

INDUSTRY	AUTOS
CMP (as on 11 Feb 2019)	Rs 139
Target Price	Rs 208
Nifty	10,889
Sensex	36,395
KEY STOCK DATA	
Bloomberg	LMAX IN
No. of Shares (mn)	68
MCap (Rsbn) / (\$ mn)	9/133
6m avg traded value (Rsmn)	11
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 225/127
	3M 6M 12M
Absolute (%)	(21.5) (28.4) (18.8)
Relative (%)	(25.0) (24.5) (25.8)
SHAREHOLDING PATTERN (%)	
Promoters	55.64
FIs & Local MFs	3.84
FPIs	17.97
Public & Others	22.52
Source : BSE	

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Risk Reward remains favorable

Lumax Autotech (LATL) continued its double digit growth trajectory (Revenue/PAT grew 15/33%) in 3Q despite a slowdown in the OEM segment. LATL's growth is driven by the aftermarket segment as well as higher other income (relating to designing and mould modification charges). We re-iterate our Buy rating due to our expectations of double digit revenue growth (12-13%) over FY20-21 as LATL is diversifying across product segments and margins are expanding on a richer mix (higher aftermarket sales).

LATL earnings growth is premised on 1) Sustained revenue growth from existing products line such as lighting, SMT and sheet metal business 2) incremental revenue from new products including Urea tank and oxygen sensors (~Rs 1bn in next 2-3 years) 3) Revenue and margin expansion in the aftermarket business (the company is launching several new products across its existing product range (Management expect healthy mid teens growth over the next 3-5 years)).

Valuation: Given its debt free balance sheet, a consistent dividend payout record (+20%), mid teens ROE/ROCE (~15%) and efficient working capital cycle (15 days), we maintain our positive view on the stock. We have reduced

Financial Summary

(Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Sales	3,200	2,772	15.4	3,678	(13.0)	11,115	13,680	15,394	17,403
EBITDA (adj.)	286	280	2.2	353	(19.2)	988	1,269	1,505	1,693
APAT	174	130	33.2	183	(4.9)	467	705	827	906
Diluted EPS (Rs)	2.5	1.9	33.2	2.7	(4.9)	6.9	10.3	12.1	13.3
P/E (x)						19.8	13.1	11.2	10.2
EV / EBITDA (x)						8.9	7.1	5.9	5.1
RoE (%)						11.4	14.8	15.6	15.3

Source: Company, HDFC sec Inst Research

EPS estimates by 5% over FY19-21E to factor in the moderation in 2W demand and are lowering our target PE Multiple to 16x. We Maintain BUY with a revised TP of Rs 208 (16xDec-18).

Highlight for the Quarter

- Strong growth from OEM and aftermarket sales:** Revenue from Sheet metal increased by 120% in 9MFY19 led by new orders for CT100 (ES model), swing arms for the Avenger and Pulsar bikes. In addition, the new facilities in Pune and Aurangabad were commissioned in 3Q and are expected to add incremental revenues of Rs 300-400mn in FY20. SMT business is also gaining traction owing to increasing adoption of LED's in 2W/4W models. The company has added 220 SKUs in 9MFY19 in the aftermarket segment and revenues have risen +23% YoY.
- New orders:** In 3Q, the Company has received orders for gear shifter levers for the refreshed versions of WagonR and Ertiga as well as the pro series range of Volvo Eicher trucks. The company has also received orders from Taco Magna for seat frames for the Tata 'Harrier', which has an annual business potential of Rs200 mn (expected from FY20).

Consolidated revenues grew 15% YoY to Rs 3.2bn, driven by healthy growth in lighting, Plastic molded and aftermarkets business.

