

# LUMAX Industries

LUMAX Industries limited, (LIL) a flagship company of D.K. Jain Group with the presence in Automotive Lighting Industry. The Company has over 3 decades of strong partnership with Stanley Electric Co. Ltd. LIL is the market leader & supplies to majority of OEM's including MSIL, HMSI, Hero Moto Corp, M&M, TATA Motors, Honda Cars and others. The Company has nine manufacturing plants in India, strategically located near manufacturing location of OEMs. LIL also served Hundayi through its associate company SL Lumax (21.28% stake of LIL) in the automotive Lighting space.

**Strong relationship with MSIL provide better revenue visibility:** LIL's 68% revenue comes from PV and MSIL's various models of Notchback/Hatchback/SUV segments contribute roughly 32% (in FY18) of total lightening revenue. We expect domestic PV sales to grow at CAGR 12.87% over FY16-26.

**Improving product mix and margin:** Owing to changing industry dynamic vis-à-vis increasing acceptability of LED lamps in upper variant of Mid, Compact and SPV segments of PV Moreover increasing safety norm in 2W segment which require AHO features to install on all new vehicle also helps to increase the adoption of LED lamps provide better revenue visibility to LIL going forward. Realization in LED lamp is higher as compared to non-LED lamp due to addition of new technology in lightening system. Share of LED lamp has improved from 8% in FY17 to 35% in Q1FY19 management believe this ratio to improve further going forward

**Increasing plant capacity:** LIL has strategically located its plant near to major OEMs which enables LIL to provide faster supply of lighting equipment to its Recently LIL has commissioned 3,00,000 car sets per year at Sanand, Gujarat from where it is serving to MSIL's at present and way forward to TML and HMSI also. Management also guided for addition capacity and other routine maintenance capex of INR80cr. in FY19 in some of the parts

**Outlook & Valuation:** Strong relationship with majority of Auto OEM, increasing sales of PV, 2W and CV and Improving revenue mix from Halogen lamp to LED lamp leads to better revenue and realization going ahead. Moreover LIL is also looking to localizes the manufacturing of LED lamp which is currently imported, management believe this will help LIL to improve margin up to 10% by FY20. We like to initiate coverage on the LIL with BUY recommendation. At the CMP of INR 2055 LIL is available at 17X of FY20E EPS INR 122. On the basis of above arguments we like to assign a multiple of 21X on FY20 EPS to arrive at price target of INR2550 (upside 24%).

## Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>1,255</b>	<b>1,271</b>	<b>1,650</b>	<b>1,980</b>	<b>2,336</b>
% chg	10	1	30	20	18
<b>Net Profit</b>	<b>52</b>	<b>54</b>	<b>71</b>	<b>92</b>	<b>114</b>
% chg	2,160	4	31	29	23
EBITDA (%)	7.1%	7.9%	8.2%	8.6%	8.9%
<b>EPS (Rs)</b>	<b>39</b>	<b>58</b>	<b>76</b>	<b>98</b>	<b>122</b>
P/E (x)	52	35	27	21	17
P/BV (x)	7.2	6.2	5.3	4.5	3.8
RoE (%)	13.7	17.6	19.7	21.6	22.6
RoCE (%)	13.9	15.2	18.7	21.2	22.9
EV/EBITDA	22.7	19.7	14.9	11.7	9.4

Source: Company, Angel Research; Note: CMP as of Aug 27, 2018

## BUY

CMP ₹2055

Target Price ₹2550

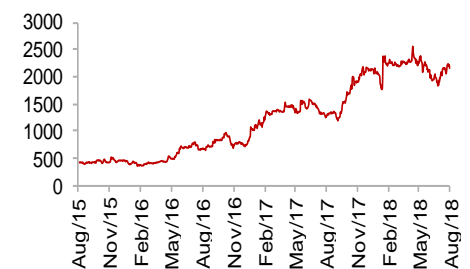
Investment Period 12 Months

Stock Info	
Sector	Auto-Ancillary
Market Cap (₹ cr)	2,086
Beta	1.3
52 Week High / Low	2585/1170
Avg. Daily Volume	748
Face Value (₹)	10
BSE Sensex	38,694
Nifty	11,691
Reuters Code	LUMA.BO
Bloomberg Code	LUMX IN

Shareholding Pattern (%)	
Promoters	74.9
MF / Banks / Indian Fls	0.6
FII / NRIs / OCBs	0.8
Indian Public / Others	23.7

