CD Equisearch Pvt Ltd

CHANGING DIMENSIONS
CD EQUISEARCH

November 23, 2020

Lumax Industries Ltd. (LIL)	
No. of shares (m)	9.35
Mkt cap (Rs crs/$m)	1226/165.1
Current price (Rs/$)	1312/17.7
Price target (Rs/$)	1607/21.6
52 W H/L (Rs.)	1675/678
Book Value (Rs/$)	435/5.9
Beta	0.8
Daily NSE volume (avg. monthly)	6380
P/BV (FY21e/22e)	2.9/2.6
EV/EBITDA (FY21e/22e)	17.6/9.2
P/E (FY21e/22e)	-/17.1
EPS growth (FY20/21e/22e)	-4.8/-105.0/-
OPM (FY20/21e/22e)	9.9/6.1/10.5
ROE (FY20/21e/22e)	17.4/-0.8/15.8
ROCE(FY20/21e/22e)	11.6/2.5/10.4
D/E ratio (FY20/21e/22e)	0.8/0.9/0.5
BSE Code	517206
NSE Code	LUMAXIND
Bloomberg	LUMX IN
Reuters	LUMA.NS

Shareholding pattern%	
Promoters	75.0
MFs / Banks / FIs	1.0
Foreign Portfolio Investors	0.6
Govt. Holding	-
Total Public	23.4
Total	**100.0**

As on September 30, 2020.

Recommendation

BUY

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Company Brief

Lumax Industries is engaged in production of automotive lighting solutions.

Quarterly Highlights

- Industry volumes in the second quarter this fiscal gained some ground with passenger vehicles which account for almost two-thirds of its revenues, posted a growth of 17% in comparison to last fiscal while the two wheeler segment reported flat volumes during the same period. Despite this positive movement in industry volumes, revenues during the quarter declined 7.4% to Rs. 397.34 cr, down almost Rs. 32 cr from Q2FY20 – this was partially due to unfavorable volume mix wherein greater demand was seen for entry level cars from major OEM's. There was also some revenue loss IN July due to pandemic induced disruptions while August and September posted higher revenues y-o-y; revenues from mould sales accounted for some Rs. 21 cr in the second quarter as against Rs. 43 cr in the same period last year.
- Consequently, OPMs shrunk 70 bps to 9.2% in Q2FY21 – operating profit declined by not so tepid 14.1% to 36.62 cr. Higher other income by over Rs. 3 cr in the second quarter somewhat saved EBIDTA which declined just 6% to Rs. 41.17 cr whence EBIDTA margins improved to 10.4% from 10.2% in Q2FY20. Associate loss, although not a large figure - deficit of Rs. 1.76 cr vs Rs. 3.58 cr, partially contributed to PAT declining 64% y-o-y to Rs. 7.23 cr in Q2FY21.
- Stress in the automobile industry meant inventories and receivables continued to remain at high levels of Rs. 184 cr and Rs. 187 cr, even increasing from March '20 levels. This has somewhat resulted in temporarily higher short term debt (Rs. 312 cr in September vs Rs. 266 cr in March '20) as it would help manage working capital needs. Less verve in the first half meant Lumax posted negative operating cash flows in first half this fiscal.
- The stock currently trades at 17.1x FY22e EPS of Rs 76.50. Unprecedented stress in earnings awaits most auto component suppliers this fiscal not least due to record fall expected in their OEM dispatches. Earlier expectations of increasing LED share to 50% of revenues (currently at 35%) over the next few years may not fructify due to lack of willingness on the part of OEMs to shift to LED given its higher cost during the worst automobile slowdown in recent memory. Earnings are estimated to rebound sharply next fiscal though on modest return on capital. Weighing odds, we recommend buy rating at the current valuation. On balance we set the price target of Rs 1607 (previous target: Rs 1513) based on 21x FY22 earnings over a period of 9-12 months.

