



Lumax Auto Technologies Limited

On a firm track

Automobiles

Sharekhan code: LUMAXTECH

Company Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Reco: Buy	↔
CMP: Rs. 123	
Price Target: Rs. 148	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

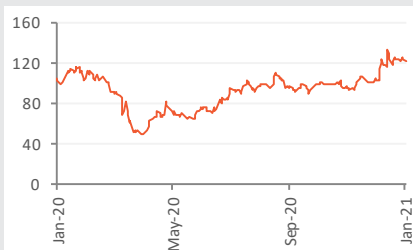
Company details

Market cap:	Rs. 845 cr
52-week high/low:	Rs. 140 / 48
NSE volume: (No of shares)	1.24 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.01 cr

Shareholding (%)

Promoters	56.0
FII	18.0
DII	6.2
Others	19.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.0	25.5	42.3	18.3
Relative to Sensex	13.0	-1.0	4.3	1.7

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Lumax Auto Technologies Limited (Lumax Auto) with a revised PT of Rs. 148, factoring in better multiples owing to a strong traction in business outlook.
- We expect Lumax Auto to benefit from the recovery in the two-wheeler and four-wheeler industry, a diversified portfolio, richer product mix and increase in content per client.
- We expect Lumax Auto's earnings to grow by 59.1% in FY2022E and 26.5% in FY2023E, driven by a 20.2% CAGR during FY2021E-23E and a 140-bps improvement in EBITDA margin.
- Stock is attractively valued at a P/E multiple of 10.8x and EV/EBITDA multiple of 5.4x its FY2023 estimates.

Lumax Auto Technologies Limited (Lumax Auto) is expected to benefit from an improving business outlook for the automotive industry. The company has a well-diversified customer and product portfolio, which de-risks its business model. It has a strong presence in the two-wheeler and passenger vehicles segments, which contribute 48% and 20% of total revenues, respectively and rising demand in these segments bodes well for Lumax. It is one of the top suppliers for most OEMs and commands a dominant market share per product per OEM. Led by strong relationships with OEMs, the company also enjoys a 'preferred supplier' status, when it expands its product portfolio. We expect Lumax Auto to benefit from a favourable changing product trend such as shifting from halogen lights to LED lights for two-wheelers/ four-wheelers, increasing use of lighter plastic materials and increasing automatic transmission in 4Ws (shifting from manual gears to automatic gears). Also, the company is witnessing an increased share of business with automotive OEM customers. It has received new businesses for M&M Thar (gear shifter, control housing, etc.), Maruti's upcoming SUV (plastic parts), Tata Motors Hornbill SUV (air filter assembly). In the two-wheeler segment, new business was received from Bajaj Chetak EV (helmet box lamp), CT100 and Pulsar (seat cowl, side cover). We expect Lumax Auto to benefit from a rise in revenue per client and a richer product mix. Given its revenue visibility, we expect Lumax Auto's earnings to grow by 59.1% in FY2022E and 26.5% in FY2023E, driven by 20.2% CAGR during FY2021E-23E and 140 bps improvement in EBITDA margin.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 148: Lumax Auto is witnessing strong growth traction from clients, driven by a recovery in automotive and expansion of product portfolio. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margins would expand led by operating leverage and cost-control measures. We have maintained our earnings estimates and would review post Q3FY21 results. We have valued the stock by assigning P/E multiple of 13x, a slight discount to its 7-year average P/E multiples, on Lumax Auto's FY2023E earnings to arrive at a revised PT of Rs. 148. The stock is attractively valued at a P/E multiple of 10.8x and EV/EBITDA multiple of 5.4x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 148.

Key risk

A second wave of COVID-19 can hamper economic activities and affect revenue growth. Also, pricing pressures from OEMs may hit profitability.

