Business. Lumax is engaged in the production of stylish, high-class end-to-end automotive lighting solutions. Started business as Globe Auto Industries in 1945, the Company has traversed an eventful journey to evolve from very humble beginnings into a pioneering and leading automotive lighting solutions manufacturer. The Company's operations span from two-wheelers to four-wheelers and farm equipment segments for leading OEMs (Original Equipment Manufacturers). With strong collaborations, innovation and excellence, the Company is a trusted supplier for OEMs in India, accounting for a significant market share in the automobile lighting segment.

The breakthrough technology & innovation is done at 9 state-of-the-art manufacturing facilities all across India. The company has 2 R&D centres in India and 1 Design centre at Taiwan. The growth has been catalyzed by more than three decades old collaboration with technical and financial collaboration with Stanley Electric Company Ltd, Japan, a world leader in Vehicle Lighting and illumination solutions. The company's business operations span across four-wheeler, two-wheeler and farm equipment segments for leading OEMs. As a leading company in the automotive industry with the latest technology and expertise to manufacture world class products, it aims to make most out of the opportunities in the near future. Through Lumax Charitable Foundation, the company engages in Corporate Social Responsibility initiatives for improving access towards Education and Healthcare of the disadvantaged communities around its plants.

INDUSTRY OVERVIEW:

Growth in advanced economies is estimated to have rebounded to 2.3 percent on the back of pick-up in capital spending, a turnaround in inventories and strengthening external demand. US economy's 2.3 per cent growth was largely supported by strengthening private investment. Domestically, the Indian economy saw implementation of major structural reforms during the year - Goods & Services Tax (GST) and new Indian Bankruptcy code. Growth in GDP during financial year 2017-18 is estimated at 6.7 percent as compared to the growth rate of 7.1 percent in financial year 2016-17. As per IMF, April 2018 outlook, Indian economy is expected to achieve 7.4 percent growth for the financial year ending March 2019. India is expected to become the 4th largest automobiles producer globally by 2020 after China, USA and Japan. The auto components industry is also demonstrating commensurate growth and is expected to become the 3rd largest in the world by 2025. The Indian auto industry is expected to see significant changes with a growing number of electric vehicles (EVs), shared mobility and Bharat Stage-VI emission and safety norms. India's electric vehicle (EV) sales stood at 25,000 units during 2016-17 and are expected to only increase on the back of cheaper energy storage costs and the Government of India's stated vision of six million electric and hybrid vehicles in India by 2020

PEER COMPARISON

| Company | CMP (Rs) | P/E* | Mcap (Rs Cr) | Div Yld (%) | NP Qtr (Rs Cr) | Qtr Profit Var (%) | Sales Qtr (Rs Cr) | Qtr Sales Var (%) | CMP/BV |
|--------------------|----------------|--------------|----------------|-------------|----------------|--------------------|-------------------|-------------------|-------------|
| Bosch | 18,687 | 35.1 | 57,034.7 | 0.53 | 420.0 | 18.86 | 3,201.1 | 13.84 | 22.73 |
| Exide Inds. | 166 | 20.3 | 22,040.5 | 0.93 | 268.4 | 17.03 | 2,720.4 | 15.35 | 5.24 |
| Amara Raja Batt. | 731 | 26.1 | 12,483.0 | 0.57 | 120.2 | (5.49) | 1,753.1 | 22.81 | 24.92 |
| Varroc Engineer | 704 | 20.6 | 9,496.1 | 0.06 | 100.9 | 8.95 | 3,001.1 | 24.05 | 15.52 |
| Endurance Tech. | 1,073 | 32.8 | 15,095.9 | 0.37 | 125.2 | 25.61 | 1,936.7 | 23.18 | 23.06 |
| Sundaram Clayton | 3,432 | 19.5 | 6,943.2 | 0.44 | - | - | - | - | 18.67 |
| Lumax Inds. | 1,641.0 | 24.26 | 1,532.7 | 1.38 | 27.3 | 50.00 | 517.8 | 36.44 | 5.23 |

*TTM

FINANCIAL OVERVIEW

Q2 FY18 Performance Highlight

| (in Million) | 18-Sep | 18-Jun | 18-Mar | 18-Jun | 18-Sep | YoY (%) | QoQ (%) |
|-----------------|-----------|-----------|-----------|-----------|-----------|---------|---------|
| Revenue | 3,796.48 | 3,708.05 | 5,590.44 | 4,961.95 | 5,177.82 | 36.38% | 4.35% |
| Other Income | 45.75 | 18.88 | 10.41 | 3.86 | 109.48 | | |
| Total Income | 3,842.23 | 3,726.93 | 5,600.85 | 4,965.81 | 5,287.30 | 37.61% | 6.47% |
| Expenditure | -3,505.97 | -3,389.82 | -5,161.96 | -4,585.12 | -4,809.29 | | |
| As a % of Sales | 92.35% | 91.42% | 92.34% | 92.41% | 92.88% | | |
| Interest | -11.5 | -11.25 | -36.38 | -30.74 | -36.83 | 220.26% | 19.81% |
| PBDT | 336.26 | 337.11 | 438.89 | 380.69 | 478.02 | | |
| As a % of Sales | 8.86% | 9.09% | 7.85% | 7.67% | 9.23% | | |
| Depreciation | -116.2 | -117.77 | -138.68 | -135.43 | -138.12 | | |
| PBT | 220.06 | 219.34 | 300.21 | 245.26 | 339.9 | 54.46% | 38.59% |
| As a % of Sales | 5.80% | 5.92% | 5.37% | 4.94% | 6.56% | | |
| Tax | -38.09 | -45.79 | -113.16 | -71.64 | -66.9 | 75.64% | -6.62% |
| Net Profit | 181.97 | 173.55 | 187.05 | 173.63 | 273 | 50.02% | 57.23% |
| As a % of Sales | 4.79% | 4.68% | 3.35% | 3.50% | 5.27% | | |
| Equity | 93.48 | 93.48 | 93.48 | 93.48 | 93.48 | 0.00% | 0.00% |
| EPS (Rs) | 19.47 | 18.57 | 20.01 | 18.57 | 29.2 | 49.97% | 57.24% |
| CEPS (Rs) | 31.9 | 31.16 | 34.84 | 33.06 | 43.98 | | |
| OPM % | 8.86 | 9.09 | 7.85 | 7.67 | 9.23 | | |
| NPM % | 4.79 | 4.68 | 3.35 | 3.5 | 5.27 | | |