Consolidated (Rs crs)	FY18	FY19	FY20	FY21e	FY22e
Income from operations	1649.35	1851.45	1601.59	1263.77	1560.16
Other Income	5.46	47.73	7.35	13.09	9.09
EBITDA (other income included)	139.19	200.91	165.10	89.73	172.71
PAT after associate profit and EO	71.30	75.59	71.95	-3.62	71.51
EPS(Rs)	76.27	80.86	76.97	-3.87	76.50
EPS growth (%)	31.7	6.0	-4.8	-105.0	-

Outlook & Recommendation

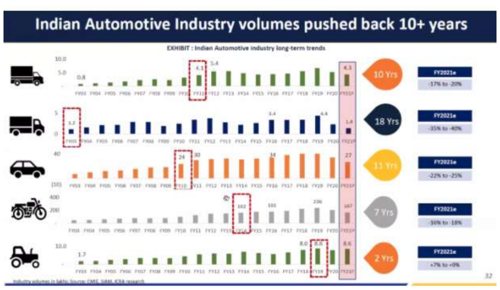
Industry Overview

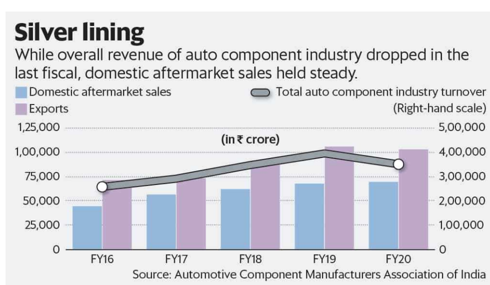
Fighting a pandemic and difficult economic conditions, ICRA expects India's GDP to decline by 11% in FY21 according to October estimates; this will trickle down to lower demand for the automotive industry in general (except tractors). Along with this fall, ICRA estimates that sales volumes in FY21 would be down for LCVs by 17%-20%, MHCVs by 35%-40%, PVs by 22%-25% and 2Ws by 16%-18% respectively according to its latest estimates published in October.

However, passenger vehicles and two-wheeler companies have started operating at the pre-Covid level during September primarily anticipating a good festive season. But on a low base this year, ICRA expects passenger vehicles volume to witness strong double digit growth of more than 15% in FY22. This will be after two consecutive years of negative growth at -17.9% in FY20 and -22% to -25% in FY21. The fall in demand is also being reflected in capacity utilization which is likely to fall below 45% in FY21, from 50%-55% in FY20.

It is also estimated that the carmakers will cut CAPEX by 35%-40% during FY21 & FY22 as there will be no capacity expansion in the near future. Instead, there will be incremental investments on new product development and platform improvisation. About the expected PV trend, Ashish Modani, Vice President, ICRA, said, "There is an increased risk aversion in retail as well as wholesale financing, which is a deterrent. The rural market will be the key driver of volume in FY21 which will benefit entry-level cars and UVs. Buyers may opt for 2Ws or used cars to avoid public transport."

Un-affordability has become one of the main hindrances to the growth of the automobile sector in India. Prices have increased due to several factors like the shift to the stricter Bharat Stage-VI emission norms as well as new safety regulations. Automobiles in India are taxed at a very high rate. In addition to a GST of 28 per cent, another cess on cars is imposed and state road and registration tax are also added which may be hiked regularly by states to earn more revenues, driving up the costs of automobiles.





Source; CMIE; SIAM; ICRA

Auto component makers are facing a double edged sword of subdued demand and Covid-induced production restrictions. The Automotive Component Manufacturers Association of India (ACMA) pegged the industry revenue fall at 11.7% last fiscal. Hit by falling sales, automakers curtailed orders to auto component suppliers. With automobile industry sales estimated to fall by about one-fifth in the current fiscal, revenues of the auto component industry may also shrink. ICRA Research projects 14-18% decline in FY21 revenues for auto component suppliers.

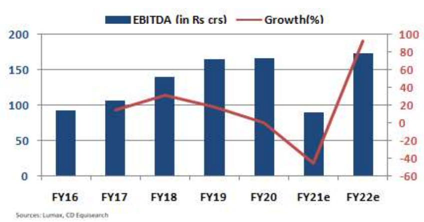
Noticeably, revenues of auto component manufacturers aren't falling at the same rate as automobile manufacturers. Exports and replacement sales, which together generate almost half of the industry's revenue, are withstanding the downturn better. Exports dropped just 3.2%, while domestic aftermarket sales grew 2.8% in FY20, according to ACMA (figures exclude sales of tyre and battery manufacturers).

