



## Lumax Auto Technologies Limited

## Illuminated performance

Automobiles

Sharekhan code: LUMAXTECH

Company Update

Stock 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

Change

Reco: Buy	↔
CMP: Rs. 157	
Price Target: Rs. 190	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

## Company details

Market cap:	Rs. 1,070 cr
52-week high/low:	Rs. 168 / 48
NSE volume: (No of shares)	1.43 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

## Shareholding (%)

Promoters	56.0
FII	18.6
DII	6.0
Others	19.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	22.6	28.9	63.0	81.7
Relative to Sensex	24.4	19.3	31.6	40.2

Sharekhan Research, Bloomberg

## Summary

- We maintain our Buy rating on Lumax Auto Technologies Limited (Lumax Auto) with a revised PT of Rs. 190, factoring in better multiples owing to a strong traction in its business outlook and earnings upgrade.
- We expect Lumax Auto to benefit from strong volume traction in its key clients' businesses in 2W, PV, and CV segments, a diversifying client portfolio, and a widening product portfolio.
- We expect Lumax Auto's earnings to report a 32% CAGR over FY2021E-FY2023E, driven by a 19% CAGR during FY2021E-FY2023E and a 90-bps improvement in EBITDA margin.
- The stock is trading below its historical average at a P/E multiple of 13.2x and EV/EBITDA multiple of 6.8x its FY2023 estimates.

We continue to remain positive on the growth prospects of Lumax Auto Technologies Limited (Lumax Auto) due to strong volume traction in the two-wheeler (2-W), passenger vehicles (PV), and commercial vehicles (CV) segments, which are the company's key revenue contributors. Lumax Auto commands a dominant market share in most products it supplies to its customers. The company has a strong presence in the 2W and PV segments, which contribute 48% and 20% to total revenue, respectively, and rising demand in these segments bodes well for Lumax. The company has received new order book of Rs. 400 crore during Q3FY2021. The company is witnessing increased share of business with its OEM customers. Lumax Auto has received new businesses in the PV business for M&M's Thar (gear shifter, control housing, and other products), Maruti's upcoming SUV (plastic parts), and Tata Motors' Hornbill SUV (air filter assembly). In the 2W segment, new business was received from Bajaj Chetak EV (helmet box lamp), CT100, and Pulsar (seat cowl and side cover). Moreover, the faster adoption of electric vehicles will benefit Lumax Auto in two ways, viz. increased business from existing clients and faster adoption of LED lighting, where it has a stronghold in the market. Led by the company's strong relationships with OEMs, the company also enjoys a 'preferred supplier' status and gets an opportunity for incremental revenue when it widens its product portfolio. The company has a well-diversified customer and product portfolio, which de-risks its business model. We expect Lumax Auto to benefit from a favourable changing product trend such as shifting from halogen lights to LED lights for 2Ws and PVs, increasing use of lighter plastic materials, and increasing automatic transmission in PVs (shifting from manual gears to automatic gears). We expect Lumax Auto to benefit from increasing revenue per client and a richer product mix. Given its revenue visibility, we expect Lumax Auto's earnings to report a 32% CAGR over FY2021E-FY2023E, driven by a 19.0% CAGR during FY2021E-FY2023E and a 90-bps improvement in EBITDA margin. Hence, we maintain Buy on the stock with a revised price target (PT) of Rs. 190.

## Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 190:** Lumax Auto is witnessing strong growth traction from clients, driven by recovery in automotive and expansion of product portfolio. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities and rolling out of COVID-19 vaccination successfully throughout the country. Operating profit margin (OPM) is expected to remain firm led by operating leverage and cost-control measures. The company has a strong balance sheet and positive cash of Rs. 25 crore net-of-debt in 9MFY2021. We have increased our target multiple to 16x to reflect improving businesses from existing and new clients, improving content per vehicle, and firm OPM. The stock is trading below its historical average at P/E multiple of 13.2x and EV/EBITDA multiple of 6.8x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 190.

