Stock Update

Result Update

Powered by the Sharekhan 3R Research Philosophy

Lumax Auto Technologies Ltd

New business wins to drive growth; Valuations attractive

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: Buy ↔	CMP: **Rs. 224**
	Price Target: **Rs. 268** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

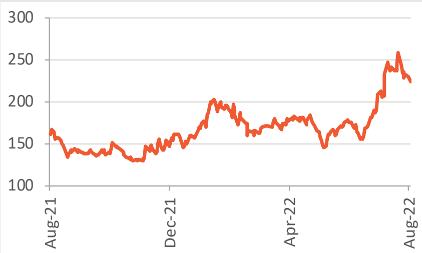
Company details

Market cap:	Rs. 1,527 cr
52-week high/low:	Rs. 264 / 128
NSE volume: (No of shares)	2.36 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	19.5
DII	5.7
Others	18.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	45.3	14.5	39.5
Relative to Sensex	-0.3	36.6	14.6	31.6

Sharekhan Research, Bloomberg

Summary

- Lumax Auto Technologies Ltd.'s (Lumax Auto's) Q1FY2023 results were mixed, with revenue slightly missing expectations, while net profit beat estimates by 10%.
- 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 32% CAGR over FY2022-FY2024E, driven by a 20% revenue CAGR and an 80-bps improvement in EBITDA margin at 10.8% in FY2024E.
- The stock is trading below its historical average at a P/E multiple of 10.4x and EV/EBITDA multiple of 6.2x its FY2024E estimates.
- We maintain our Buy rating on the stock with a revised PT of Rs.268, factoring in strong business traction, margin improvement, and comfortable valuations.

Lumax Auto Technologies Ltd.'s (Lumax Auto) Q1FY2023 results were mixed, with revenue slightly missing expectations, while net profit beat estimates by 10%. Consolidated net revenue grew by 62% y-o-y and 1.2% q-o-q to Rs.422 crore in Q1FY2023, led by strong offtake from its key OEM customers and increased sales from the replacement market. Growth was on account of increased business from existing clients, new order wins, and benefits from new launches. EBITDA margin contracted by 30 bps q-o-q to 10.5% in Q1FY2023, aided by higher employee costs. As a result, EBITDA increased by 181% y-o-y to Rs. 44.5 crore in Q1 on margin expansion and low base effect. The company witnessed growth in all its verticals. The company's management remains positive about growth and expects its revenue to grow by 20-30% in FY2023E, driven by robust order book at ~Rs. 600 crore. Out of the total order book, ~Rs. 450 crore (75%) is new order, while the balance Rs. 150 crore (25%) 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 FY2023E. 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 32% CAGR over FY2022-FY2024E, driven by a 20% revenue CAGR and an 80-bps improvement in EBITDA margin at 10.8% in FY2024E. Hence, we maintain Buy on the stock with a revised price target (PT) of Rs. 268.

Key positives

- Consolidated revenue continued to grow strongly by 62% y-o-y in Q1FY2023, led by robust performance of subsidiaries as well as the standalone business.
- The company benefitted from new model launches of Maruti's Brezza, M&M's new Scorpio, Toyota's Hyryder, PSA's Citrogen C3, and Volkwagen's Virtus.
- The subsidiary company – Lumax Mannoh Allied Technologies Pvt Ltd. has started its production at its Bengaluru facility from April 2022.

Key negatives

- Chips shortage and volatile input prices impacted growth and restricted EBITDA margin improvement during Q1FY2023.

Management Commentary

- Management remains optimistic and expects revenue to grow by 20-30% in FY2023E, led by robust order book, new launches, and continued growth momentum in the existing product portfolio.
- 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, ~Rs. 450 crore (75%) is new order, while the balance Rs. 150 crore (25%) is replacement business.
- Management expects EBITDA margin to improve and targets 12% EBITDA margin in 1-2 years on a sustainable basis.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 268: Lumax Auto is expected to benefit from strong underline demand from its clients in the 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 20-30% growth in FY2023E, driven by recovery in the automotive industry, widening of the 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 10.4x and EV/EBITDA multiple of 6.2x its FY2024E estimates. We retain Buy on the stock with a revised PT of Rs. 268.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales	1,108	1,508	1,849	2,188
Growth (%)	(2.9)	36.1	22.6	18.3
EBIDTA	98	151	192	236
OPM (%)	8.8	10.0	10.4	10.8
PAT	48	84	116	146
Growth (%)	(2.6)	73.4	37.8	26.3
FD EPS (Rs)	7.1	12.3	17.0	21.5
P/E (x)	31.5	18.2	13.2	10.4
P/BV (x)	3.2	2.8	2.3	1.9
EV/EBITDA (x)	15.1	9.6	7.3	6.2
RoE (%)	10.1	15.2	17.4	18.0
RoCE (%)	12.8	17.4	20.4	21.6