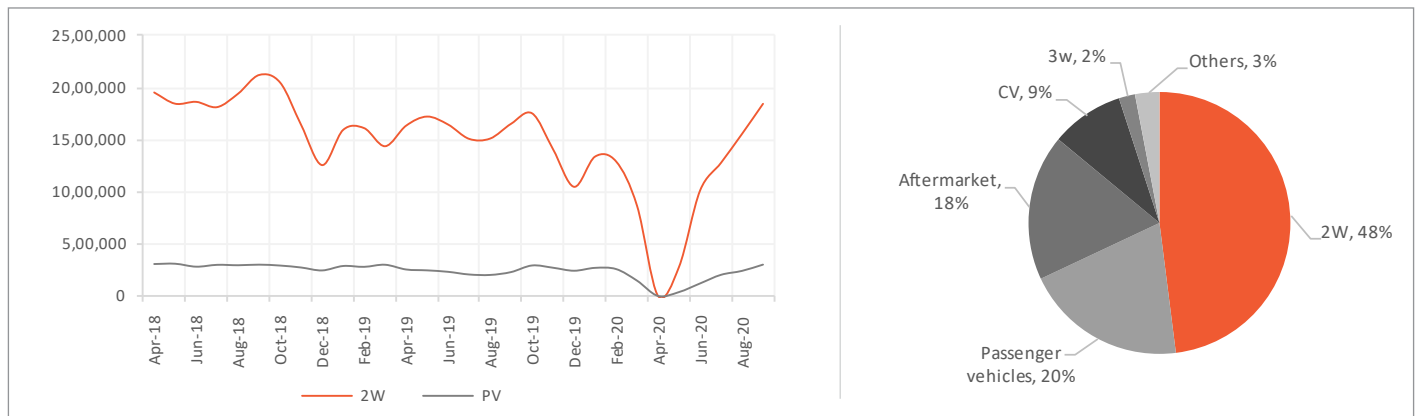
Valuations (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales (Rs cr)	1,187	1,141	998	1,247	1,443
Growth (%)	17.2	(3.9)	(12.5)	24.9	15.7
EBIDTA (Rs cr)	110	91	82	116	139
OPM (%)	9.3	8.0	8.2	9.3	9.6
PAT (Rs cr)	65	50	38	61	77
Growth (%)	46.8	(23.7)	(22.9)	59.1	26.5
FD EPS (Rs)	9.6	7.3	5.6	9.0	11.4
P/E (x)	12.9	16.9	22.0	13.8	10.9
P/BV (x)	1.8	1.9	1.8	1.6	1.4
EV/EBITDA (x)	7.5	8.7	9.8	6.8	5.4
RoE (%)	13.6	11.2	8.1	11.8	13.0
RoCE (%)	15.7	12.1	9.8	13.8	15.3

Source: Company; Sharekhan estimates

Beneficiary of improved automotive business outlook and diversified portfolio: Lumax Auto Technologies (Lumax Auto) is expected to benefit from the improving business outlook for the automotive sector. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one-customer or one-product. It has a strong presence in the two-wheeler and passenger vehicles segments, which contribute 48% and 20% of total revenues respectively and rising demand in these segments bodes well for Lumax Auto.

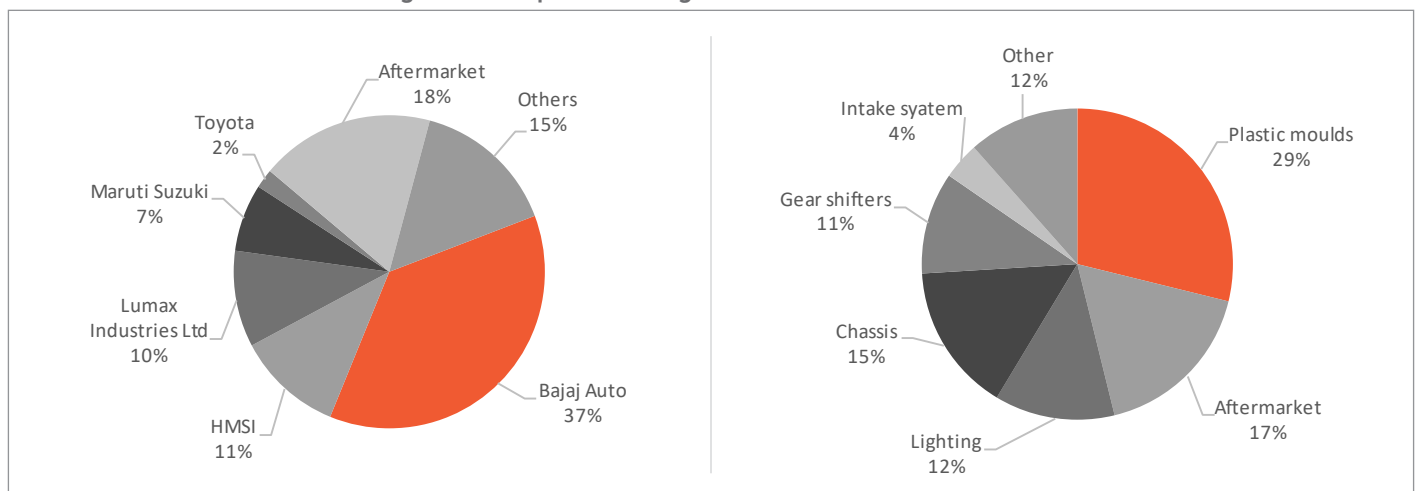
Lumax Auto to benefit from strong recovery in 2Ws and PV segments



