CD Equisearch Pvt Ltd

CHANGING DIMENSIONS

CD EQUISEARCH

March 31, 2022

Lumax Industries Ltd. (LIL)	
No. of shares (m)	9.35
Mkt cap (Rscrs/$m)	836/110.5
Current price (Rs/$)	895/11.8
Price target (Rs/$)	1178/15.6
52 W H/L (Rs.)	1709/865
Book Value (Rs/$)	490/6.5
Beta	0.5
Daily NSE volume (avg. monthly)	10210
P/BV (FY22e/23e)	1.8/1.6
EV/EBITDA(FY22e/23e)	9.3/6.6
P/E (FY22e/23e)	21.4/11.4
EPS growth (FY21/FY22e/23e)	-77.4/140.3/87.7
OPM (FY21/22e/23e)	7.0/7.0/8.8
ROE (FY21/22e/23e)	3.7/8.6/14.9
ROCE (FY21/22e/23e)	5.6/5.7/9.4
D/E ratio (FY21/22e/23e)	0.8/0.9/0.8
BSE Code	517206
NSE Code	LUMAXIND
Bloomberg	LUMX IN
Reuters	LUMA.NS

Shareholding pattern%	
Promoters	75.0
MFs / Banks / FIs	0.4
Foreign Portfolio Investors	0.5
Govt. Holding	-
Total Public	24.1
Total	**100.0**

As on December31, 2021.

Recommendation

BUY

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Quarterly Highlights

- As per the data published by SIAM, driven by subdued demand in both passenger vehicles and two-wheeler segments, the overall auto-industry production at around 58.6 lakh units in Q3FY22 took a hit of some 17% in comparison to corresponding quarter in the prior fiscal. Demand of passenger vehicle segment was largely affected due to supply-side constraints, while the same for two-wheeler segment was majorly impacted due to subdued rural demand. In fact, sale of passenger vehicles in Q3 has been lowest in 5 years, while the same for 2-wheelers has been lowest in 9 years. As a result, overall revenues of Lumax Industries Ltd., which somewhat mirrors auto demand, declined by 2.5% to Rs. 435.29 crs year-over-year and by almost 4% sequentially.
- Consequently, a not-so-robust topline and prevalent lag in passing on steep increase in raw material prices had not insignificantly affected its operating profits, which declined by 28.5% to Rs. 34.26 crs vs. Rs. 47.92 crs in Q3FY21. Moreover, a wide spectrum of factors from significant increase in the manpower cost on account of appraisals, increase in the R&D and engineering expenses to be able to cater to its order book, higher promotional expenses due to several festivities in the third quarter, had further put pressures on the adjusted operating margins that shrunk by 287 bps to 7.9%.
- Perpetual stress in the automobile industry meant inventories and receivables continued to remain at elevated levels of Rs. 257 cr and Rs. 212 cr, respectively, as of September 30, 2021. As a result, short-term debt in the nine-month ended December 31, 2021 continues to remain high around Rs 320 crs to meet working capital requirements.
- The stock currently trades at 21.4x FY22e EPS of Rs. 41.83 and 11.4x FY23e EPS of Rs. 78.53.The sharp rally in crude oil prices due to Russia-Ukraine crisis seems to have pushed out the demand recovery for autos. With supply crunch in semiconductors still being a lingering concern, earnings are expected to barely show any traction in current fiscal before growing by some 87.7% to Rs. 73.40 crs in FY23. However, company's long-lasting relationships with OEMs, improving capacity utilization, strong focus on increasing penetration of high-margin LED segment, localization strategy and new product development still boast of a promising long-term outlook. Weighing odds, we recommend 'buy' rating on the stock with a revised target price of Rs 1178 (previous target: Rs 1607) based on 15x FY23 earnings.