## Key risk

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

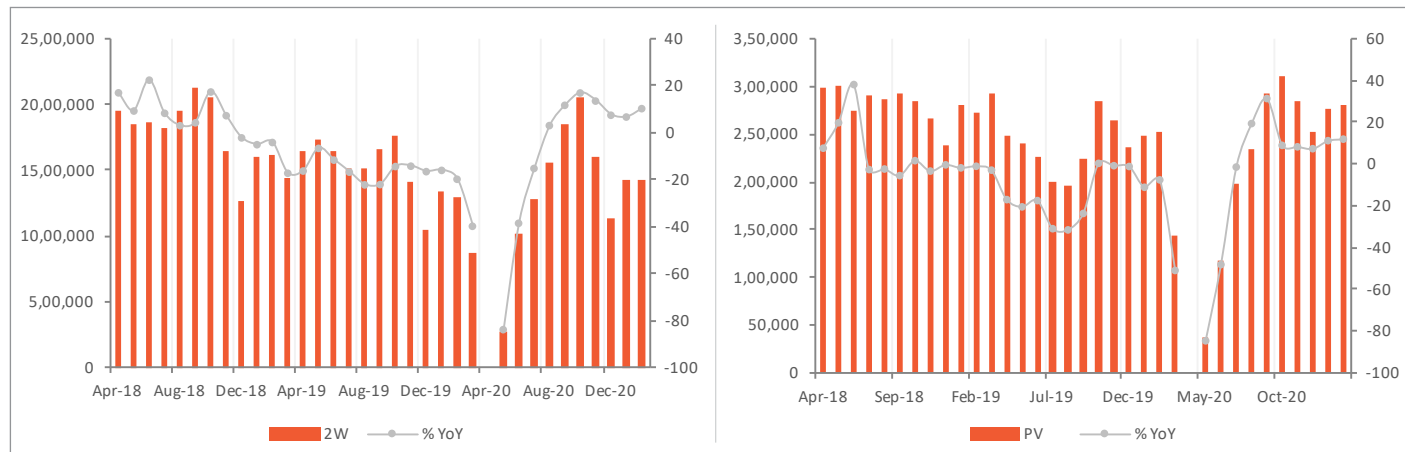
## Valuations (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,187	1,141	1,088	1,343	1,540
Growth (%)	17.2	(3.9)	(4.6)	23.4	14.7
EBIDTA	110	91	91	122	143
OPM (%)	9.3	8.0	8.4	9.1	9.3
PAT	65	50	46	66	81
Growth (%)	46.8	(23.7)	(6.8)	41.6	22.8
FD EPS (Rs.)	9.6	7.3	6.8	9.7	11.9
P/E (x)	16.4	21.4	23.0	16.2	13.2
P/BV (x)	2.2	2.4	2.2	2.0	1.7
EV/EBITDA (x)	9.6	11.2	11.3	8.2	6.8
RoE (%)	13.6	11.2	9.7	12.4	13.2
RoCE (%)	15.7	12.1	11.4	14.4	15.6

Source: Company; Sharekhan estimates

**Beneficiary of improved automotive business outlook:** 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. The company has a strong presence in the 2W and PV segments, which contribute 48% and 20% to total revenue, respectively, and rising demand in these segments bodes well for Lumax Auto.

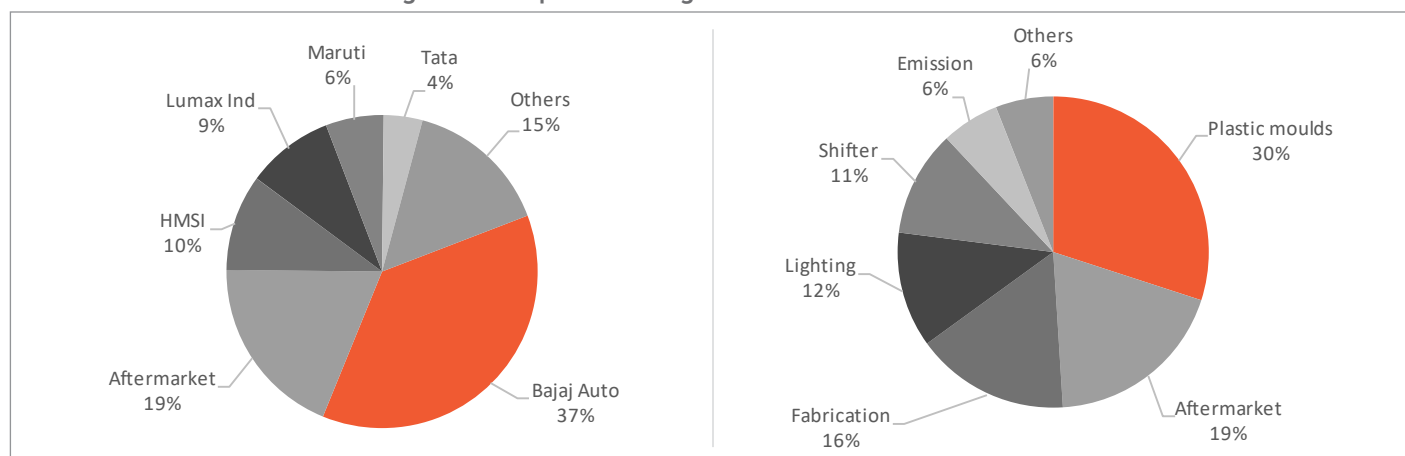
#### Lumax Auto to benefit from recovery in automotive sales, especially from 2W and PV segments