Abs.(%)	3m	1yr	3yr
Sensex	10.0	21.9	50.0
LUMAXIND	(12.6)	56.5	374.8

## 3 Years Performance charts



Source: Company, Angel Research

## Kripashankar Maurya

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### Company background

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### Key Management Personnel

**Mr. D.K. Jain**, he is the Chairman Emeritus & Chief Mentor of Lumax Industries. With over 50 years of experience in auto component sector. He is an MBA from Delhi University and a Harvard Business School alumnus. He has held various industry positions like the president of ACMA, president of Suppliers Association- Toyota Kirloskar Motors, chairman of Trade Affairs Committee ACMA, co-chairman of Regional Committee on Membership of Northern Region-CII and Chairman, Regional Committee-CSR, Northern region-CII.

**Mr. Deepak Jain**, He is the Chairman & Managing Director of Lumax Industries. With over 21 years of experience in Automotive industry. He served at various Sr. position in Lumax. He is the current Chairman of Northern region of ACMA and has held various industry positions National Coordinator of Young Business Leader Forum of ACMA, President of Supplier's club, Honda Cars India Limited, Co-Chairman of Northern Region of ACMA & Vice President of Toyota Kirloskar Supplier's Association. He is also Member of Young President Organisation and Entrepreneurs' Organisation., Mr. Jain is a Business Graduate from the Illinois Institute of technology and in his early days he has also undergone training in Stanley Co. USA and Stanley Electric Co. Japan.

**Mr. Anmol Jain**, He is Joint MD of Lumax industry and associated with Lumax since 2000 and has more than 17 years of experience. He is the alumnus of Michigan State University, USA, where he did his Bachelors in Business administration with a dual major in Finance and Supply Chain Management.

**Mr. Vineet Sahni**, He is Chief Executive Officer & Senior Executive Director at Lumax Industries and he is elevated from Chief Executive Officer of Lighting Business. With over 30 years of experience in Automotive industry. Mr. Sahni served as the Business Head of Lighting Division of Minda Industries Ltd and President of Strategic Business - Automotive Lighting of NK Minda Group. He also serves as the NK Minda's Group Functional Head for Marketing & Design. A veteran in automotive industry, with over 30 years of varied leadership experience in the industry. He commenced his career with Tata Motors in 1987 and has held various positions of increasing responsibility over the years with Minda Group and Varroc Engineering. He is a B.E. Mechanical from Delhi College of Engineering.

**Industry outlook**

**India Automotive Lighting Market Overview:**

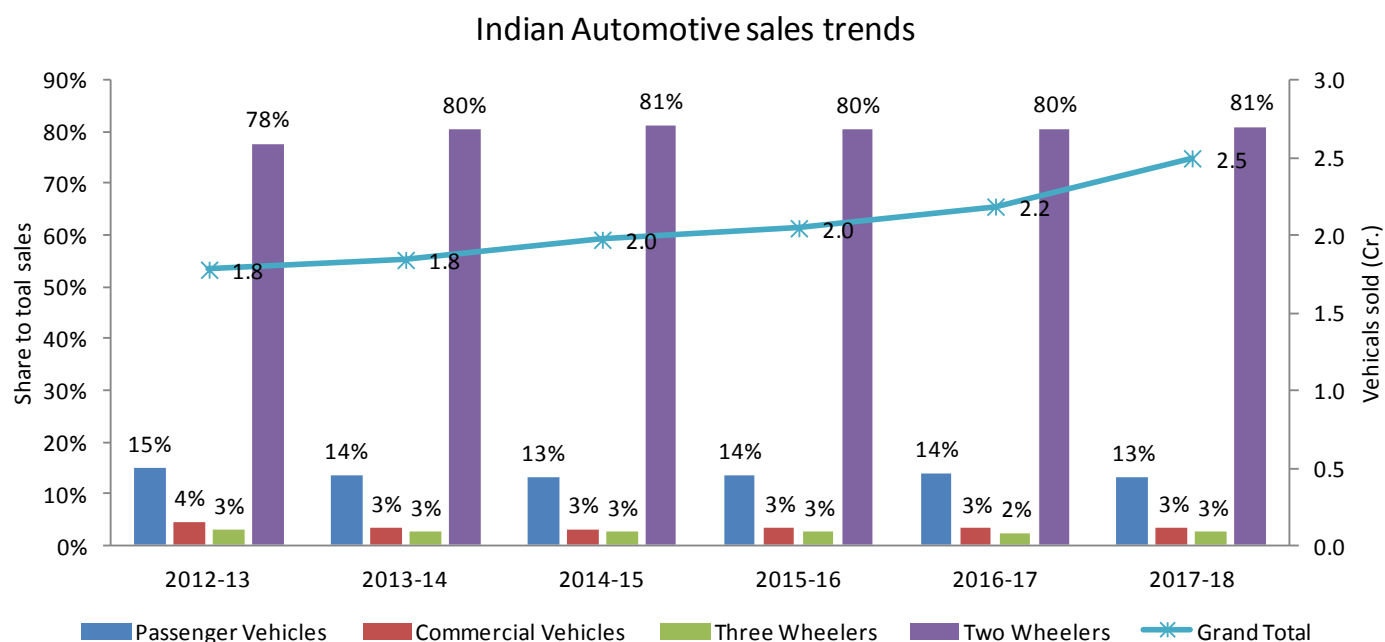
India Automotive Lighting Market is expected to garner \$3.1 billion by 2022, registering a CAGR of 5.6% from 2016-2022. Lighting is a vital component in automotive vehicles, playing an important role in automotive safety. The vehicle consists of different lights to increase the visibility in darkness and bad weather conditions along with the increase in conspicuity. 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. It also enhances the aesthetic looks to both interior and exterior parts of the vehicle.