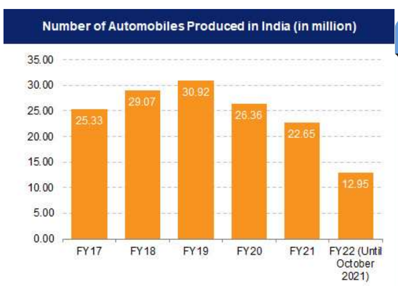
Consolidated (Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	1851.45	1601.59	1425.98	1702.10	1985.74
Other Income	47.73	7.35	25.23	14.67	14.73
EBITDA (other income included)	201.68	165.69	125.27	123.87	188.48
PAT after associate profit and EO	75.59	71.95	16.27	39.11	73.40
EPS(Rs)	80.86	76.97	17.41	41.83	78.53
EPS growth (%)	6.0	-4.8	-77.4	140.3	87.7

Outlook & Recommendation

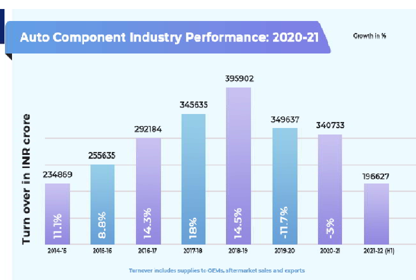
Industry Overview

Despite resurgence of demand for vehicles, supply-side concerns regarding availability of semiconductors, volatile input costs, rising logistics costs and unavailability of containers continue to hamper recovery in the automotive sector. The recent Russia-Ukraine war has further aggravated the supply crisis thus pushing up vehicle ownership cost. As per a survey conducted by Mobility Outlook this year, 80% of respondents have deferred their plans to buy a four wheeler, while 82% postponed their decision to purchase a two-wheeler.

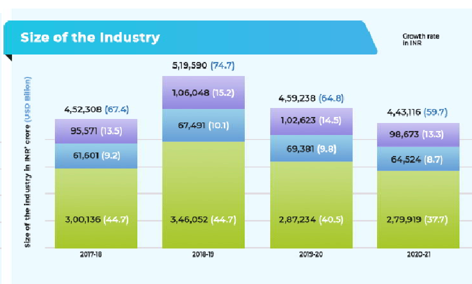
The auto component industryhas demonstrated a remarkable turn-around in the first-half of FY22.Despite the slow offtake in OEM dispatches, the auto component industry in H1FY22, according to Automotive Component Manufacturers Association of India (ACMA),stood at $ 26.6 billion registered a year-over-year growth of 65% with significant uptick in supply to OEMs, exports and aftermarkets as well. Exports of auto components grew by 76% to $ 9.3 billion as against$ 5.2 billion in H1FY21. Europe, accounting for 31% of exports, grew by 81%, while North America and Asia, accounting for 32% and 25% respectively, also registered increase of 81% and 73% respectively .Imports also grew by 71% from $ 5.0 billion in H1FY21 to $ 8.7 billion in H1FY22 with Asia accounted for 63% of imports followed by Europe (29%) and North America (7%) reflecting growth in domestic manufacturing activities. Aftermarket dispatches, on the other hand, estimated at $ 5.3 billion witnessed a steady growth of 25%.



Source: IBEF



Source: ACMA



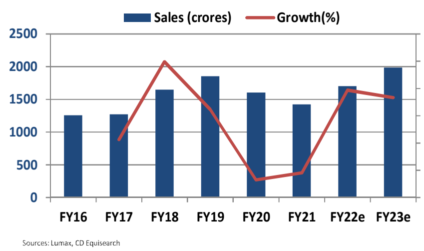
Source: ACMA

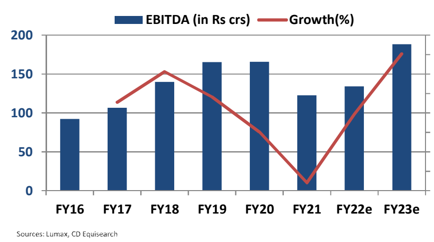
However, with no major respite in commodity price volatility in the last 3-4 quarters, auto component manufacturers have not been able to timely and entirely pass through, resulting in an overall decline in gross margins. ICRA expects gross margins of auto component companiesto be lower on a y-o-y basis in FY22 as other costs including freight and container rates have also increased multifold. The robust exports was somewhat aided by the China+1 strategy and could have been better if not for the chip shortages. ICRA estimates the domestic auto component industry to witness revenue growth of 15-17% in FY22, despite the Omicron wave, delayed recovery in semi-conductors and muted 2-wheeler and bus demand.