Financials & Valuations

Stroked by the pandemic, Lumax intends to slow down its capital expenditure with cash conservation in mind in the current fiscal, majority of which will be utilized towards the electronics facility – this is a sharp fall from around Rs. 167 cr in FY20. In the first half this fiscal, Lumax spent Rs. 29 cr on capacity enhancements. The outstanding expenditure towards the Bawal plant is Rs. 17 cr out of a total Rs. 75 cr which will be completed this year. While it wouldn't add to the top line, it is a margin accretive project and would help improve EBIDTA margins over the next few years to 12-13% which is currently languishing at around 10%. With the increasing focus on LED lighting in the automobile industry, backward integration to PCB (printed circuit board) becomes more important as it gives the OEM greater confidence in their product.

Foraying deeper to utilize its edge in electronics, Lumax has an agreement with its partner Stanley to manufacture HVAC (heating, ventilation and air conditioning) panels which should start in the second half of next fiscal with one client and then gradually scale to more clients. The total market size of HVAC panels, according to management estimates, is pretty small and most of it is imported, and this gives them a chance to get a share of the Indian market. Globally, there are 4-5 players who dominate the electronic component industry and there are entry barriers due to high R&D requirements and market control that these companies possess.

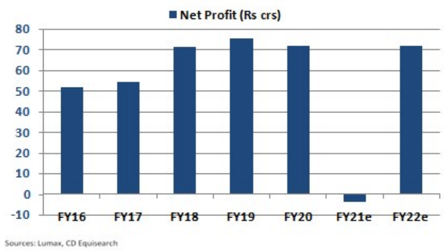
This slowdown in capital expansion is not least due to the dire condition of the Indian automobile Industry and excess capacity on account of low expected volumes at least for the next couple of years. Considerably high capex last fiscal, would do Lumax no favors as fall in revenues this fiscal would seriously impair its fixed asset turnover – 2 in FY21 vs 3.5 in FY18-19, to a modest 2.5 in FY22.

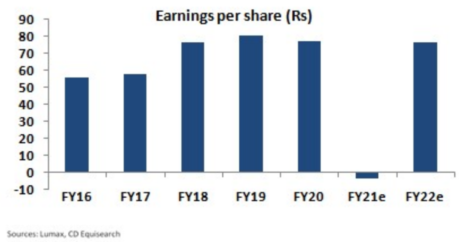


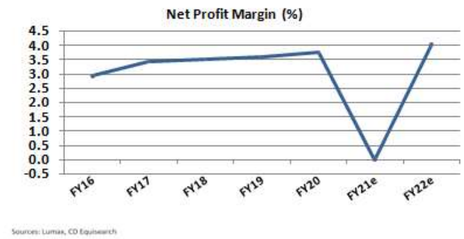
Revenue is expected to witness unprecedented decline this fiscal of over 21%, yet better than our previous estimate of almost 32% decline, majorly on account of better than expected recovery in automobile demand post lockdowns and a good festive season providing traction going into second half this fiscal. Seemingly large friction in end product demand would prevent a full blown recovery next fiscal (though revenues are expected to clock 23.5% increase in FY22 on lower base). We estimate the revenue share of passenger vehicles will remain robust at 65% in the ensuing period, while the share of two wheelers will marginally go up to 30% from 29% in FY20.

Stress in revenues would do margins no favor as OPM are expected to decline to 6.1% this fiscal (operating profit of Rs. 76.64 cr) - we expect operating leverage to kick in H2FY20 showing some robustness in operating profit (Rs. 75 cr vs Rs. 2 cr in the first half). Although these numbers aren't truly comparable due to abnormal circumstances during the first half this fiscal. Next fiscal, we expect operating profit to sharply increase to record levels of Rs. 163.62 cr (OPM of 10.5%, slightly above FY20 level of 9.9%) partially contributed due to cost efficiencies from Bawal plant and benefits of localization.