**Indian Automotive industry**

The automobile industry in India is world’s fourth largest, with the country currently being the world’s 4th largest manufacturer of cars and 7th largest manufacturer of commercial vehicles in 2017. Indian automotive industry (including component manufacturing) is expected to reach INR 16.16-18.18 trillion (US\$ 251.4-282.8 billion) by 2026. Two-wheelers dominate the industry and made up 81 per cent share in the domestic automobile sales in FY18. Overall, Domestic automobiles sales increased at 7.01 % CAGR between FY13-18 with 24.97 million vehicles getting sold in FY18. Indian automobile industry has received Foreign Direct Investments (FDI) worth US\$ 18.76 billion between April 2000 and March 2018.

The passenger vehicle sales in India crossed the 3.2 million units in FY18, and is further expected increase to 10 million units by FY20. Auto sales in Q1 FY19 witnessed a year-on-year growth rate of 18.1% across segments, driven by a 19.91 % growth in passenger vehicle sales.

Exhibit 1: Indian Automotives sales trends



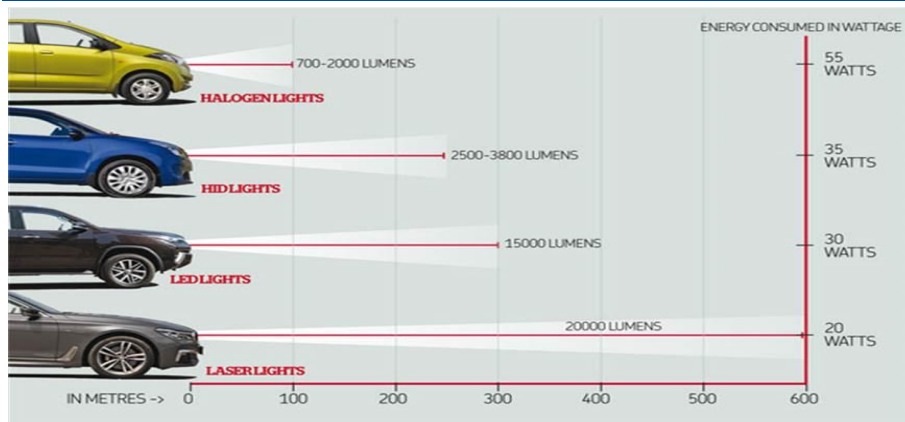
Source: SIAM, Angel Research

**Investment Argument**

**Changing automotive industry in favor of LED lightening**

Shift from BS IV to VI will trigger various technological changes in automotive industry in order to manufacturing of more energy efficient and environment friendly automotive engines and parts. Lighting system is one the auto parts which also require up-gradation in order to save energy, We believe technical transformation in auto sector will increase the adoption of LED lamps going forward. Moreover as compare to LED lamp which cost roughly 3X to 8X of Halogen lamps, but in terms of energy consumption it saves around 80-90% energy as against Halogen lamps. Apart from energy efficiency LED lamps has another advantages such as ample illumination, design flexibility and product durability. We believe LIL is in sweet spot to tap these opportunity going forward.