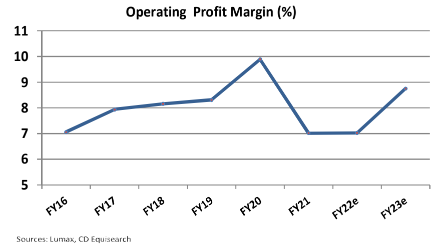
The Union budget 2022-2023 also laid down certain measures beneficial for the auto component sector.The extension of the ECLGS (Emergency Credit Line Guarantee Scheme) and its cover, revamping and infusion of funds into the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme combined with the Raising and Accelerating MSME Performance (RAMP) program will help the auto component manufacturers stay relevant and competitive in the current business environment. The reduction in duty on some commodities such as pig iron,ferro alloys, ferrous products, copper and aluminium scrap, etc, and removal of anti-dumping duty on some steel items would also help alleviate the current challenge of raw materials availability in the automotive sector. Moreover, the union cabinet has announced the production-linked incentive (PLI) scheme in the automobile and auto components sectorswith financial outlay of Rs. 25,938 crores introduced under Atmanirbhar Bharat 3.0to boost domestic manufacturing of advanced automotive technology products and attract investments in the automotive manufacturing value chain.

Financials & Valuation

Thanks to very low volume offtake in Q1FY21, revenues for 9MFY22 witnessed a growth of 30.4% to Rs. 1201.94 crs compared to corresponding period in the previous year. Contribution from the passenger vehicle segment to the overall mix increased by 200bps year-over-year to 64%, while 2-wheeler contribution declined by 300 bps to 29% with the rest coming from CV segment. Yet again, Lumax did not succeed in increasing its LED share to revenues, which stood at 33% at par to 9MFY21. In the past few quarters, the industry has witnessed severe volatility in raw material prices and semiconductor shortage. This semiconductor shortage has triggered production cuts by India's largest automaker and its leading client Maruti Suzuki, who reported production cut of some 26% y-o-y in October this fiscal. The drop in production figures did not only hurt Maruti but also other auto players like Tata Motors and Mahindra & Mahindra which saw impact on their vehicle production cycles. This shortage has also delayed new model launches by some major OEM clients of Lumax (Maruti delayed launch of its new-generation Celerio Hatchback to the November 2021).

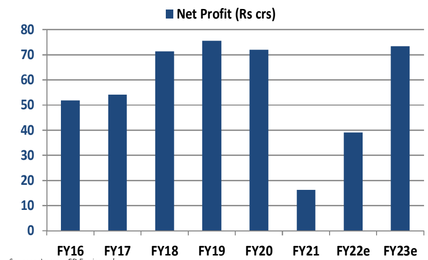


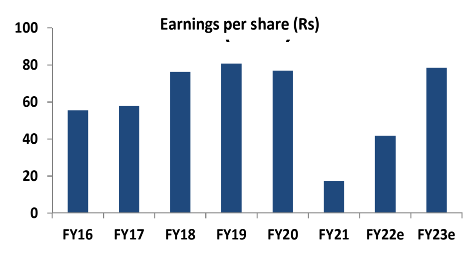


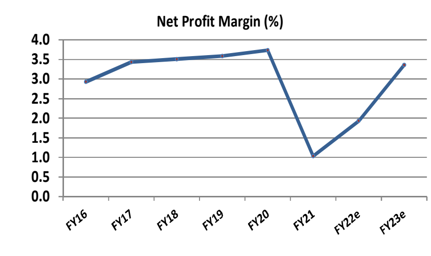


Lumax Industries had capitalized some Rs. 23 crs of fixed assets in the nine months ended December 31, 2021, while earmarked ~Rs. 125 crs for FY22 that would be funded by mix of debt and internal accruals. The investments would be primarily on account of new electronic facility and expansion of the Sanand facility in Gujarat. The electronic facility is likely to on stream next year; while the company has commenced commercial production at its new manufacturing plant in Sanand on March 29. The Sanand facility would largely cater to orders received from MG Motors and other customers with a potential of clocking in additional annual revenues of Rs 200 cr. The company could incur ~Rs. 100 crs as capex in FY23. Moreover, another electronic facility at Bawal has already commenced commercial production in Jan 2022, which will enable the company to enhance its localization strategy in electronics. The facility has potential to improve EBITDA margins of the company by some 100-150 bps.