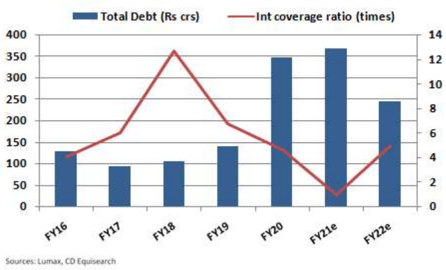
Net loss during the first half this fiscal came in at Rs. 24.37 cr vs profit of Rs 36.64 cr in the same period a year ago Negative post tax earnings in the first half this fiscal resulted in negative cash from operations to the tune of Rs. 40 cr as against Rs. 20.81 cr during the same period last fiscal. Comparative lower capital expenditure (Rs. 29 cr vs Rs. 73 cr in H1FY20) meant free cash flows declined to a deficit of Rs. 69 cr in comparison to negative Rs. 52 cr in H1FY20.

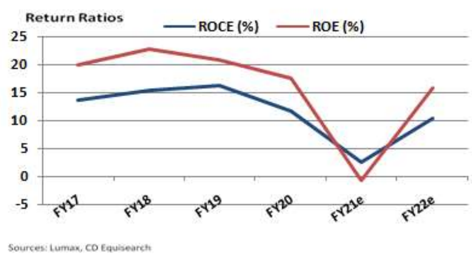






Lumax increased its short term borrowings from Rs. 137 cr to Rs. 266 cr last fiscal (debt equity ratio jumped to 0.8 in FY20) not least due to modest increase in working capital - inventory days jumped to 48.5 in FY20 from just 40 days a year earlier along with a decline in payable days. Unprecedented stress in earnings this fiscal coupled with further rise in short term borrowings in the first half to Rs. 312 cr would scarcely lend any redundancy to interest coverage ratio which would fall to 1 in FY21 from 4.6 just a year earlier. Planned reduction in short term debt next fiscal once working capital needs stabilize should bring down debt gradually going forward – we expect short term debt to be at Rs. 200 cr next fiscal.





The stock currently trades at 17.1x FY22e EPS of Rs 76.50. No modest stress in automobile industry is expected to result in LIL posting loss this fiscal. Yet, Lumax's market leadership in automotive lighting should help vigorously revive earnings next fiscal (industry recovery and new developments around corona virus will play a vital role in the same). As 'sales velocity' picks up in passenger vehicle and two wheeler sectors, proximity to OEMs would make its business model difficult to replicate for outsiders – a sort of barely puny competitive advantage. For example, proximity of their Manesar, Gurugram and Bawal plants to Maruti is a case in point. ROE should jump to 15.8%, still far away from the 20% odd it clocked between FY18 & FY19. On balance we recommend 'buying' the stock with a revised price target of Rs 1607 (previous target of Rs 1513) based on 21x FY22 earnings over a period of 9-12 months. For more information, refer to our July 20 report.

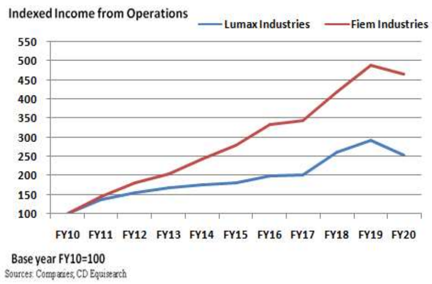
Cross Sectional Analysis

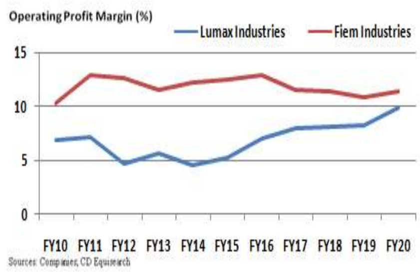
Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Lumax Ind	9	1312	1226	1246	11	6.3	1.0	1.0	2.6	1.0	3.0	112.1
Fiem Ind	13	537	706	1089	49	10.4	4.8	4.4	9.6	0.6	1.4	14.5

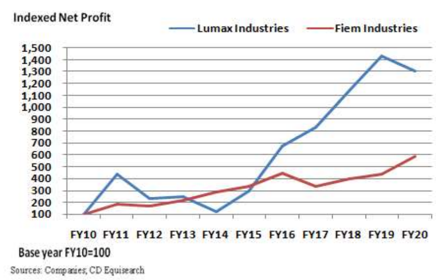
*figures in crores; calculations on ttm basis, consolidated data

