Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Lumax Auto Technologies Ltd

Q4 results ahead of estimates; valuations attractive

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: Buy ↔	CMP: **Rs. 155** / Price Target: **Rs. 191** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result 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		↔	

Company details

Market cap:	Rs. 1,056 cr
52-week high/low:	Rs. 209 / 128
NSE volume: (No of shares)	2.04 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	19.3
DII	5.3
Others	19.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-13.2	-21.4	18.8	12.4
Relative to Sensex	-5.9	-14.3	28.4	1.9

Sharekhan Research, Bloomberg

Summary

- Lumax Auto Technologies Ltd's (Lumax Auto's) Q4FY22 results were ahead of estimates. Revenue, EBITDA and PAT beat estimates by 5.6%, 11.4% and 13.9% respectively.
- 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 21% CAGR over FY2022-FY2024E, driven by a 15% revenue CAGR and a 40-bps improvement in EBITDA margin at 10.4% in FY2024E.
- The stock is trading below its historical average at a P/E multiple of 8.5x and EV/EBITDA multiple of 4.9x its FY2024E estimates.
- We maintain our Buy rating on the stock with a revised PT of Rs.191, factoring in strong business traction, margin improvement and comfortable valuation.

Lumax Auto Technologies Ltd's (Lumax Auto's) Q4FY22 results were ahead of estimates. Revenue, EBITDA and PAT beat estimates by 5.6%, 11.4% and 13.9% respectively. Net sales were up 7.5% y-o-y to Rs 417 crore in Q4FY22, led by a recovery in auto sales, increased business from existing clients, new launches and new order wins. EBITDA margin for the quarter stood at 10.9%, which is an expansion 30 bps q-o-q, led by price hikes and improved product mix, partially offset by higher other operating expenses. As a result, EBITDA and PAT increased 6% y-o-y and 21% y-o-y growth to Rs45.3 crore and Rs25.3 crore respectively. The company witnessed growth in all its divisions. The company's management remains positive about the growth and expects to grow in double digits during FY23E. The company's order book stands at ~Rs. 600 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, Rs350 crore (58%) is new order, while the balance Rs250 crore (42%) is replacement business. We continue to remain positive on the company and expect it to benefit from expected rise in demand for two-wheeler (2W) and four-wheeler (4W) respectively in FY23E. We expect Lumax Auto to benefit from increasing revenue per client and a richer product mix going forward. Given its revenue visibility, we expect Lumax Auto's earnings to report a 21% CAGR over FY2022-FY2024E, driven by a 15% revenue CAGR and a 40-bps improvement in EBITDA margin at 10.4% in FY2024E. Hence, we maintain Buy on the stock with a revised price target (PT) of Rs. 191.

Key positives

- Q4FY22 revenue, EBITDA and PAT beat estimates by 5.6%, 11.4% and 13.9% respectively.
- EBITDA margin was better than expectations, led by price hikes and superior product mix.
- Lumax Auto along with its subsidiaries got approval for PLI scheme under the component champion incentive scheme.
- Lumax Cornaglia Auto Technologies Pvt Ltd." has received business nomination for plastic tanks from one of the major OEMs, the SOP of which is expected in Q4 FY23.
- New launches in Q4FY22 includes frames and swing arm for Bajaj Auto's EV model and gear shifter foro Maruti and Tata Motors models.

Key negatives

- Chips shortage and volatile input prices impacted growth and restricted EBITDA margin improvement during Q4FY2022.

Management Commentary

- The management remains optimistic and expects revenues to grow in double digits during FY23E, led by a recovery in automobile volumes across segments.
- The company's order book stands at ~Rs. 600 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, Rs350 crore (58%) is a new order, while the balance Rs 250 crore (42%) is a replacement business.

Our Call

Valuation - Maintain Buy with a revised PT of Rs.191: Lumax Auto is expected to benefit from strong underline demand from its clients in 2W, PV, and CV space, driven by an expected recovery in the automotive segment and expansion of the product portfolio. Management has guided for a positive outlook, expecting a double-digit growth in FY23E, driven by a 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 8.5x and EV/EBITDA multiples of 4.9x its FY2024E estimates. We retain a Buy rating on the stock with a revised PT of Rs. 191.