Source: Company Data; Sharekhan Research

**Strong and long-lasting client base:** Lumax Auto has strong relationships with large OEMs, which offer robust revenue visibility. The company's key clients in the domestic market include Bajaj Auto, HMTI, Maruti Suzuki, M&M Lumax Industries, Toyota Motors, and Kia Motors. Lumax Auto is the top supplier for most OEMs and commands a dominant market share per product per OEM. On account 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 2W/four-wheelers (4W), 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 business order book:** Lumax Auto got awarded contracts worth Rs. 400 crore during Q3FY2021 from OEMs, which will be booked in P&L over 3-4 years. The break-up of the new business includes – Rs. 150 crore for gear shifter (Maruti Suzuki), Rs. 100 crore for metallic (Bajaj Auto), Rs. 100 crore-120 crore for plastics (Bajaj

Auto, HMSI, and Maruti), Rs. 20 crore for Emission, and Rs. 30 crore-40 crore for lighting (Bajaj Auto). New orders worth Rs. 150 crore will be executed in FY2022E.

**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. The company is also witnessing increased share of business with automotive OEM customers. Lumax Auto has received new businesses for M&M's Thar (gear shifter and control housing), Maruti's upcoming SUV (plastic parts), Tata Motors' Hornbill SUV (air filter assembly). In the 2W segment, new business was received from Bajaj Chetak EV (helmet box lamp), CT100, and Pulsar (seat cowl and side cover). We expect Lumax Auto to benefit from increased revenue per client and richer product mix.

**New product launches:** Lumax Auto launched several products during the previous year, which were impacted by COVID-19 lockdown. The company has started to see traction from new launches and expects to receive full-year advantage in FY2022. The company is ramping up its aftermarket sales through increasing its retail network.

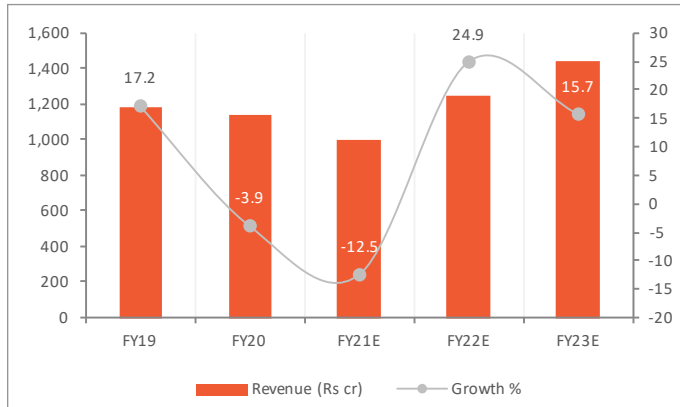
**Management guidance:** The management of Lumax Auto is working towards achieving a leadership position in segments where it has presence and set a footprint globally. The company expects huge potential in the gear shifter markets, with improving share of automatic gear system and increasing localisation of procurement. The focus on aftermarket sales continues to remain a priority.

**Capex plans and investments:** Lumax Auto did capex of Rs. 47 crore during 9MFY21. FY2021 is expected to end with capex of Rs. 60 crore-65 crore. The company has given capex guidance of Rs. 80 crore-100 crore for FY2022. The company is open to grow inorganically.