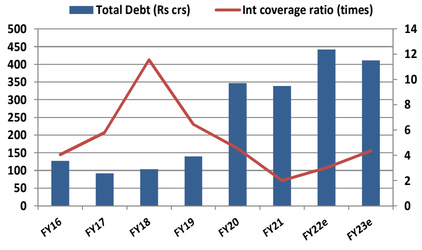
The recent EV push by the GOI could further fuel the LED penetration because if the EV transformation kicks in, it could be a high volume game for legacy players like Lumax, who would be in a much better position to ramp up production. In fact, there has already been an order win from an electric two-wheeler manufacturer, Mater's Motors and the company is also in talks with Ola Electric for supply of lights. Moreover, the company has received LOI for HVAC (heating, ventilation and air conditioning) panels from one of the OEM's, the SOP of which is expected in FY24. The business has the potential to contribute ~Rs. 60-70 crs to topline. The company is also expecting new technologies such as AFS functionality, adaptive driving beam (ADB), projector systems to play important roles in the SUVs and given the long lead time involved Lumax has already started working with its customers to develop these products.



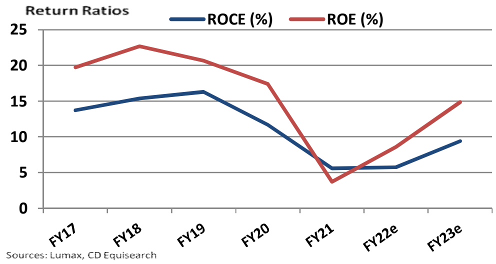




While geopolitical concerns have clouded near-term outlook for autos, Lumax could rake in overall top-line of Rs.1702.10 crs in FY22 (vs. Rs. 1425.98 crs in FY21) that could grow by some 17% to Rs. 1985.74 crs in FY23.Given that, if the management exhibits continued diligence in managing costs and navigating the volatile demand environment, operating profits could grow by 19.5% to Rs. 119.55 crs in FY22 and by over 45% in FY23. Though, OPMs in FY22 would almost flat-line to 7.0% before reaching 8.8% in FY23. The rise in revenues on account of improvingasset utilization, which is expected to boost fixed asset turnover to 2.6 this fiscal and 2.8 in FY23 from 2.3 in FY21. Relatively improved earnings visibility would provide some respite to ROE, which would improve to 8.6% this fiscal as against 3.7% in FY21, before reaching 14.9% in FY23.



Sources: Lumax, CD Equisearch



Sources: Lumax, CD Equisearch

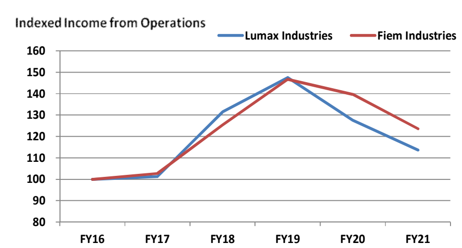
The stock currently trades at 21.4x FY22e EPS of Rs. 41.83 and 11.4x FY23e EPS of Rs. 78.53. The risk of supply shock from Russia-Ukraine crisis has triggered another leg of commodity price rally in 2022. However, despite this high cost of vehicle ownership, it seems that that there is no large room for demand deterioration since auto and its associated industry has been recovering from the worst decade of slowdown and the opening up of economy post-covid would act a prime growth driver. Lumax's market leadership in automotive lighting and its proximity to OEMs should help vigorously revive earnings next fiscal since the company has been expanding its capacities in view of improving demand scenario. Balancing odds, we recommend 'buy' on the stock with a revised price target of Rs. 1178 (previous target of Rs 1607) based on 15x FY23 earnings over a period of 9-12 months. For more information, refer to our November 2020 report.