Source: Company Data; SIAM, Sharekhan Research

Strong and long-lasting client base: Lumax Auto has strong relationships with large OEMs, which offers robust revenue visibility. Its key clients in the domestic market include Bajaj Auto, HMSI, Maruti Suzuki, M&M Lumax Industries, Toyota Motors and Kia Motors. Lumax Auto is the top suppliers for most OEMs and commands a dominant market share per product per OEM. On the back of strong relationships with OEMs, the company also enjoys a ‘preferred supplier’ status, when it expands its product portfolio. We expect Lumax Auto to benefit from the favourable changing product trend such as shifting from halogen lights to LED lights in two-wheelers/four-wheelers, increasing use of lighter plastic materials and increasing automatic transmission in 4Ws (shifting from manual gears to automatic gears).

Lumax Auto to benefit from its strong relationship with leading OEMs



Source: Company Data; Sharekhan Research

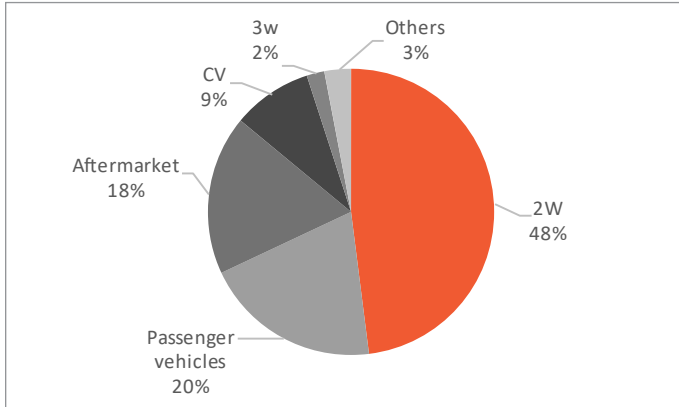
New businesses: Lumax Auto introduced urea tanks and oxygen sensors that are mandatory under BS-VI vehicles. The company is witnessing increased traction in urea tanks with customers such as Tata Motors. Lumax auto is witnessing strong demand for oxygen sensors and had secured orders from Automotive OEMs. It is also witnessing increased share of business with automotive OEM customers. It has received new businesses for M&M Thar (gear shifter, control housing), Maruti upcoming SUV (plastic parts), Tata Motors Hornbill SUV (air filter assembly). In the two-wheeler segment new business was received from Bajaj Chetak EV (helmet box lamp), CT100 and Pulsar (seat cowl, side cover). We expect Lumax Auto to benefit from increase in revenue per client and richer product mix.

Capex plans and investments: Lumax Auto has maintained capex guidance at Rs 75 crore for FY2021. The company is open to inorganic growth.

Strong broad-based growth; expect double-digit growth in FY22: The company has a strong long-term revenue visibility, given its strong relationships with OEMs. We have maintained our earnings estimates. We expect Lumax Auto's earnings to grow by 59.1% in FY2022E and 26.5% in FY2023E, driven by 20.2% CAGR during FY2021E-23E and 140 bps improvement in EBITDA margins.