**Strong broad-based growth; Expect double-digit growth in FY2022:** 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 report a 32% CAGR over FY2021E-FY2023E, driven by a 19.4% CAGR during FY2021E-FY2023E and a 90-bps improvement in EBITDA margin.

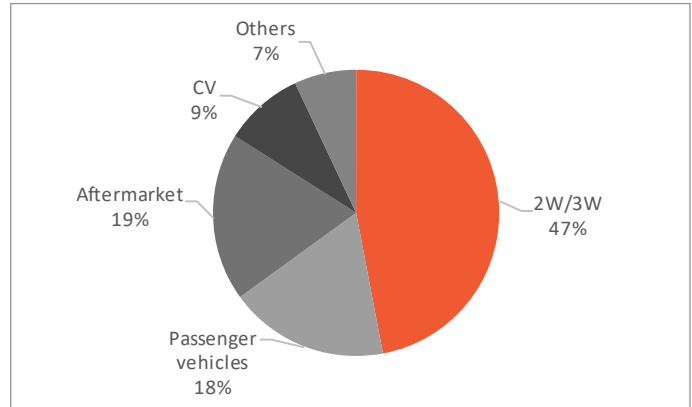
## Financials in charts

### Revenue and Growth Trend



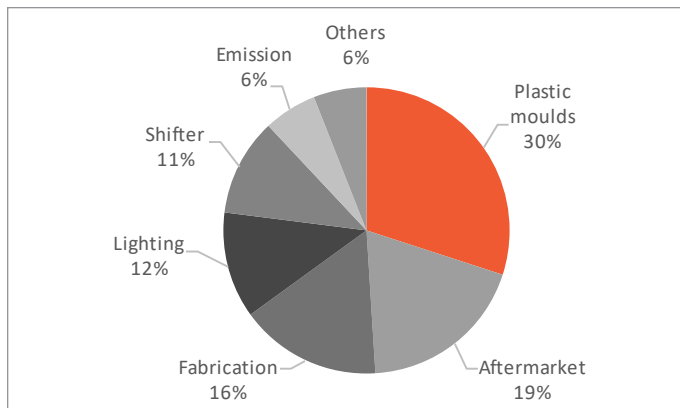
Source: Company, Sharekhan Research

### Segmental Mix (%)



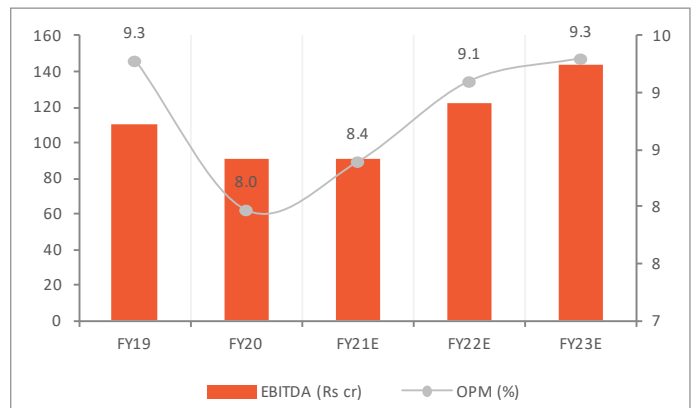
Source: Company, Sharekhan Research

### Product Mix (%)



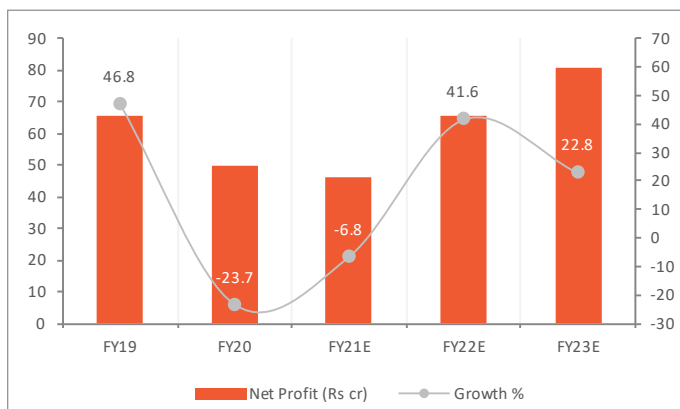
Source: Company, Sharekhan Research

### EBITDA and OPM Trend



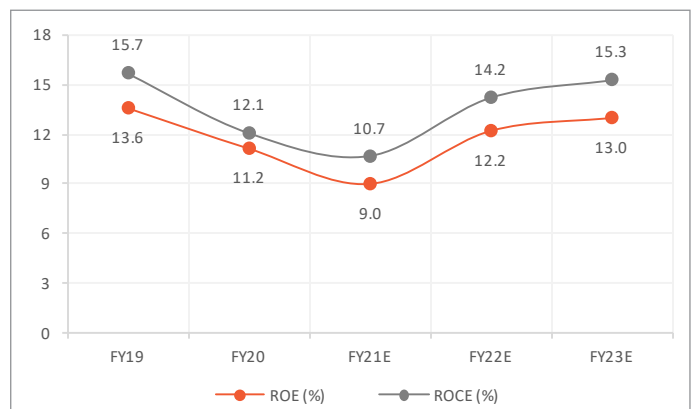
Source: Company, Sharekhan Research

### Net Profit and Growth Trend



Source: Company, Sharekhan Research

### Return Ratio Trend



Source: Company, Sharekhan Research

## Outlook and Valuation

### Sector View – Auto demand revving up

Q3FY2021 was a strong quarter for both automobile and auto ancillary companies, as expected. Sales as well as operational performance improved, with some companies reporting their highest-ever quarterly sales and profits. Q3FY2021 was a strong comeback after a clean washout in Q1FY2021. Companies learned the hard way to improve operational efficiencies, which has led to strong foundations for a structurally improved operational performance in the long run. A shift towards digitalisation, controlling of administrative costs, focus on core business, and expansion of business through product innovations were the key factors that resulted in superior results. We expect the recovery to remain strong across automobile segments in FY2022 and FY2023, driven by normalisation of economic activities and roll-out of COVID-19 vaccines in India.