Exhibit 2: Types of lightning technology

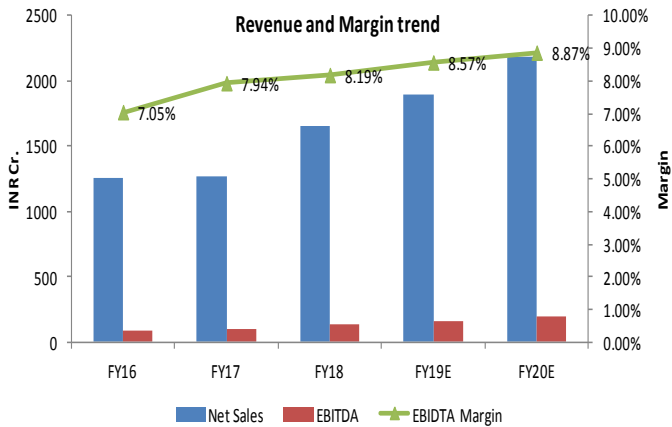


Source: Autocar India, Angel Research

**Improving product mix and margin**

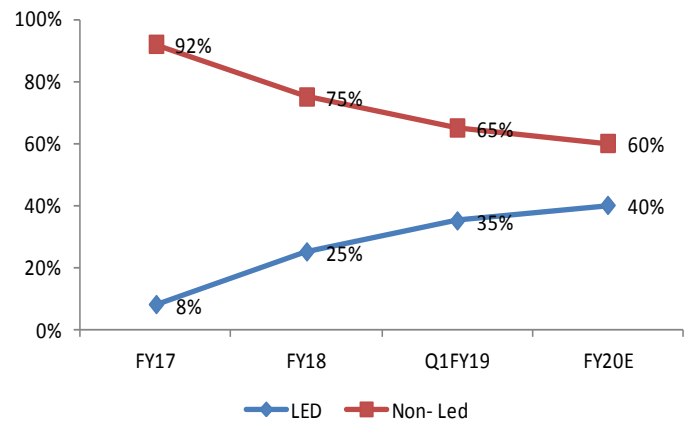
Owing to changing industry dynamic vis-à-vis increasing acceptability of LED lamps in upper variant of Mid, Compact and SPV segments of PV Moreover increasing safety norm in 2W segment which require AHO features to install on all new vehicle also helps to increase the adoption of LED lamps provide better revenue visibility to LIL going forward. Realization in LED lamp is higher as compared to non-LED lamp due to addition of new technology in lightening system. Share of LED lamp has improved from 8% in FY17 to 35% in Q1FY19 management believe this ratio to improve further going forward.

Exhibit 3: Revenue & Margin mix



Source: Company, Angel Research

Exhibit 4: Shift in lightning mix

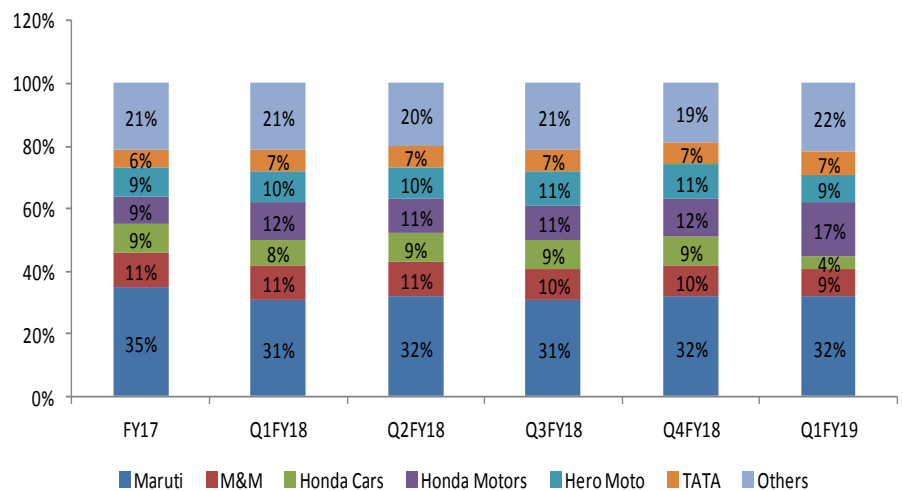


Source: Company, Angel Research

**Strong relationship with MSIL provide better revenue visibility**

LIL's 68% revenue comes from PV and MSIL's various models of Notchback/Hatchback/SUV segments contribute roughly 32% (in FY18) of total lightning revenue. We expect domestic PV sales to grow at CAGR 12.87% over FY16-26.

