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Stock Update

Lumax Auto Technologies Limited

Benefiting from strong demand

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	Change
Reco: **Buy**	↔
CMP: **Rs. 153**	
Price Target: **Rs. 207**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

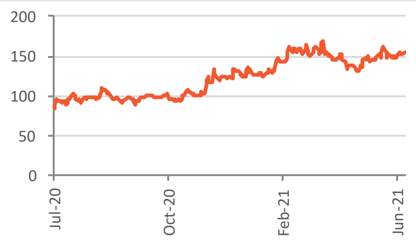
Company details

Market cap:	Rs. 1,043 cr
52-week high/low:	Rs. 174 / 88
NSE volume: (No of shares)	1.42 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	19.5
DII	5.9
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	-2.5	24.9	84.6
Relative to Sensex	6.1	-9.3	11.0	35.3

Sharekhan Research, Bloomberg

Summary

- Lumax Auto Technologies Limited's (Lumax Auto) management remains optimistic and maintains its revenue guidance of 22-25% in FY2022E, despite weak Q1FY2022. OEM continues to maintain FY2022E production schedules.
- Lumax Auto is expected to benefit from new order wins from its existing clients, acquisition of new clients, and new product launches. We expect Lumax Auto's earnings to report a 35% CAGR over FY2021-FY2023E, driven by a 20% revenue CAGR and a 100-bps improvement in EBITDA margin at 9.8% in FY2023E.
- The stock is trading below its historical average at a P/E multiple of 11.8x and EV/ EBITDA multiple of 5.8x its FY2023 estimates.
- We maintain our Buy rating on the stock with an unchanged PT of Rs. 207, factoring in strong traction in the business outlook and margin improvement.

We interacted with the management of Lumax Auto Technologies Limited (Lumax Auto) to discuss the current business outlook and the newly announced joint venture (JV) with a Japanese company. The company's management remains optimistic and maintains its revenue guidance of 22-25% in FY2022E despite weak Q1FY2022. Original equipment manufacturers (OEMs) continue to maintain FY2022E production schedules. The company has recently entered into a joint venture agreement with a Japanese company 'Alps Alpine Co. Ltd.' (ALPS) in India for the manufacturing and sale of electronic devices and components, including software related to the automotive industry. Both companies will be holding 50% stake in the JV. The JV partner is a leading electronic company globally, having present in automotive and non-automotive segments. The company's order book stands at ~Rs. 400 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, 25% is replacement business, while 75% is new business. 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. The company has an order win for commercial vehicle (CV) gear shifter in Q4FY2021, for which the company would supply from Q3FY2022. We continue to remain positive on the company. Underlying demand remains strong, aided by strong recovery in rural economy and preference for two-wheeler (2W) and four-wheeler (4W) as a personal mobility amidst COVID-19. Lumax Auto commands a dominant market share in most products it supplies to its customers. Moreover, 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. The company also enjoys a 'preferred supplier' status and gets an opportunity for incremental revenue when it widens its product portfolio led by the company's strong relationships with OEMs. The company has a well-diversified customer and product portfolio, which de-risks its business model. 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 35% CAGR over FY2021-FY2023E, driven by a 20% revenue CAGR and a 100-bps improvement in EBITDA margin at 9.8% in FY2023E from 8.8% in FY2021. Hence, we maintain Buy on the stock with an unchanged price target (PT) of Rs. 207.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 207: Lumax Auto is expected to benefit from strong underline demand from its clients in 2W, PV, and CV space, driven by expected recovery in the automotive segment and expansion of product portfolio. Management has guided for a positive outlook, expecting bounce back from Q2FY2022, with revenue growth of 22-25% y-o-y in FY2022E, driven by recovery in the automotive industry, widening of product portfolio, and increasing wallet share from existing clients. Operating profit margin (OPM) is expected to remain firm, led by operating leverage and cost-control measures. The company expects EBITDA margin profile to improve gradually to 12-13% over the next 3-5 years. The stock is trading below its historical average at a P/E multiple of 11.8x and EV/EBITDA multiple of 5.9x its FY2023 estimates. We retain Buy rating on the stock with an unchanged PT of Rs. 207.