Cross Sectional Analysis

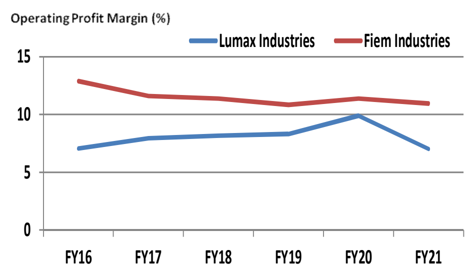
Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	IntCov	ROE (%)	Mcap/Sales	P/BV	P/E
LumaxInd	9	895	836	1706	41	7.5	2.2	3.8	9.2	0.5	1.8	20.5
FiemInd	13	906	1193	1504	88	12.2	5.8	14.9	15.4	0.8	2.0	13.5

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

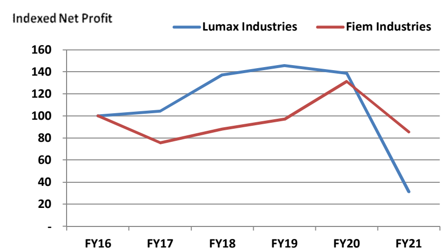
Unlike Lumax that gets some 28% of its sales from 2-wheeler segment, Fiem Industries derives over 96% of its topline from the same. In line with its peers, Fiem also witnessed a disrupted quarter largely attributed to the global semiconductor shortage. During Q3 FY22, domestic two-wheeler production volume declined by over 20% to 4.5 million units on a year-over-year basis and by almost 13% sequentially. Yet its diversified customer base helped post a year-over-year sales growth of 8.5% to Rs. 388.85 crs, though declining sequentially by over 7%. Net sales in 9MFY22, on the other hand, grew by 35.3% to Rs. 1082.74 crs on the back of a very low Q1FY21 base –with Honda Motorcycle and TVS being their two major customers, contributing roughly 53% in the first nine-months of this fiscal. Its 9MFY22 operating profits grew by 63.1% to Rs. 129.13 crs as against Rs.79.15 crs in the corresponding period of previous year; OPMs too witnessed a rise of over 200bps to 11.9%. Subsequently, post-tax adjusted earnings stood at Rs. 60.45 crs as against Rs. 21.06 crs in 9MFY21. Recently, the company has exited from its 26% stake in the joint venture, Aisan Fiem Automotive India Pvt. Ltd., at a consideration of Rs. 26 crs given its failure to scale up the business.



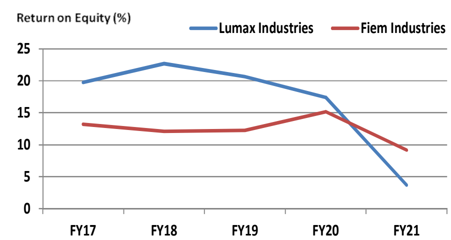
Base year FY10=100
Sources: Companies, CD Equisearch



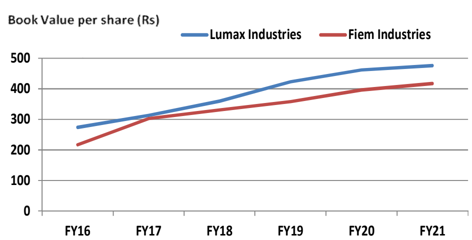
Sources: Companies, CD Equisearch



Base year FY10=100
Sources: Companies, CD Equisearch



Sources: Companies, CD Equisearch



Sources: Companies, CD Equisearch

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q3FY22	Q3FY21	% chg	9MFY22	9MFY21	% chg
Revenue From Operations	**435.29**	**446.24**	**-2.5**	**1201.94**	**921.59**	**30.4**
Other Income	3.29	1.89	74.4	9.86	9.36	5.3
Total Income	**438.58**	**448.13**	**-2.1**	**1211.81**	**930.95**	**30.2**
Total Expenditure	411.37	398.32	3.3	1134.75	871.93	30.1
EBITDA (other income incl.)	**27.20**	**49.81**	**-45.4**	**77.05**	**59.02**	**30.5**
Interest	5.09	6.85	-25.6	16.71	22.88	-26.9
Depreciation	15.36	17.17	-10.5	46.89	47.49	-1.3
PBT	**6.75**	**25.79**	**-73.8**	**13.45**	**-11.34**	**-**
Tax	2.84	15.45	-81.6	5.24	-4.26	-
PAT	**3.91**	**10.34**	**-62.2**	**8.21**	**-7.08**	**-**
Profit from Associate	2.87	9.48	-69.7	3.99	2.53	58.1
Net Profit after Profit from Associate	**6.78**	**19.82**	**-65.8**	**12.21**	**-4.55**	**-**
Extraordinary Item	-7.76	-	-	-7.76	-	-
Adjusted Net Profit	**14.54**	**19.82**	**-26.6**	**19.97**	**-4.55**	**-**
EPS	15.56	21.20	-26.6	21.36	-4.87	-