Gross margin contracted by 69bps QoQ due to input cost pressures

Other income was higher owing to revenue from designing and mould modification services

The company has received a LOI from Tata Motors to manufacture urea tanks, which has an annual business potential of Rs.400-600 mn (revenue expected from 4QFY20)

Quarterly Financials Snapshot: Consolidated

Particulars (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Net sales (incl OOI)	3,200	2,772	15	3,678	(13)
Material Expenses	2,209	1,915	15	2,513	(12)
Employee Expenses	367	285	29	374	(2)
Other Operating Expenses	339	293	16	437	(22)
EBITDA	286	280	2	353	(19)
Depreciation	69	64	8	68	2
EBIT	217	216	0	286	(24)
Other Income	77	28	179	51	52
Interest Cost	15	6	144	12	26
Exceptional item	-	-		(53)	
PBT	279	238	18	272	3
Share of Profit of JV	(1)	(10)	(92)	(0)	59
Tax	95	79	21	94	1
RPAT	184	149	23	178	3
Minority Interest	10	19	(47)	(5)	NA
RPAT after MI	174	130	33	183	(5)
APAT	174	130	33	183	(5)
Adj EPS	2.5	1.9	33	2.7	(5)

Source: Company, HDFC sec Inst Research

Margin Analysis: Consolidated

	3QFY19	3QFY18	YoY(bps)	2QFY19	QoQ (bps)
Material Expenses % Net Sales	69.0	69.1	(5)	68.3	69
Employee Expenses % Net Sales	11.5	10.3	120	10.2	129
Other Expenses % Net Sales	10.6	10.6	1	11.9	(129)
EBITDA Margin (%)	8.9	10.1	(116)	9.6	(68)
Tax Rate (%)	34.0	33.2	82	34.5	(48)
APAT Margin (%)	5.4	4.7	73	5.0	46

Source: Company, HDFC sec Inst Research

Change in Estimates

Rs Mn	New			Old			% Chg		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	13,680	15,394	17,403	13,727	15,932	18,330	(0.3)	(3.4)	(5.1)
EBITDA	1,269	1,505	1,693	1,314	1,635	1,872	(3.5)	(8.0)	(9.6)
APAT	705	827	906	708	875	987	(0.4)	(5.6)	(8.2)
EPS	10.3	12.1	13.3	10.4	12.8	14.5	(0.4)	(5.6)	(8.2)

Source: HDFC sec Inst Research

Gear shifter business will also grow at a healthy pace driven by increasing penetration of AMT/AT and acquisition of new business

After market is expected to grow at +20% CAGR for 3-5 years

Key Assumptions

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Lighting	3,476	3,334	3,434	3,709	3,969
YoY (%)	26.4	-4.1	3.0	8.0	7.0
Sheet Metal & Seat Frame	772	778	1,827	2,126	2,479
YoY (%)	-24.1	0.7	134.8	16.4	16.6
Plastic Molded Parts	1,352	1,890	2,041	2,184	2,358
YoY (%)	0.3	39.8	8.0	7.0	8.0
Gear Shifter and Parking break	1040	1330	1,420	1,786	2,213
YoY (%)	104.3	27.9	6.8	25.7	23.9
Air Intake System	390	470	467	607	789
YoY (%)	136.4	20.5	-0.7	30.0	30.0
After Market	1,786	1,701	2,001	2,301	2,646
YoY (%)	-19.2	-4.8	17.6	15.0	15.0
SMT	386	1000	1801	1981	2179
YoY (%)	157.4	159.0	80.0	10.0	10.0
Other Misc. (including Painting & Tooling	452	612	690	703	773
YoY (%)	-18.5	35.3	12.8	1.8	10.0
Total	9,654	11,115	13,681	15,396	17,406
YoY (%)	12.8	15.1	23.1	12.5	13.1