Income Statement (Consolidated)

| Y/E Mar (Rs mn) | FY 15A | FY 16A | FY 17A | FY 18A | FY 19E | FY 20P | FY 21P |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 11,426 | 12,552 | 12,998 | 16,918 | 18,609 | 20,470 | 23,541 |
| Other Operating Income | 56 | 44 | 62 | 93 | 186 | 117 | 150 |
| Expenditure | 10,833 | 11,666 | 12,000 | 15,575 | 16,974 | 18,630 | 21,631 |
| EBITDA | 649 | 929 | 1,060 | 1,436 | 1,822 | 1,958 | 2,059 |
| Depreciation | 362 | 379 | 404 | 484 | 434 | 437 | 439 |
| EBIT | 287 | 550 | 656 | 951 | 1,387 | 1,521 | 1,621 |
| Interest Expenses | 144 | 134 | 114 | 72 | 122 | 110 | 140 |
| PBT | 143 | 416 | 542 | 879 | 1,265 | 1,411 | 1,480 |
| Tax | (23) | 42 | 90 | 247 | 330 | 360 | 375 |
| Other Income | - | - | - | - | - | - | - |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Before Adjustment | 166 | 374 | 452 | 632 | 936 | 1,051 | 1,105 |
| Minority Int./Income from Assoc. | - | - | - | - | - | - | - |
| Adjusted PAT | 166 | 374 | 452 | 632 | 936 | 1,051 | 1,105 |

Balance Sheet (Consolidated)

| Y/E Mar (Rs mn) | FY 15A | FY 16A | FY 17A | FY 18A | FY 19E | FY 20P | FY 21P |
|---|----------------|----------------|----------------|----------------|----------------|--------------|---------------|
| Equity share capita | 93 | 93 | 93 | 93 | 93 | 93 | 93 |
| Reserves & surplus | 1,710 | 1,948 | 2,323 | 2,835 | 3,771 | 4,821 | 5,927 |
| Share Warrants | - | - | - | - | - | - | - |
| Net worth | 1,803 | 2,042 | 2,417 | 2,929 | 3,864 | 4,915 | 6,020 |
| Minority Interest | - | - | - | - | - | - | - |
| Loan Funds | 376 | 106 | 36 | 23 | 25 | 23 | 21 |
| Net deferred tax liability | 152 | 194 | 279 | - | - | - | - |
| Other Long-term Liabilities | 251 | 249 | 217 | 130 | 143 | 157 | 180 |
| Long-term Provisions | 92 | 93 | 115 | 200 | 220 | 242 | 279 |
| Total Liabilities | 2,675 | 2,684 | 3,065 | 3,283 | 4,253 | 5,339 | 6,502 |
| Net block | 4,221 | 4,250 | 4,399 | 5,659 | 5,272 | 4,885 | 4,520 |
| Investment, Loan & Adv. | 290 | 363 | 541 | 199 | 692 | 719 | 832 |
| Total Current Assets | 3,127 | 3,330 | 3,472 | 5,623 | 5,743 | 7,840 | 10,348 |
| Current Liabilities & Provisions | 4,962 | 5,260 | 5,348 | 8,200 | 7,455 | 8,107 | 9,200 |
| Net Current Assets | (1,836) | (1,930) | (1,876) | (2,577) | (1,712) | (267) | 1,148 |
| Total Assets | 2,675 | 2,684 | 3,066 | 3,283 | 4,253 | 5,339 | 6,502 |

Cash Flow (Consolidated)

| Y/E Mar (Rs mn) | FY 18A | FY 19E | FY 20P | FY 21P |
|-----------------------------------|----------------|--------------|--------------|--------------|
| Operating Cash Flow | 1,401 | 362 | 1,580 | 1,655 |
| Cash Flow from Investments | (1,284) | (591) | (94) | (205) |
| Cash Flow from Financing | (112) | (184) | (3) | 38 |
| Net Changes in Cash | 6 | (413) | 1,483 | 1,489 |
| Opening Cash | 7 | 12 | (400) | 1,083 |
| Closing Cash Balance | 12 | (400) | 1,083 | 2,571 |

Research Analyst Details

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