Key Risks

The company's revenue remains at risk due to fear of wave-3 of COVID-19. Moreover, pricing pressures from OEMs may hit its profitability.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Net sales	1,141	1,108	1,366	1,596
Growth (%)	(3.9)	(2.9)	23.3	16.8
EBIDTA	91	98	127	156
OPM (%)	8.0	8.8	9.3	9.8
PAT	50	48	67	88
Growth (%)	(23.7)	(2.6)	39.2	30.7
FD EPS (Rs)	7.3	7.1	9.9	12.9
P/E (x)	20.9	21.5	15.5	11.8
P/BV (x)	2.3	2.2	2.0	1.7
EV/EBITDA (x)	10.9	10.2	7.6	5.9
RoE (%)	11.2	10.1	12.6	14.2
RoCE (%)	12.1	12.8	14.6	16.5

Source: Company; Sharekhan estimates

Key highlights of the management interaction are as follows

- **Announcement of new JV in the electronic devices space:** Lumax Auto has recently entered into a JV agreement with a Japanese company 'Alps Alpine Co. Ltd.' (ALPS) in India for the manufacturing and sale of electronic devices and components, including software related to the automotive industry. Both the companies will be holding a 50% stake in the JV. The JV partner is a leading electronic company globally. Through this JV, the company plans to increase its presence in electronic/electric devices for the automotive business in India. The JV is in the initial phase of discussion, where both partners are conducting feasibility study and product ideation. Management expects a gestation period of one year before the JV starts production.

- **Positive guidance from management:** Management expects automotive volumes to bounce back strongly after lockdown restrictions are lifted by states. The company has not received any revisions in annual production schedules from its clients for FY2022. Underlying demand remains strong, aided by strong rural economy and preference for 2W and 4W as a personal mobility amidst COVID-19. We continue to remain positive on the growth prospects of Lumax Auto due to recovery expected in 2W, PV, and 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 new order book of more than Rs. 400 crore, the benefit of which would start to accrue from FY2022. The company expects consolidated revenue to grow by 22-25% in FY2022 despite weak Q1FY2022. Moreover, 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. Management of Lumax Auto is working towards achieving a leadership position in segments where it has a strong presence and global footprint. The company expects huge potential in the gear shifter markets, with improving share of automatic gear system and increasing localisation of procurement. Focus on aftermarket sales continues to remain a priority. The company has received a letter of intent from a global OEM in Q4FY2021. The company targets an EBITDA margin of 12-13% over the next 3-5 years. Management expects revenue share from JV and subsidiaries to improve to 30-35% of consolidated revenue from ~20% currently over the next 3-5 years.

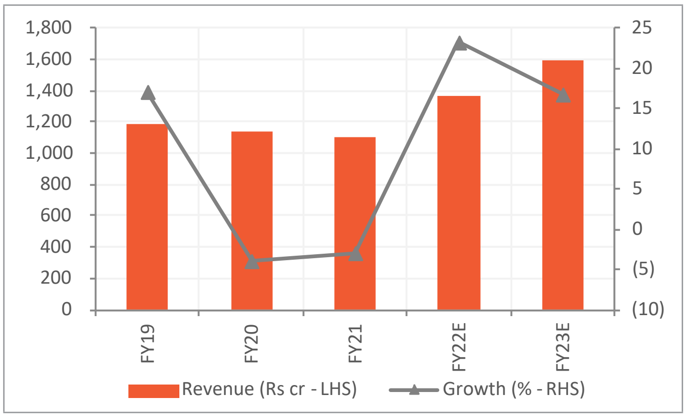
- **New business order book:** The company's order book stands at ~Rs. 400 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, 25% is replacement business, while 75% is new business. Break-up of the new business includes – Rs. 150 crore for gear shifter (Maruti Suzuki), 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. The company has an order win for CV gear shifter in Q4FY2021, for which the company would supply from Q3FY2022.