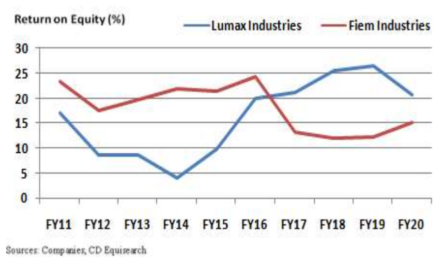
Despite registering tepid revenue growth in the second quarter, revenues for Fiem Industries declined almost 40% in the first half this fiscal mainly due to shutdowns in the first quarter leading to plant closures etc. Majority of its revenues come from supplies to OEMs (90% in H1FY21) and more specifically the two wheeler segment which garners over 95% of the auto segment revenue share – Honda Motorcycle and TVS being their two main customers, contributed roughly 64% of revenues in the first half this fiscal. This decline in revenues led to lower operating profit of Rs. 37.33 cr (OPM at 8.5%) in H1FY21 as against Rs. 81.32 cr last year, a decline of 54.1% y-o-y although margins for the second quarter being as high as 14%. No major rise in depreciation and some fall in finance costs led to a 91% decline y-o-y in PBT in the first half this fiscal to a negligible Rs. 4.09 cr.

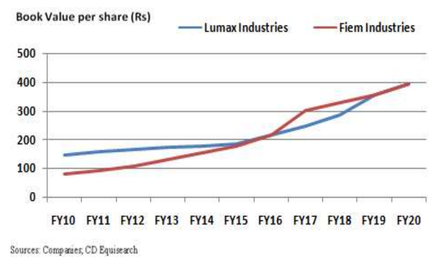
Considerable rise in payables (Rs. 53.9 cr) and fall in inventories (Rs. 29.97 cr) partially counterbalanced by rise in receivables (Rs. 22.02 cr) led to a stunning rise in operating cash flows which rose to Rs. 101.03 cr for the half year ended September 20 as against Rs. 26.35 cr. Supported by lower capex, free cash flows stood at almost Rs. 93 cr in H1FY21 from negative 1.71 cr in the same period last year.











Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q2FY21	Q2FY20	% chg	H1FY21	H1FY20	% chg
Revenue From Operations	**397.34**	**429.03**	**-7.4**	**475.35**	**831.05**	**-42.8**
Other Income	4.55	1.18	286.9	7.48	2.27	229.3
Total Income	**401.89**	**430.21**	**-6.6**	**482.82**	**833.32**	**-42.1**
Total Expenditure	360.72	386.42	-6.7	473.61	750.14	-36.9
EBITDA (other income incl.)	**41.17**	**43.79**	**-6.0**	**9.22**	**83.19**	**-88.9**
Interest	8.30	5.01	65.5	16.03	9.65	66.1
Depreciation	16.53	15.88	4.1	30.32	31.07	-2.4
PBT	**16.34**	**22.89**	**-28.6**	**-37.13**	**42.46**	**-187.4**
Tax	7.35	6.38	15.2	-19.71	12.50	-257.7
PAT	**8.99**	**16.51**	**-45.5**	**-17.42**	**29.96**	**-158.1**
Profit from Associate	-1.76	3.58	-149.2	-6.95	6.68	-204.0
Net Profit after Profit from Associate	**7.23**	**20.08**	**-64.0**	**-24.37**	**36.64**	**-166.5**
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	**7.23**	**20.08**	**-64.0**	**-24.37**	**36.64**	**-166.5**
EPS	7.74	21.48	-64.0	-26.07	39.20	-166.5