### Company Outlook – Strong growth visibility

Lumax Auto is witnessing increased share of business from clients. In the 2W segment, the company 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 the PV 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, the company has introduced new products such as urea tanks for PVs and CVs and oxygen sensors for 2W. New products will increase content per vehicle and drive the company's growth. Moreover, the company is aggressively focussing on aftermarket sales through increasing its retail presence.

### Valuation – Maintain Buy with a revised PT of Rs. 190

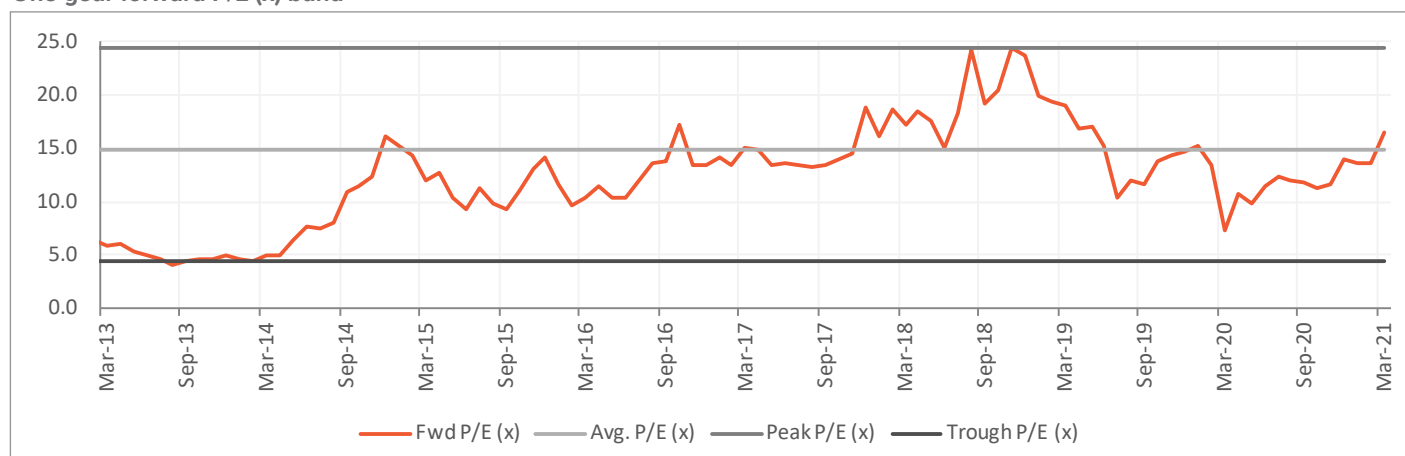
Lumax Auto is witnessing strong growth traction from clients, driven by recovery in automotive and expansion of product portfolio. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities and rolling out of COVID-19 vaccination successfully throughout the country. OPM is expected to remain firm, led by operating leverage and cost-control measures. The company has a strong balance sheet and positive cash of Rs. 25 crore net-of-debt in 9MFY2021. We have increased our target multiple to 16x to reflect improving businesses from existing and new clients, improving content per vehicle, and firm OPM. The stock is trading below its historical average at P/E multiple of 13.2x and EV/EBITDA multiple of 6.8x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 190.