- **New businesses and product launches:** 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), 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). We expect Lumax Auto to benefit from increased revenue per client and richer product mix. The company has 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.

- **Capex plans and investments:** Lumax Auto did capex of ~Rs. 65 crore in FY2021. The company has given capex guidance of Rs. 100 crore for FY2022E on a consolidated basis. The company will be expanding its capacity for 4W plastic moulding this year, which would require Rs. 15 crore-20 crore. The company is open to grow inorganically.

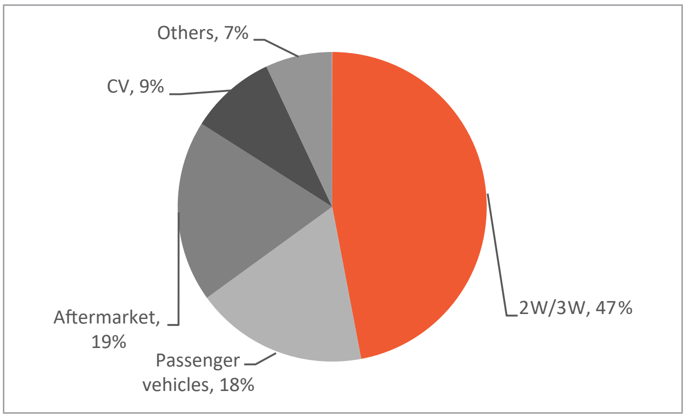
Financials in charts

Revenue and Growth Trend (%)



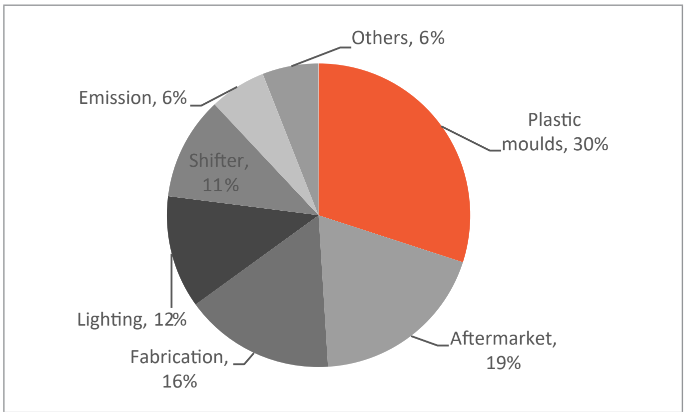
Source: Company, Sharekhan Research

Segmental mix (%)



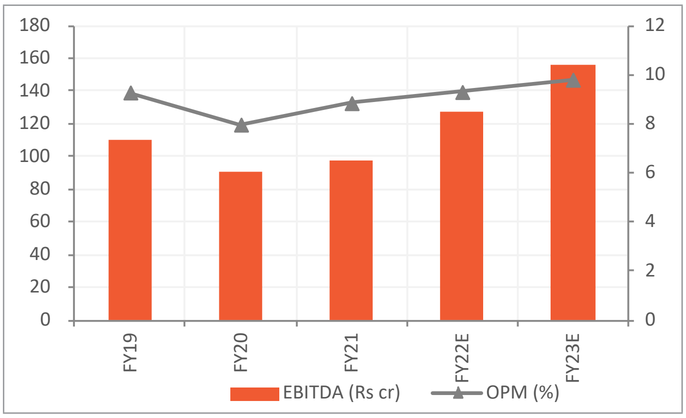
Source: Company, Sharekhan Research

Product mix (%)