Consolidated Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Revenue From Operations	**1649.35**	**1851.45**	**1601.59**	**1263.77**	**1560.16**
Other Income	5.46	47.73	7.35	13.09	9.09
Total Income	**1654.81**	**1899.18**	**1608.94**	**1276.86**	**1569.24**
Total Expenditure	1515.62	1698.28	1443.84	1187.13	1396.54
EBITDA (other income incl.)	**139.19**	**200.91**	**165.10**	**89.73**	**172.71**
Interest	7.19	15.52	21.92	26.77	21.41
Depreciation	47.87	60.29	63.54	63.28	66.74
PBT	**84.13**	**125.09**	**79.64**	**-0.32**	**84.55**
Tax	26.19	30.49	19.83	-0.08	21.56
PAT	**57.94**	**94.61**	**59.81**	**-0.24**	**62.99**
Profit from Associate	13.42	9.19	12.09	-3.38	8.52
Net Profit after Profit from Associate	**71.36**	**103.79**	**71.90**	**-3.62**	**71.51**
Extraordinary Item	0.07	28.21	-0.05	-	-
Adjusted Net Profit	**71.30**	**75.59**	**71.95**	**-3.62**	**71.51**
EPS	76.27	80.86	76.97	-3.87	76.50

Consolidated Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Sources of Funds					
Share Capital	9.35	9.35	9.35	9.35	9.35
Reserves & Surplus	352.65	425.55	437.12	427.89	499.41
Total Shareholders Funds	**362.00**	**434.90**	**446.47**	**437.24**	**508.76**
Long Term Debt	2.28	0.94	54.34	46.56	40.24
Total Liabilities	**364.28**	**435.83**	**500.81**	**483.81**	**548.99**
Application of Funds					
Gross Block	605.28	696.19	862.68	914.87	954.87
Less: Accumulated Depreciation	86.91	146.74	210.01	273.30	340.04
Net Block	**518.37**	**549.45**	**652.67**	**641.58**	**614.83**
Capital Work in Progress	33.83	49.79	32.19	20.00	20.00
Investments	87.87	80.82	90.35	91.86	98.68
Current Assets, Loans & Advances					
Inventory	168.79	204.15	179.18	202.20	187.22
Trade Receivables	318.23	221.01	173.21	181.88	200.06
Cash and Bank	1.71	2.24	37.96	22.46	27.08
Other Assets	73.44	37.36	38.34	44.24	53.13
Total CA & LA	**562.16**	**464.77**	**428.69**	**450.78**	**467.49**
Current Liabilities	807.96	699.00	724.21	742.43	642.13
Provisions-Short term	11.27	12.34	6.86	8.26	6.96
Total Current Liabilities	**819.24**	**711.34**	**731.07**	**750.69**	**649.10**
Net Current Assets	-257.08	-246.57	-302.38	-299.91	-181.61
Net Deferred Tax	-13.81	-17.22	-22.93	-16.06	-19.26
Net long term assets	-4.91	19.57	50.92	46.33	16.34
Total Assets	**364.28**	**435.83**	**500.81**	**483.81**	**548.99**

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios (%)					
Revenue	29.8	12.3	-13.5	-21.1	23.5
EBITDA	31.2	18.4	0.3	-45.7	92.5
Net Profit	31.7	6.0	-4.8	-105.0	-
EPS	31.7	6.0	-4.8	-105.0	-
Margins (%)					
Operating Profit Margin	8.1	8.3	9.9	6.1	10.5
Gross profit Margin	8.0	8.1	8.9	5.0	9.7
Net Profit Margin	3.5	3.6	3.7	0.0	4.0
Return (%)					
ROCE**	15.2	16.2	11.6	2.5	10.4
ROE**	22.7	20.7	17.4	-0.8	15.8
Valuations					
Market Cap/ Sales	1.2	0.9	0.5	1.0	0.8
EV/EBITDA	15.4	11.1	6.8	17.6	9.2
P/E	28.7	22.4	11.3	-	17.1
P/BV	6.1	4.3	1.9	2.9	2.6
Other Ratios					
Interest Coverage	12.7	6.7	4.6	1.0	4.9
Debt Equity	0.3	0.4	0.8	0.9	0.5
Current Ratio	0.7	0.6	0.6	0.6	0.7
Turnover Ratios					
Fixed Asset Turnover	3.5	3.5	2.7	2.0	2.5
Total Asset Turnover	5.2	5.0	3.6	2.6	3.1
Debtors Turnover	6.5	6.9	8.1	7.1	8.2
Inventory Turnover	10.6	9.1	7.5	6.2	7.2
Creditor Turnover	3.5	3.7	4.2	4.0	4.7
WC Ratios					
Debtor Days	56.3	53.2	44.9	51.3	44.7
Inventory Days	34.3	40.1	48.5	58.6	50.9
Creditor Days	103.9	98.5	87.9	92.1	77.8
Cash Conversion Cycle	-13.3	-5.3	5.5	17.9	17.7