#### Price Target Calculation

	Rs per Share
FY2023E EPS (Rs. per share)	11.9
Target P/E Multiple (x)	16
<b>Target Price (Rs.)</b>	<b>190</b>
Upside (%)	21%

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	23.0	16.2	13.2	11.3	8.2	6.8	11.4	14.4	15.6
Gabriel India Limited	31.5	16.7	13.1	14.8	8.9	7.1	10.3	17.3	19.8
GNA Axles Limited	16.6	12.9	10.5	7.5	5.9	5.0	11.8	13.6	15.2
Mayur Uniquoters Ltd	21.9	17.7	14.6	14.1	11.1	8.9	17.9	19.7	21.1
Alicon Castalloy Limited	NA	24.6	11.5	11.5	7.2	5.6	4.3	10.6	15.2

Source: Company, Sharekhan estimates

## About company

Lumax Auto is part of Lumax - D. K. Jain Group. The company is a leading auto component manufacturer with a well-diversified product portfolio. Lumax Auto supplies to most of the leading 2W OEMs in the country and is present in the 2W and 3W segments (50% of FY2020 sales), passenger cars (20% of FY2020 sales), and aftermarkets (18% of FY2020 sales). The OEM segment accounts for 80% of FY2020 revenue, while the aftermarket segment accounts for 18% of the revenue. Some of the products include intake stems, integrated plastic modules, 2W chassis and lighting, gear shifters, seat structures and mechanisms, LED lighting, aerospace and defence engineering services, aftermarket, electrical and electronics components, and telematics products and services.

## Investment theme

Lumax Auto is expected to be a beneficiary of improving business outlook for automotive business. 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 the 2W and PV segments, which contribute 48% and 20% to total revenue, respectively. We expect Lumax Auto to be a beneficiary of demand in 2W and PV segments. On account of strong relationships with OEMs, the company also enjoys preference when it expands its product portfolio. We expect Lumax Auto to benefit from favourable changing product trends such as shifting from halogen lights to LED lights in 2W/4W, increasing use of lighter plastic materials, and increasing automatic transmission in 4Ws (shifting from manual gears to automatic gears). Moreover, we expect Lumax Auto to benefit from increased revenue per client and richer product mix. The company has received new businesses for M&M's Thar (gear shifter and control housing), Maruti's upcoming SUV (plastic parts), and Tata Motors' Hornbill SUV (air filter assembly). In the 2W segment, new business was received from Bajaj Chetak EV (helmet box lamp), CT100, and Pulsar (seat cowl and side cover).

## Key Risks

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

## Additional Data

### Key management personnel

Mr. D K Jain	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	Jain Deepak	19.0%
2	Jain Anmol	19.0%
3	Lumax Finance Pvt Ltd	17.8%
4	Albula Investment Fund Ltd	9.0%
5	Asia Investment Corporation (mauritius) Ltd	4.8%
6	DSP Investment Managers Pvt Ltd	4.5%
7	India Acorn Fund Ltd	1.5%
8	White Oak India Equity Fund	1.4%
9	First State Indian Subcontinent Fund	1.4%
10	Dhanesh Kumar Jain Family Trust	0.3%

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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