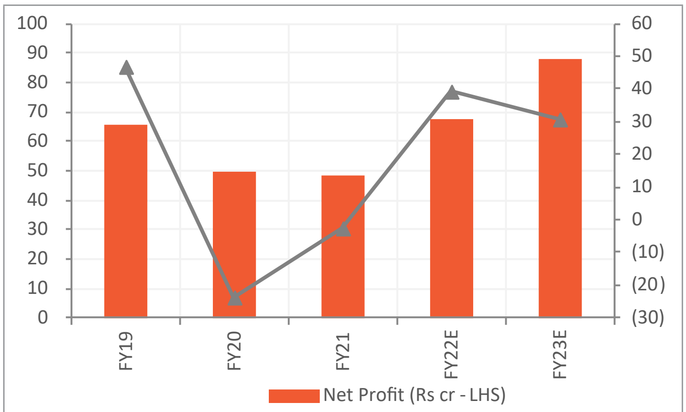
Source: Company, Sharekhan Research

EBITDA and OPM Trend



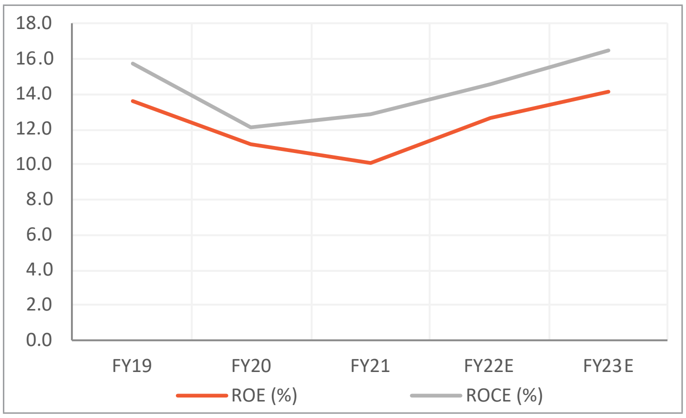
Source: Company, Sharekhan Research

Net profit and Growth Trend



Source: Company, Sharekhan Research

Return Ratios Trend



Source: Company, Sharekhan Research

Outlook and Valuation

Sector Outlook – Auto demand revving up

H2FY2021 was a half-year performance for both automobile and auto-ancillary companies, in-line with expectations. Sales as well as operational performance improved, with some companies reporting their highest-ever 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 key factors that resulted in superior results. We expect recovery to remain strong across the automobile segments in FY2022 and FY2023, not only in India but also globally, driven by normalisation of economic activities and roll-out of COVID-19 vaccines in India. Companies are better prepared to handle situations in the second wave of COVID-19, as compared to the previous year.

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. We expect Lumax Auto to benefit from increasing revenue per client and a richer product mix. Given strong revenue visibility and improvement in margin profile, we have increased our earnings estimates by 8.8% for FY2023E. We expect Lumax Auto's earnings to report a 35% CAGR over FY2021-FY2023E, driven by a 20% revenue CAGR and a 100-bps improvement in EBITDA margin at 9.8% in FY2023E from 8.8% in FY2021.