Consolidated Income Statement

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Revenue From Operations	**1851.45**	**1601.59**	**1425.98**	**1702.10**	**1985.74**
Other Income	47.73	7.35	25.23	14.67	14.73
Total Income	**1899.18**	**1608.94**	**1451.21**	**1716.77**	**2000.47**
Total Expenditure	1697.51	1443.25	1325.94	1592.90	1811.99
EBITDA (other income incl.)	**201.68**	**165.69**	**125.27**	**123.87**	**188.48**
Interest	16.29	22.50	29.24	23.03	26.39
Depreciation	60.29	63.54	64.51	64.76	73.09
PBT	**125.09**	**79.64**	**31.52**	**36.07**	**89.00**
Tax	30.49	19.83	14.91	10.89	22.25
PAT	**94.61**	**59.81**	**16.61**	**25.18**	**66.75**
Profit from Associate	9.19	12.09	1.54	6.16	6.65
Net Profit after Profit from Associate	**103.79**	**71.90**	**18.15**	**31.34**	**73.40**
Extraordinary Item	28.21	-0.05	1.88	-7.76	0.00
Adjusted Net Profit	**75.59**	**71.95**	**16.27**	**39.11**	**73.40**
EPS	80.86	76.97	17.41	41.83	78.53

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Sources of Funds					
Share Capital	9.35	9.35	9.35	9.35	9.35
Reserves & Surplus	425.55	437.12	451.09	475.88	539.94
Total Shareholders Funds	**434.90**	**446.47**	**460.43**	**485.23**	**549.29**
Long Term Debt	0.94	54.34	36.20	117.00	111.00
Total Liabilities	**435.83**	**500.81**	**496.63**	**602.23**	**660.29**
Application of Funds					
Gross Block	696.19	862.68	900.87	1040.88	1138.88
Less: Accumulated Depreciation	146.74	210.01	273.72	338.48	411.58
Net Block	**549.45**	**652.67**	**627.14**	**702.40**	**727.31**
Capital Work in Progress	49.79	32.19	47.02	30.00	32.00
Investments	80.82	90.35	92.15	98.31	104.96
Current Assets, Loans & Advances					
Inventory	204.15	179.18	222.34	263.83	292.90
Trade Receivables	221.01	173.21	216.31	221.27	258.15
Cash and Bank	2.24	37.96	3.15	19.42	4.81
Other Assets	37.36	38.34	68.61	85.08	98.41
Total CA & LA	**464.77**	**428.69**	**510.41**	**589.60**	**654.26**
Current Liabilities	699.00	724.21	792.19	835.05	878.79
Provisions-Short term	12.34	6.86	8.73	9.00	10.70
Total Current Liabilities	**711.34**	**731.07**	**800.92**	**844.05**	**889.49**
Net Current Assets	-246.57	-302.38	-290.51	-254.45	-235.23
Net Deferred Tax	-17.22	-22.93	-32.84	-35.64	-39.81
Net long term assets	19.57	50.92	53.67	61.61	71.06
Total Assets	**435.83**	**500.81**	**496.63**	**602.23**	**660.29**