Exhibit 5: Customer sales mix\*



Source: Company, Angel Research

Note: \*Exclude mould sales

**Technical know-how with Stanley**

LIL through its JV with Stanley Electric co., Ltd. a Japan based LED light manufacturer (own 37.5% of LIL) gives access to the latest technologies of lightning technique which in turn enhances LIL capabilities and reach. Moreover LIL two have in-house R&D center and one design center at Taiwan which helps to design and provide fast lighting solution to its customers.

**Increasing plant capacity**

LIL has strategically located its plant near to major OEMs which enables LIL to provide faster supply of lighting equipment to its Recently LIL has commissioned 3,00,000 car sets per year at Sanand, Gujarat from where it is serving to MSIL's at present and way

forward to TML and HMSI also. Management also guided for addition capacity and other routine maintenance capex of INR80cr. in FY19 in some of the parts.

#### Strong relationship with Hyundai

SL Lumax an associate company in which LIL hold 21.28% with SL Corporation, Korea based automotive player. SL lumax supply lightening solution and other automotive component like Chassis, Trim& Mirror, shift lever and Parking brakes to OEM's. Hyundai is key customer for SL lumax.

#### Outlook and Valuation

Strong relationship with majority of Auto OEM, increasing sales of PV, 2W and CV and Improving revenue mix from Halogen lamp to LED lamp leads to better revenue and realization going ahead. Moreover LIL is also looking to localize the manufacturing of LED lamp which is currently imported, management believe this will help LIL to improve margin up to 10% by FY20. We like to initiate coverage on the LIL with BUY recommendation. At the CMP of INR 2055 LIL is available at 17X of FY20E EPS INR 122. On the basis of above arguments we like to assign a multiple of 21X on FY20 EPS to arrive at price target of INR2550 (upside 24%).

#### Risk and Concern

Downside risk to target revenue and net income is slower than expected adoption of LED lamp by OEM's and higher content of import raw material respectively. Upside risk to target revenue is faster growth in PV and 2W segments.

#### Peer comparison

Companies	CMP ₹	Sales (₹ cr.)			OPM %			PAT (₹ Cr.)			ROE (%)			PE(X)		
		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Lumax Ind	2055	1,650	1,980	2,336	8	9	9	71	92	114	20	22	23	27	21	17
Fiem Ind	756	1274	1441	1689	12	12	12	53	68	89	12	14	17	20	15	12
Minda Ind	418	4470	5571	6458	14	12	13	302	352	425	21.7	22.4	22.2	36	31	25

Source: Bloomberg, Angel Research

## Income statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
<b>Total operating income</b>	<b>1,255</b>	<b>1,271</b>	<b>1,650</b>	<b>1,980</b>	<b>2,336</b>
% chg	10	1	30	20	18
<b>Total Expenditure</b>	<b>1,167</b>	<b>1,170</b>	<b>1,515</b>	<b>1,810</b>	<b>2,129</b>
Raw Material	767	818	1,104	1,327	1,565
Personnel	141	160	189	208	245
Selling and Administration Expenses	76	86	107	128	151
Others Expenses	183	106	115	148	167
<b>EBITDA</b>	<b>89</b>	<b>101</b>	<b>135</b>	<b>170</b>	<b>207</b>
% chg	(65)	14	34	26	22
(% of Net Sales)	7.1%	7.9%	8.2%	8.6%	8.9%
Depreciation & Amortisation	38	41	48	58	69
<b>EBIT</b>	<b>51</b>	<b>60</b>	<b>87</b>	<b>112</b>	<b>139</b>
% chg	(76)	18	46	29	24
(% of Net Sales)	4	5	5	6	6
Interest & other Charges	13	11	8	8	8
Other Income	4	17	19	21	23
Extraordinary Items	-	-	-	-	-
<b>Recurring PBT</b>	<b>41</b>	<b>65</b>	<b>98</b>	<b>124</b>	<b>154</b>
% chg	(80)	58	51	28	23
Tax	4	10	26	32	40
<b>PAT (reported)</b>	<b>37</b>	<b>54</b>	<b>71</b>	<b>92</b>	<b>114</b>
% chg	(82)	48	31	29	23
(% of Net Sales)	2.9	4.3	4.3	4.6	4.9
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>39</b>	<b>58</b>	<b>76</b>	<b>98</b>	<b>122</b>
% chg	122	48	31	29	23