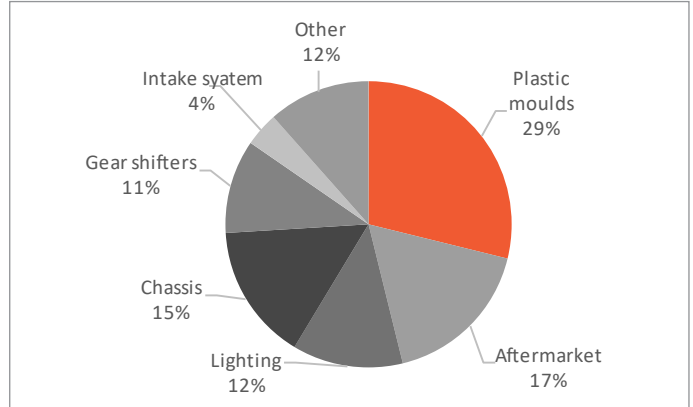
Financials in charts

Segmental Mix (%)



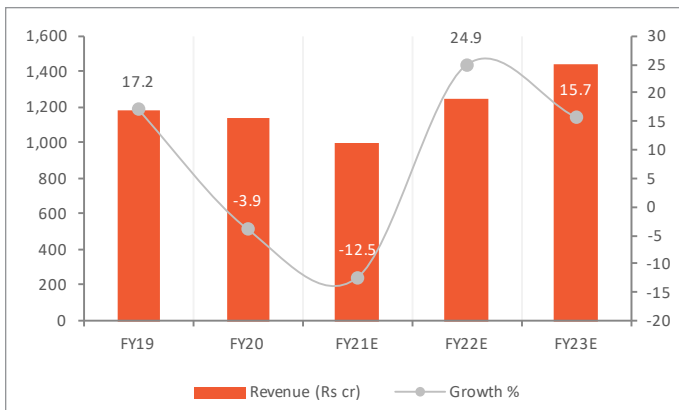
Source: Company, Sharekhan Research

Product Mix (%)