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios (%)					
Revenue	12.3	-13.5	-11.0	19.4	16.7
EBITDA	18.3	0.2	-25.9	9.3	40.4
Net Profit	6.0	-4.8	-77.4	140.3	87.7
EPS	6.0	-4.8	-77.4	140.3	87.7
Margins (%)					
Operating Profit Margin	8.3	9.9	7.0	7.0	8.8
Gross profit Margin	8.1	8.9	6.6	6.5	8.2
Net Profit Margin	3.6	3.7	1.0	1.9	3.4
Return (%)					
ROCE	16.3	11.7	5.6	5.7	9.4
ROE	20.7	17.4	3.7	8.6	14.9
Valuations					
Market Cap/ Sales	0.9	0.5	1.1	0.5	0.4
EV/EBITDA	11.1	6.8	15.0	9.3	6.6
P/E	22.4	11.3	92.3	21.4	11.4
P/BV	4.3	1.9	3.4	1.8	1.6
Other Ratios					
Interest Coverage	6.5	4.5	2.0	3.0	4.4
Debt Equity	0.4	0.8	0.8	0.9	0.8
Current Ratio	0.6	0.6	0.6	0.7	0.7
Turnover Ratios					
Fixed Asset Turnover	3.5	2.7	2.3	2.6	2.8
Total Asset Turnover	5.0	3.6	3.0	3.2	3.3
Debtors Turnover	6.9	8.1	7.3	7.8	8.3
Inventory Turnover	9.1	7.5	6.6	6.5	6.5
Creditor Turnover	3.7	4.2	3.8	4.2	4.7
WC Ratios					
Debtor Days	53.2	44.9	49.9	46.9	44.1
Inventory Days	40.1	48.5	55.3	56.1	56.1
Creditor Days	98.5	87.9	94.9	86.4	77.7
Cash Conversion Cycle	-5.3	5.5	10.2	16.8	22.4

Cumulative Financial Data

Rs crs	FY18-20	FY21-23e
Income from operations	5102	5114
Operating profit	447	393
EBIT	299	243
PBT	253	164
PAT	219	129
OPM (%)	8.8	7.7
GPM (%)	8.3	7.2
NPM (%)	3.6	2.2
Interest coverage	6.4	3.1
ROE (%)	20.2	9.0
ROCE (%)	12.6	7.0
Debt-Equity ratio*	0.8	0.8
Fixed asset turnover	3.2	2.5
Total asset turnover	4.4	3.1
Debtors turnover	9.3	7.9
Creditors turnover	4.8	4.4
Inventory turnover	10.5	6.7
Debtor days	39.1	46.2
Creditor days	75.5	82.6
Inventory days	34.7	54.8
Cash conversion cycle	-1.7	18.3

FY18-20 implies three year period ending fiscal 20;*as on terminal year. Consolidated data for cumulative

Cumulative revenues at Rs. 5114 crs in FY21-23e would almost flat-line to what it was in the preceding three-year period not least due to barely robust recovery in the automobile space and weak OEM dispatches. Continuous volatility in raw material prices and lag effect in timely passing on the same to OEMs would not insignificantly impact operating profits which would decline by 12.0% to Rs. 393 crs as against Rs. 447 crs in FY18-20. Simultaneously, lasting supply crunch of semiconductors would barely help lessen the woes of auto component manufacturers. Lumax's long standing relationship with OEMs would do little to prevent the fall in its cumulative post-tax earnings by over 41% in FY21-23e.

Interest coverage would take a hit, declining from 6.4 in the previous three year period to 3.1 in FY21-23e period largely due company's increased need of funds to meet working capital requirements and continued capital expenditures. Higher stocking of finished products at its warehouses won't do much but debase its inventory turnover ratio to 6.7 in FY21-23e period from 10.5 - inventory days estimated to rise to some 55 days in the cumulative three-year period (see table). Moreover, this high inventory days aided by growing debtor days would be barely counterbalanced by rising creditor days, thus leading to some rise in cash conversion cycle (see table).

Financial Summary- US Dollar denominated

million $	FY19	FY20	FY21	FY22e	FY23e
Equity capital	1.4	1.2	1.3	1.2	1.2
Shareholders' funds	57.2	57.2	60.4	61.6	68.8
Total debt	20.2	46.1	46.0	58.4	54.3
Net fixed assets (including CWIP)	86.6	89.6	90.4	95.4	99.0
Investments	11.7	12.0	12.5	13.0	13.9
Net current assets	-35.6	-40.1	-39.5	-33.6	-31.1
Total assets	57.3	64.4	65.3	77.0	83.4
Revenues	264.9	226.0	192.2	224.8	262.2
EBITDA	23.7	23.4	16.5	17.7	24.9
EBDT	21.3	20.2	12.6	14.7	21.4
PBT	12.7	11.2	3.9	6.1	11.8
PAT	10.8	10.2	2.2	5.2	9.7
EPS($)	1.16	1.09	0.23	0.55	1.04
Book value ($)	6.12	6.12	6.46	6.59	7.36

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 75.72/$).
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/$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

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.