**Adjusted for revaluation reserve, wherever applicable

Cumulative Financial Data

Rs crs	FY11-13	FY14-16	FY17-19	FY20-22e
Income from operations	2922	3514	4772	4426
Operating profit	168	199	387	398
EBIT	101	103	278	238
PBT	61	59	245	168
PAT	51	61	188	136
OPM (%)	5.8	5.7	8.1	9.0
GPM (%)	4.8	4.8	8.3	8.2
NPM (%)	1.7	1.7	3.9	3.1
Interest coverage	2.5	2.3	8.3	3.4
ROE (%)	11.4	11.1	23.4	12.2
ROCE (%)	9.9	9.8	17.7	11.3
Debt-Equity ratio*	1.1	0.6	0.4	0.6
Fixed asset turnover	3.1	2.9	3.4	2.6
Total asset turnover	3.9	4.9	5.8	3.8
Debtors turnover	10.4	8.1	7.9	7.0
Creditors turnover	4.2	3.8	4.3	3.9
Inventory turnover	11.3	10.4	9.5	6.9
Debtor days	35.2	45.3	46.1	52.1
Creditor days	87.2	96.2	84.2	94.1
Inventory days	32.2	35.1	38.5	53.2
Cash conversion cycle	-19.8	-15.8	0.4	11.2

FY11-13 implies three year period ending fiscal 13;*as on terminal year. Standalone data for cumulative

Disrupted by the impact of COVID-19 on automobile sector, cumulative revenues would decline by over 7% during FY20-22e period. Cumulative operating profits would grow by merely Rs. 11 cr in the same period, supported largely by decent performance in FY20 and slightly robust recovery in FY22 - overall OPM's would rise in the FY20-22e period to 9% not least due to the benefits of higher margins in FY20 and FY22. Its enormous advantage in the lighting business would do little to rescue stress in earnings. Cumulative post tax earnings are expected to decline by over 27% in the three year period ending FY22 due to ostensible friction in automobile demand triggered by stress in purchasing power – a sort of discretionary spend.

Interest coverage would take a serious hit, declining from 8.3 in the previous three year period to 3.4 in FY20-22e period largely due to stress in earnings. Grave stress in earnings coupled with barely strong capacity utilization (asset turnover ratio is expected to decline to 3.8 in the projected period from 5.8 in FY17-19) would hardly support ROE which is expected to fall from 23.4% in FY17-19 period to a mere 12.2% in FY20-22e period. Cash conversion cycle is also expected to go up, not so timidly to 11 days in the projected period.

Financial Summary- US Dollar denominated

million $	FY18	FY19	FY20	FY21e	FY22e
Equity capital	1.4	1.4	1.2	1.3	1.3
Shareholders funds	51.7	57.2	57.2	57.6	64.7
Total debt	16.0	20.2	46.1	49.4	33.0
Net fixed assets (including CWIP)	84.9	86.6	89.6	87.8	84.2
Investments	13.5	11.7	12.0	12.4	13.3
Net current assets	-39.5	-35.6	-40.1	-40.4	-24.5
Total assets	52.0	57.3	64.4	63.8	70.1
Revenues	255.9	264.9	226.0	170.2	210.1
EBITDA	21.6	23.6	23.3	12.1	23.3
EBDT	20.5	21.3	20.2	8.5	20.4
PBT	13.0	12.7	11.2	0.0	11.4
PAT	11.1	10.8	10.2	-0.5	9.6
EPS($)	1.18	1.16	1.09	-0.05	1.03
Book value ($)	5.53	6.12	6.12	6.16	6.92

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 74.26/$).
All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY16	FY17	FY18	FY19	FY20
Average	65.46	67.09	64.45	69.89	70.88
Year end	66.33	64.84	65.04	69.17	75.39

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.