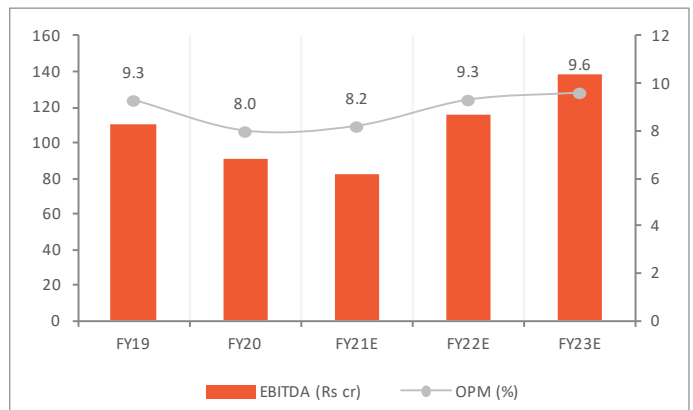
Source: Company, Sharekhan Research

Revenue and Growth Trend



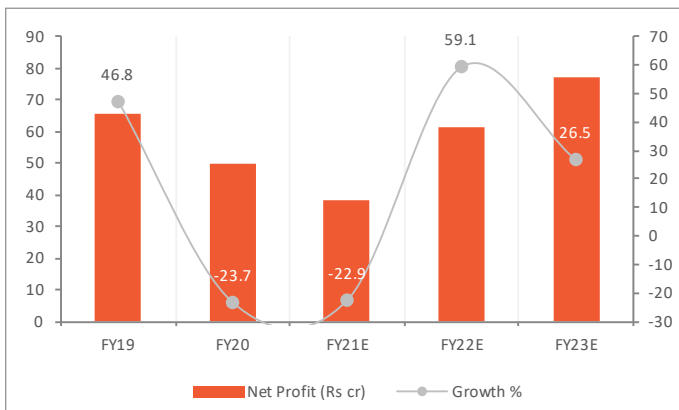
Source: Company, Sharekhan Research

EBITDA and OPM Trend



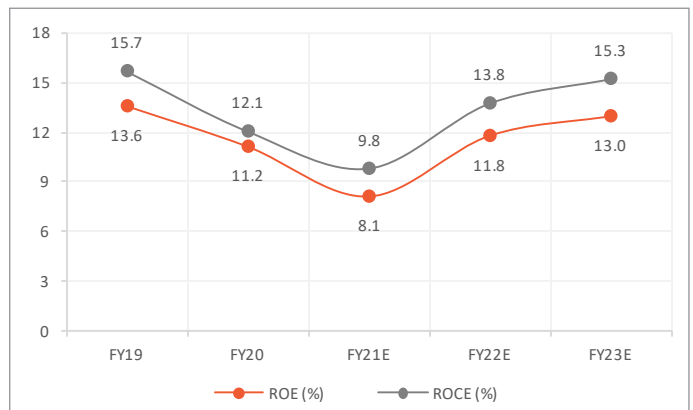
Source: Company, Sharekhan Research

Net Profit and Growth Trend



Source: Company, Sharekhan Research

Return Ratio Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Beneficiary of demand in automotive segment

The business outlook for the automotive segments is improving with a normalisation of economic activities. The automotive demand is witnessing strong recovery in two-wheeler and four-wheeler segments aided by pent-up demand, as well as an increase in personal mobility transport. The tractor segment remains buoyant on robust farm income this year.

■ Company Outlook – Strong growth visibility

Lumax Auto is witnessing increased share of business from clients. In the two-wheeler segment, it has received orders for supply of chassis for KTM (a division of Bajaj Auto) and plastic parts from, Bajaj Auto and Honda Motorcycles and Scooters India. In passenger vehicle segment, the company has orders from leading OEMs such as Maruti Suzuki, M&M and Tata Motors for supply of gear shifters, plastic parts and air filter assemblies for their upcoming models. Moreover, with the advent of BS-VI emission norms, it has introduced new products such as urea tanks for passenger and commercial vehicles and oxygen sensors for two-wheelers. New products will increase the content per vehicle and drive growth for the company.

■ Valuation – Maintain Buy with a revised PT of Rs. 148

Lumax Auto is witnessing strong growth traction from clients, driven by a recovery in automotive and expansion of product portfolio. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margins would expand led by operating leverage and cost-control measures. We have maintained our earnings estimates and would review post Q3FY21 results. We have valued the stock by assigning P/E multiple of 13x, a slight discount to its 7-year average P/E multiples, on Lumax Auto's FY2023E earnings to arrive at a revised PT of Rs. 148. The stock is attractively valued at a P/E multiple of 10.8x and EV/EBITDA multiple of 5.4x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 148.

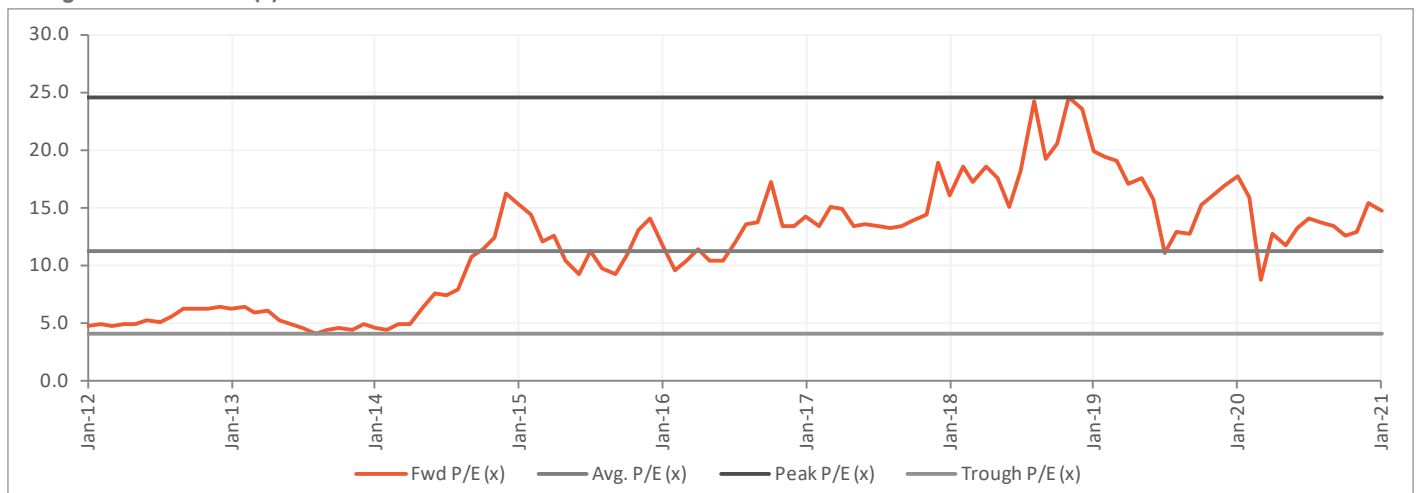
PT valued at slight discount to 7-year average P/E multiple provides 20% upside