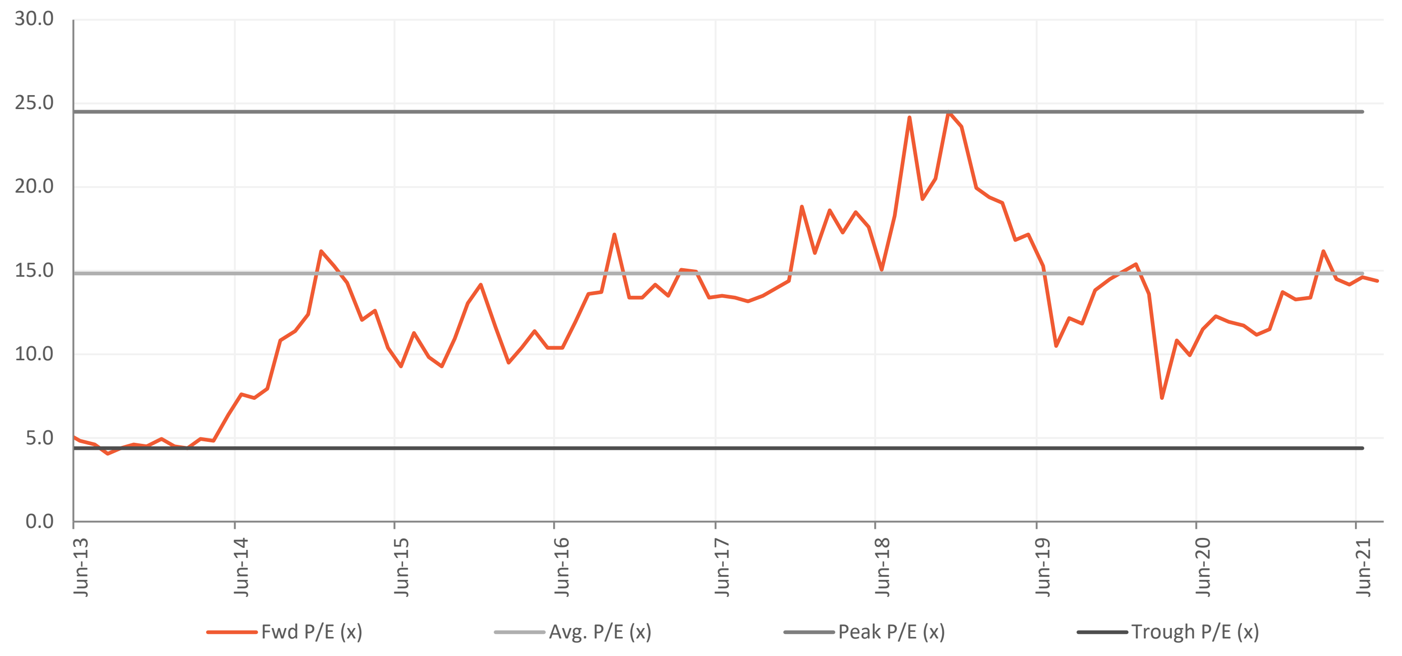
Valuation – Maintain Buy with an unchanged PT of Rs. 207

Lumax Auto is expected to benefit from strong underline demand from its clients in the 2W, PV and CV space, driven by expected recovery in the automotive segment and expansion of product portfolio. Management has guided for a positive outlook, expecting bounce back from Q2FY2022, with revenue growth of 22-25% y-o-y in FY2022E, driven by recovery in the automotive industry, widening of product portfolio, and increasing wallet share from existing clients. OPM is expected to remain firm, led by operating leverage and cost-control measures. The company expects EBITDA margin profile to improve gradually to 12-13% over the next 3-5 years. The stock is trading below its historical average at a P/E multiple of 11.8x and EV/EBITDA multiple of 5.9x its FY2023 estimates. We retain Buy rating on the stock with an unchanged PT of Rs. 207.

Price target calculation	Rs per Share
FY2023E EPS (Rs. per share)	12.9
Target P/E Multiple (x)	16
Target Price (Rs.)	207
Upside (%)	35

Source: Company Data; Sharekhan Research

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Lumax Auto Technologies Limited	153	21.5	15.5	11.8	10.2	7.6	5.9	12.8	14.6	16.5
Gabriel India Limited	123	32.4	17.6	13.9	15.1	9.5	7.5	11.8	17.8	20.0
Mayur Uniquoters Ltd	504	25.7	18.6	15.0	16.3	11.8	9.2	20.6	24.0	25.7

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 (45% of FY2021 sales), passenger cars (18% of FY2021sales), and aftermarkets (20% of FY2020 sales). The OEM segment accounts for 80% of FY2021 revenue, while the aftermarket segment accounts for 20% 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 the 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 OEM relationships, 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 third wave of COVID-19 can lead to slowdown in economic activities again and can impact the company's revenue growth.
- Pricing pressures from automotive OEMs 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
9	First State Indian Subcontinent Fund	1.5
8	White Oak India Equity Fund	1.3
10	Dhanesh Kumar Jain Family Trust	0.3

Source: Bloomberg

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 detoriating 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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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