Source: Company, Angel Research

## Balance Sheet

<b>SOURCES OF FUNDS</b>					
Equity Share Capital	9.4	9.4	9.4	9.4	9.4
Reserves & Surplus	259	300	353	416	494
<b>Shareholders Funds</b>	<b>268</b>	<b>309</b>	<b>362</b>	<b>425</b>	<b>503</b>
Total Loans	95	83	101	101	101
Other Liabilities	51	32	47	50	50
<b>Total Liabilities</b>	<b>415</b>	<b>423</b>	<b>510</b>	<b>577</b>	<b>654</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>425</b>	<b>419</b>	<b>532</b>	<b>657</b>	<b>685</b>
Capital Work-in-Progress	-	20	34	34	34
Investments	69	79	88	105	117
Long Term Loans & Advances	31	2	4	3	3
<b>Current Assets</b>	<b>332</b>	<b>348</b>	<b>562</b>	<b>599</b>	<b>707</b>
Inventories	105	116	169	201	224
Sundry Debtors	181	191	318	380	416
Cash	3	1	2	15	57
Loans & Advances	36	-	1	1	1
Investments & Others	7	40	73	2	9
<b>Current liabilities</b>	<b>444</b>	<b>456</b>	<b>721</b>	<b>837</b>	<b>917</b>
<b>Net Current Assets</b>	<b>-111</b>	<b>-109</b>	<b>-159</b>	<b>-238</b>	<b>-210</b>
Other Non Current Asset	1	11	11	16	25
<b>Total Assets</b>	<b>415</b>	<b>423</b>	<b>510</b>	<b>577</b>	<b>654</b>

Source: Company, Angel Research

## Cash flow

<b>Y/E March (₹cr)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Profit before tax	41	65	98	124	154
Depreciation	38	41	48	58	69
Change in Working Capital	(0)	(10)	(10)	58	79
Interest / Dividend (Net)	13	11	8	8	8
Direct taxes paid	4	10	26	32	40
Others	(7)	(7)	(14)	(131)	(240)
<b>Cash Flow from Operations</b>	<b>89</b>	<b>111</b>	<b>157</b>	<b>149</b>	<b>110</b>
(Inc.)/ Dec. in Fixed Assets	(38)	(63)	(132)	(161)	(64)
(Inc.)/ Dec. in Investments	1	1	4	(17)	(12)
<b>Cash Flow from Investing</b>	<b>(37)</b>	<b>(62)</b>	<b>(128)</b>	<b>(178)</b>	<b>(76)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	61	-13	19	-	-
Others	(120)	(27)	(30)	26	8
<b>Cash Flow from Financing</b>	<b>(59)</b>	<b>(39)</b>	<b>(11)</b>	<b>26</b>	<b>8</b>
Inc./(Dec.) in Cash	(7)	10	17	(4)	42
<b>Opening Cash balances</b>	<b>18</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>15</b>
<b>Closing Cash balances</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>15</b>	<b>57</b>

Source: Company, Angel Research



## Key Ratio

<b>Y/E March</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019E</b>	<b>FY2020E</b>
P/E (on FDEPS)	52	35	27	21	17
P/CEPS	21	20	16	13	11
P/BV	7	6	5	5	4
EV/Sales	2	2	1	1	1
EV/EBITDA	23	20	15	12	9
EV / Total Assets	4	4	4	4	3
<b>Per Share Data (Rs)</b>					
EPS (Basic)	39	58	76	98	122
EPS (fully diluted)	39	58	76	98	122
Cash EPS	96	102	128	161	195
DPS	0	0	0	0	0
Book Value	287	331	387	455	538
<b>Returns (%)</b>					
ROCE	14	15	19	21	23
Angel ROIC (Pre-tax)	15	18	22	26	31
ROE	14	18	20	22	23
<b>Turnover ratios (x)</b>					
Inventory / Sales (days)	30	33	37	37	35
Receivables (days)	53	55	70	70	65
Payables (days)	90	94	119	110	85
Working capital cycle (ex-cash) (days)	-7	-6	-11	-3	15

Source: Company, Angel Research

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<b>Disclosure of Interest Statement</b>	<b>Company Name</b>
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No