Price Target Calculation

FY2023E EPS (Rs. per share)	11.4	
Target P/E Multiple (x)	13	Slightly discount to 7-year average P/E multiple
Target Price (Rs.)	148	
Upside (%)	20%	

Source: Company; Sharekhan estimates

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Lumax Auto Technologies Limited	21.8	13.7	10.8	9.8	6.7	5.4	9.8	13.8	15.3
Amara Raja Batteries Limited	26.6	22.1	19.1	14.0	11.4	9.8	18.7	20.1	20.7
Exide Industries Limited	19.7	16.6	14.7	12.1	10.2	8.9	14.0	15.0	15.3
Sundram Fasteners Limited	50.5	29.8	21.2	24.0	16.4	12.5	11.0	16.5	20.4
Suprajit Engineering Limited	29.0	19.9	15.7	15.9	11.9	9.6	11.9	15.2	17.1
GNA Axles Limited	17.9	12.7	9.2	6.8	5.4	4.3	9.0	11.2	13.8

Source: Company, Sharekhan estimates

About company

Lumax Auto Technologies (LAT) is a part of Lumax - D K Jain Group. The company is a leading auto component manufacturer with a well-diversified product portfolio. Lat supplies to most of the leading two-wheeler OEM's in the country and is present in the two-wheeler and 3W segment (50% of FY 20 sales), Passenger Cars (20% of FY20 sales) and aftermarkets (18% of FY 20 sales). The OEM segment accounts for 80% of (FY2020) revenues, while the aftermarket segment accounts for 18% of the revenues. Some of the products include intake stems, integrated plastic modules, two-wheeler chassis and lighting, gear shifters, seat structures and mechanisms, LED lighting, aerospace and defence engineering services, aftermarket, electrical and electronics components, telematics products and services.

Investment theme

Lumax Auto Technologies Limited (Lumax Auto) is expected to be a beneficiary of improving business outlook for both the automotive. The company has a well-diversified customer and product portfolio, de-risking its business model from dependency on one-customer or one-product. The company has a strong presence in two-wheeler and passenger vehicles segment, which contributes 48% and 20% of total revenues respectively. We expect Lumax Auto to be beneficiary of the demand in two-wheelers and passenger vehicle segments. On the back of strong relationships with OEMs, the company also enjoys preference, when it expands its product portfolio. We expect Lumax Auto to benefit from the favourable changing product trend such as shifting from halogen lights to LED lights in two-wheeler/4W, increasing use of lighter plastic materials and increasing automatic transmission in 4Ws (shifting from manual gears to automatic gears. Also, we expect Lumax Auto to benefit from increase in revenue per client and richer product mix. It has received new businesses for M&M Thar (gear shifter, control housing), Maruti upcoming SUV (plastic parts), Tata Motors Hornbill SUV (air filter assembly). In the two-wheeler segment new business was received from Bajaj Chetak EV (helmet box lamp), CT100 and Pulsar (seat cowl, side cover).

Key Risks

- ♦ The second wave of COVID-19 can lead to slow down in the economic activities again and can impact revenue growth of the company.
- ♦ Pricing pressures from automotive OEM customers can impact profitability.

Additional Data

Key management personnel

Mr. D K Jain	Executive Chairman
Mr. Anmol Jain	Managing Director
Mr. Deepak Jain	Director
Mr. Ashish Dubey	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Lumax Finance Pvt Ltd	17.8
2	Jain Anmol	14.6
3	Jain Deepak	14.6
4	Albula Investment Fund Ltd	9.0
5	Jain Dhanesh Kumar	9.0
6	Asia Investments Pvt Ltd	4.8
7	DSP Investment Managers Pvt Ltd	3.8
8	INDIA ACORN FD LTD	1.5
9	WHITE OAK INDIA EQUITY FND	1.4
10	Mitsubishi UFJ Financial Group Inc	0.9

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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