Source: Company, HDFC sec Inst Research

Peer Set Comparison

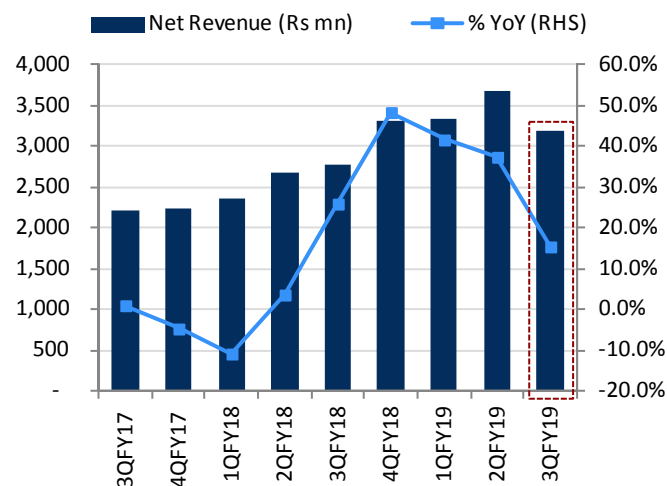
	MCap (Rs bn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Exide Industries	190	209	BUY	275	8.9	10.9	12.3	24	19	17	13.2	11.0	9.4	13.7	15.4	15.7
Suprajit Engineering	25	192	BUY	282	10.5	13.2	15.0	18.3	14.5	12.8	10.9	8.9	7.4	20.4	21.4	20.3
Jamna Auto	21	52	BUY	75	3.6	4.4	4.7	14.7	12.2	11.2	7.9	6.8	6.1	30.6	30.5	27.5
SwaraJ engines	17	1340	BUY	1,828	76.8	89.5	101.4	18	15	13.3	10.7	8.9	7.5	37.9	37.6	35.6
Subros	16	244	BUY	335	14.5	17.2	20.6	16.7	14.1	11.7	7.3	6.1	5.1	16.0	14.3	15.4
Ramkrishna Forging	14	470	BUY	705	38.4	44.4	52.3	12.3	11.0	9.2	5.9	5.4	4.5	15.4	15.4	15.7
NRB Bearings	18	186	NEU	217	10.9	12.1	12.9	17.1	15.3	14.4	10.0	9.1	8.3	25.1	23.3	21.3
JBM Auto	11	252	BUY	560	24.6	31.1	34.8	11	8.8	7.8	6.1	4.8	4.1	21.6	21.9	20.6
Lumax Autotech	9	139	BUY	208	10.3	12.1	13.3	13.1	11.2	10.2	7.1	5.9	5.1	14.8	15.6	15.3

Source: Company, HDFC sec Inst Research

Management expect double digit revenue growth over FY19-21E

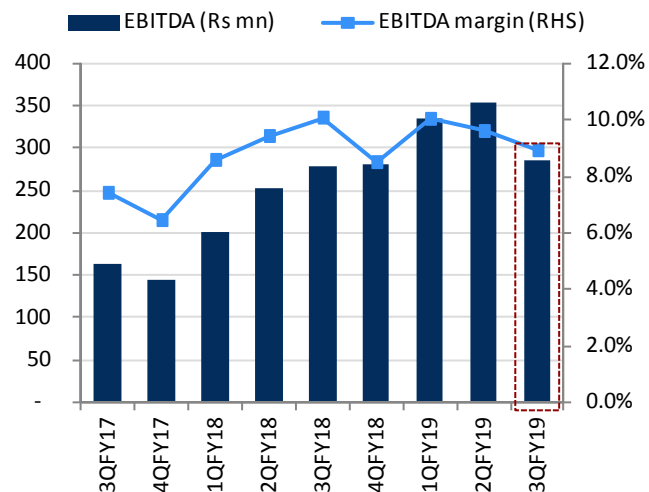
EBITDA margin to expand owing to 50-100 bps in next two years owing to benefit of operating leverage and change in product mix