Key Risks

A slowdown in the economy and increase in raw material prices can put pressure on growth and margins and led to a decline in our projections.

Valuations (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales	1,108	1,508	1,769	1,977
Growth (%)	(2.9)	36.1	17.3	11.8
EBIDTA	98	151	180	206
OPM (%)	8.8	10.0	10.2	10.4
PAT	48	84	107	124
Growth (%)	(2.6)	73.4	27.3	15.6
FD EPS (Rs)	7.1	12.3	15.7	18.2
P/E (x)	21.8	12.6	9.9	8.5
P/BV (x)	2.2	1.9	1.6	1.4
EV/EBITDA (x)	10.3	6.5	5.1	4.9
RoE (%)	10.1	15.2	16.3	15.8
RoCE (%)	12.8	17.4	19.1	19.1

Source: Company; Sharekhan estimates

Key highlights of the Q4FY22 conference call are as follows:

- **Q4FY22 results beat estimates:** Lumax Auto Technologies Ltd's (Lumax Auto's) Q4FY22 results were ahead of estimates. Revenue, EBITDA and PAT beat estimates by 5.6%, 11.4% and 13.9% respectively. Net sales were up 7.5% y-o-y to Rs 417 crore in Q4FY22, led by a recovery in auto sales, increased business from existing clients, new launches and new order wins. EBITDA margin for the quarter stood at 10.9%, which is an expansion of 30 bps q-o-q, led by price hikes and improved product mix, partially offset by higher other operating expenses. As a result, EBITDA and PAT increased 6% y-o-y and 21% y-o-y growth to Rs45.3 crore and Rs25.3 crore respectively. Integrated plastic modules and aftermarket sales contributed 21% each to overall revenues in Q4FY22, followed by fabrication at 15%, gear shifters at 15%, Lighting products at 11%, Emission at 7% and others at 10%.

- **Positive outlook from management:** Management remains optimistic and expects revenues to grow in double digits during FY23E, led by a recovery in automobile volumes across segments. The contribution from EV is Moreover, faster adoption of electric vehicles will not significant currently, but the company expect share of the e-mobility business to increase up to 5% over the next few years. The EV evolution would 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 an improving share of the automatic gear system and increasing localisation of procurement. Focus on aftermarket sales continues to remain a priority. 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 businesses and product launches:** The company's order book stands at ~Rs. 600 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, Rs350 crore (58%) is a new order, while the balance Rs250 crore (42%) is a replacement business. The order book has grown by 33% during Q4FY22 to Rs 600 crore from Rs450 crore at the end-Q3FY22, largely driven by new orders. New launches in Q4FY22 include frames and a swing arm for Bajaj Auto's EV model and gear shifter fro Maruti and Tata Motors models. The company is ramping up its aftermarket sales by increasing its retail network. Lumax Auto along with its subsidiaries got approval for PLI scheme under the component champion incentive scheme. Lumax Cornaglia Auto Technologies Pvt Ltd." has received a business nomination for plastic tanks from one of the major OEMs, the SOP of which is expected in Q4 FY23.

Results (consolidated) Rs cr

Particulars	Q4FY21	Q4FY20	%YoY	Q3FY21	%QoQ
Total Income	388.0	272.7	42.3	365.2	6.2
EBIDTA	42.7	14.6	192.1	38.0	12.6
EBIDTA Margins (%)	11.0	5.4	560 bps	10.4	60 bps
Depreciation	9.2	8.3	10.7	9.0	1.4
Interest	2.0	2.4	(18.2)	2.2	(9.8)
Other Income	4.0	6.5	(38.5)	6.8	(41.4)
PBT	35.6	10.4	240.7	33.6	6.1
Tax	9.9	4.1	145.3	8.2	21.6
Adjusted PAT	21.0	6.1	246.2	23.1	(9.2)
EPS	3.1	0.9	245.4	3.4	(9.2)

Source: Company; Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q4FY22	Q4FY21	YoY (bps)	Q3FY22	QoQ (bps)
Gross margin (%)	31.7	31.9	(20)	31.3	50
EBIDTA margin (%)	10.9	11.0	(10)	10.5	30
EBIT margin (%)	8.1	8.7	(50)	8.2	-
Net profit margin (%)	6.1	5.4	60	5.9	10
Effective tax rate (%)	26.0	31.5	(550)	30.7	(470)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Auto demand revving up

After three years of a challenging environment, we expect volumes to recover to pre-COVID levels in FY2023E, across segments. Agri-based policies proposed in the budget are likely to augur well for the industry. We expect the strongest recovery in commercial vehicles in over the next few years, driven by improvement in economic activities. We remain positive in the tractor, four-wheeler, and two-wheeler segments. Strong volume growth would drive up earnings as well as valuation multiples. Moreover, EV adoption is the fastest in Europe, which is likely to be positive for Alicon. We retain our positive view on the sector.