Net Revenue Trend



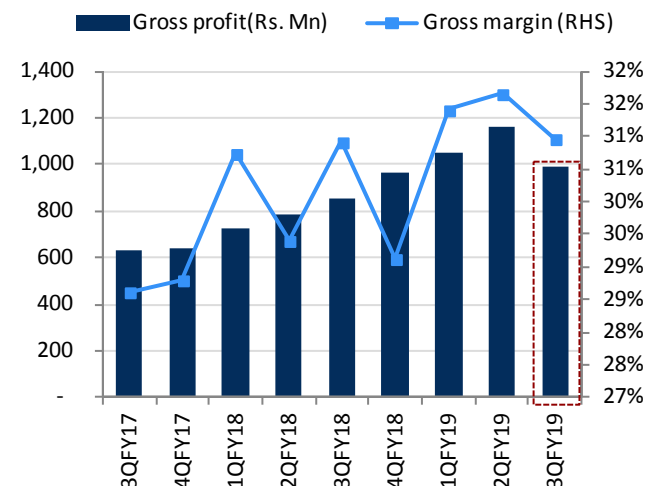
Source: Company, HDFC sec Inst Research

EBITDA Margin Trend



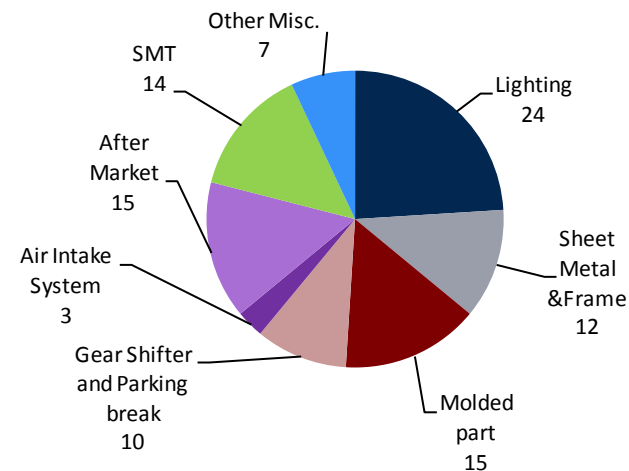
Source: Company, HDFC sec Inst Research

Gross Margin Contracted YoY/QoQ



Source: Company, HDFC sec Inst Research

Product Wise Revenue Contribution in 9MFY19 (%)



Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	9,654	11,115	13,680	15,394	17,403
Growth (%)	6.7	15.1	23.1	12.5	13.0
Material Expenses	6,920	7,809	9,470	10,795	12,212
Employee Expenses	955	1,110	1,436	1,478	1,671
Other Operating Expenses	1073	1207	1505	1616	1827
EBITDA	707	988	1269	1505	1693
EBITDA Margin (%)	7.3	8.9	9.3	9.8	9.7
EBITDA Growth (%)	3.4	39.8	28.4	18.6	12.5
Depreciation	235	253	275	304	333
EBIT	472	736	994	1202	1360
Other Income (Including EO Items)	73	130	163	149	151
Interest	38	28	40	30	30
PBT	506	837	1117	1320	1481
Share of Profit from JV	29	-6	0	0	0
Tax (Incl Deferred)	159	287	357	422	489
Minority Interest	56	84	54	71	86
RPAT	321	460	705	827	906
APAT	345	467	705	827	906
APAT Growth (%)	8.6	35.3	51.0	17.2	9.6
Adjusted EPS (Rs)	5.1	6.9	10.3	12.1	13.3
EPS Growth (%)	8.6	35.3	51.0	17.2	9.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	136	136	136	136	136
Reserves	3,579	4,376	4,875	5,459	6,100
Total Shareholders Funds	3,715	4,512	5,011	5,596	6,237
Minority Interest	219	303	357	428	514
Long Term Debt	152	108	102	50	25
Short Term Debt	200	-	-	-	-
Total Debt	352	108	102	50	25
Net Deferred Taxes	168	198	178	158	138
Long Term Provisions & Others	212	374	77	82	87
TOTAL SOURCES OF FUNDS	4,666	5,494	5,725	6,314	7,004
APPLICATION OF FUNDS					
Net Block	2,482	2,733	2,958	3,155	3,322
CWIP	140	120	107	123	117
Investments	776	1,348	1,505	1,693	1,914
LT Loans & Advances	116	139	171	193	218
Total Non-current Assets	3,514	4,340	4,742	5,163	5,571
Inventories	554	780	899	1,012	1,144
Debtors	1,555	2,806	2,624	2,952	3,337
Other Current Assets	240	127	192	216	244
Cash & Equivalents	503	535	375	447	617
Total Current Assets	2,851	4,248	4,090	4,627	5,342
Creditors	1,654	3,038	2,915	3,280	3,708
Other Current Liabilities & Provns	44	56	41	46	52
Total Current Liabilities	1,699	3,094	2,956	3,326	3,760
Net Current Assets	1,152	1,154	1,134	1,301	1,582
TOTAL APPLICATION OF FUNDS	4,666	5,494	5,726	6,314	7,004

Source: Company, HDFC sec Inst Research

Cash Flow Consolidated

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	538	860	1,117	1,320	1,481
Non-operating & EO items	(105)	(152)	(163)	(149)	(151)
Interest expenses	38	28	40	30	30
Depreciation	235	253	275	304	333
Working Capital Change	(65)	24	(142)	(95)	(113)
Tax Paid	(167)	(252)	(377)	(442)	(509)
OPERATING CASH FLOW (a)	475	760	749	967	1,072
Capex	(473)	(483)	(488)	(515)	(494)
Free cash flow (FCF)	2	277	261	452	578
Investments	(505)	(572)	(156)	(189)	(221)
Non-operating Income	105	152	163	149	151
INVESTING CASH FLOW (b)	(873)	(903)	(482)	(555)	(564)
Debt Issuance/(Repaid)	69	(244)	(5)	(52)	(25)
Interest Expenses	(38)	(28)	(40)	(30)	(30)
FCFE	109	61	296	430	583
Others	669	432	(591)	(505)	(553)
Share Capital Issuance					
Dividend	75	16	206	242	265
FINANCING CASH FLOW (c)	775	176	(430)	(345)	(343)
NET CASH FLOW (a+b+c)	377	33	(163)	72	170
Closing Cash & Equivalents	502	535	375	447	617

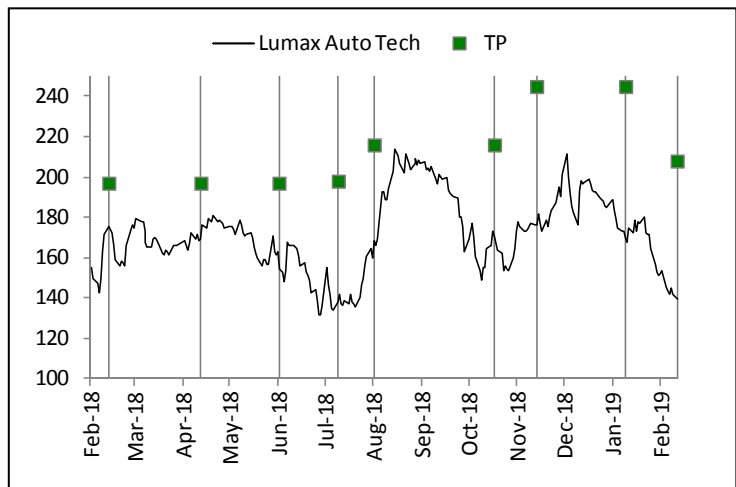
Source: Company, HDFC sec Inst Research

Key Ratios Consolidated

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	28.3	29.7	30.8	29.9	29.8
EBITDA Margin	7.3	8.9	9.3	9.8	9.7
APAT Margin	3.6	4.2	5.2	5.4	5.2
RoE	10.5	11.4	14.8	15.6	15.3
RoIC (or Core RoCE)	11.1	12.2	14.9	16.4	16.4
RoCE	10.6	11.4	15.1	15.7	15.6
EFFICIENCY					
Tax Rate (%)	31.3	34.3	32.0	32.0	33.0
Fixed Asset Turnover (x)	2.0	2.1	2.4	2.5	2.7
Inventory (days)	21	26	24	24	24
Debtors (days)	59	92	70	70	70
Other Current Assets (days)	9	4	5	5	5
Payables (days)	63	100	78	78	78
Other Current Liab & Provns (days)	2	2	1	1	1
Cash Conversion Cycle (days)	25	20	20	20	20
Debt/EBITDA (x)	0.5	0.1	0.1	0.0	0.0
Net D/E (x)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Interest Coverage (x)	0.1	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	5.1	6.9	10.3	12.1	13.3
CEPS	8.5	10.6	14.4	16.6	18.2
Dividend	4.7	1.0	2.6	3.0	3.3
Book Value	55	66	74	82	92
VALUATION					
P/E (x)	26.9	19.8	13.1	11.2	10.2
P/BV (x)	2.5	2.1	1.8	1.7	1.5
EV/EBITDA (x)	12.9	8.9	7.1	5.9	5.1
EV/Revenues (x)	0.9	0.8	0.7	0.6	0.5
OCF/EV (%)	5.2	8.6	8.3	10.9	12.4
FCF/EV (%)	0.0	3.1	2.9	5.1	6.7
FCFE/Mkt Cap (%)	1.2	0.7	3.2	4.6	6.3
Dividend Yield (%)	3.5	0.7	1.9	2.2	2.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-Feb-18	173	BUY	197
12-Apr-18	173	BUY	197
4-Jun-18	157	BUY	197
9-Jul-18	135	BUY	198
1-Aug-18	168	BUY	216
18-Oct-18	165	BUY	216
14-Nov-18	176	BUY	245
9-Jan-19	173	BUY	245
11-Feb-19	139	BUY	208

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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