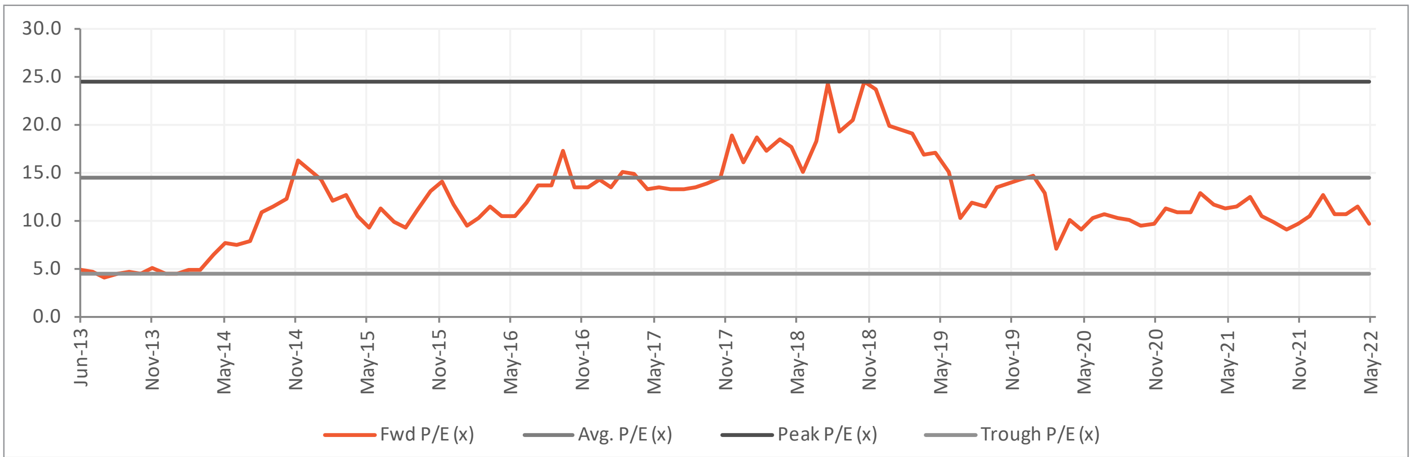
■ Company Outlook – Strong growth visibility

Lumax Auto is witnessing an 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 the 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 by increasing its retail presence. We expect Lumax Auto to benefit from increased revenue per client and a richer product mix. Given strong revenue visibility and improvement in margin profile, we expect Lumax Auto's earnings to report a 21% CAGR over FY2022-FY2024E, driven by a 15% revenue CAGR and a 40-bps improvement in EBITDA margin at 10.4% in FY2024E.

■ Valuation – Maintain Buy with a revised PT of Rs. 191

Lumax Auto is expected to benefit from strong underline demand from its clients in 2W, PV, and CV space, driven by an expected recovery in the automotive segment and expansion of its product portfolio. Management has guided for a positive outlook, expecting a double-digit growth in FY23E, driven by the 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 its 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 8.5x and EV/EBITDA multiple of 4.9x its FY2024E estimates. We retain Buy rating on the stock with a revised PT of Rs. 191.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Lumax Auto Technologies Limited	155	21.8	12.6	9.9	10.3	6.5	5.1	12.8	17.4	19.1
Alicon Castalloy	679	NA	45.3	15.0	14.2	9.7	6.1	5.9	10.9	19.8
Gabriel India	110	29.0	15.7	12.4	13.3	8.4	6.6	11.8	17.8	20.0

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 the 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 the 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 the 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 a 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

- Slowdown in economic activities 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%
8	First State Indian Subcontinent Fund	1.5%
9	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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

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

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;