Source: Company; Sharekhan estimates

Key highlights of the Q1FY23 conference call are as follows

- **Mixed performance in Q1FY2023:** Lumax Auto's Q1FY2023 results were mixed, with revenue slightly missing expectations, while net profit beat estimates by 10%. Consolidated net revenue grew by 62% y-o-y and 1.2% q-o-q to Rs. 422 crore in Q1FY2023, led by strong offtake from its key OEM customers and increased sales from the replacement market. Growth was on account of increased business from existing clients, new order wins, and benefits from new launches. EBITDA margin contraction of 30 bps q-o-q to 10.5% in Q1FY2023 was aided by higher employee costs. As a result, EBITDA increased by 181% y-o-y to Rs. 44.5 crore in Q1 on margin expansion and low base effect. During Q1FY2023, the company's product mix was – integrated plastic modules (21%); aftermarket (19%); fabrication (15%); shifter (15%); lighting products (10%); emission (7%); and others (13%). Lumax Mannoh Allied Technologies Pvt. Ltd. started its production at its Bengaluru facility from April 2022.
- **Positive outlook from management:** Management remains optimistic and expects revenue to grow in double digits during FY2023E, led by recovery in automobile volumes across segments. Though, the contribution from EV is insignificant currently, it is expected to grow strongly going forward. The management The management expects 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, ~Rs. 450 crore (75%) is new order, while the balance Rs. 150 crore (25%) is replacement business. The company benefitted from new model launches of Maruti's Brezza, M&M's new Scorpio, Toyota's Hyryder, PSA's Citrogen C3, and Volkwagen's Virtus. The company is ramping up its aftermarket sales by increasing its retail network.

Other highlights

- July 2022 is witnessing strong growth ahead of the festive season. Management expects volumes to revive in rural and semi-urban areas.
- With changing dynamics in the auto industry towards advance technology, led by model upgradation, and electrification and premiumization of existing brands, the company is constantly upgrading its products.
- Of the order book size of Rs. 600 crore, contribution from subsidiaries stands at 75% of the total size, while the balance is from standalone business.
- The passenger vehicle vertical is expected to outgrow its 2W business vertical.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Total Income	421.9	260.5	62.0	416.9	1.2
Total Operating expenses	377.5	244.6	54.3	371.6	1.6
EBIDTA	44.5	15.8	180.8	45.3	(1.8)
Depreciation	11.3	8.6	32.1	11.4	(0.6)
Interest	2.8	2.3	21.1	2.7	1.1
Other Income	4.0	2.8	42.7	3.9	1.9
PBT	30.4	5.0	506.2	31.2	(2.6)
Tax	8.4	2.9	188.0	8.1	3.5
Adjusted PAT	26.0	3.4	665.3	25.3	2.9
EPS	3.8	0.5	665.3	3.7	2.9

Source: Company; Sharekhan Research

Key ratios (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Gross margin (%)	32.3	32.4	(20)	31.7	50
EBIDTA margin (%)	10.5	6.1	450	10.9	(30)
EBIT margin (%)	7.9	2.8	510	8.1	(30)
Net profit margin (%)	6.2	1.3	490	6.1	10
Effective tax rate (%)	27.6	58.2	(3,050)	26.0	160

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Auto demand revving up

We remain positive on demand for the 2W, PV, and CV industry in the medium term and expect recovery across sub-segments after the normalisation of economic activities, led by pent-up demand from rural, semi-urban, and urban demand along with a favourable macro outlook. 2W and PV demand is expected to remain strong amid COVID-19, as a preference for personal transport and the 2W segment remains the most affordable mode of transportation. Rural sentiments continue to remain strong, aided by strong farming income and positive prediction for monsoon this year. CV demand is expected to remain robust for the next 2-3 years, driven by an increase in infrastructure and mining activities. Export markets have witnessed a notable recovery in volume sales offtake across regional markets.

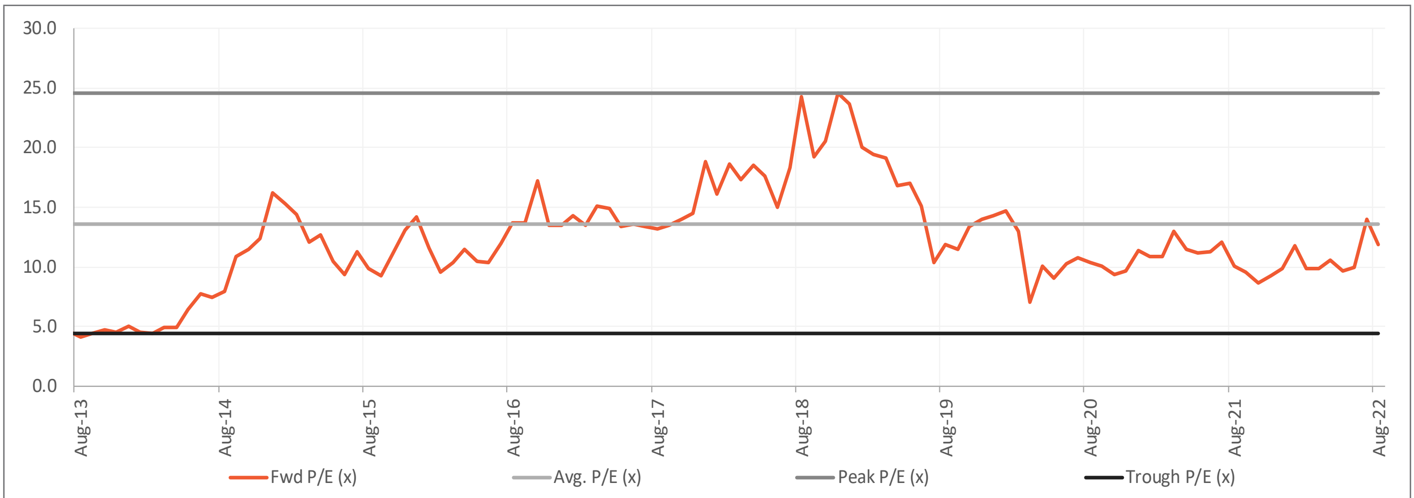
■ Company outlook – Strong growth visibility

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 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, Lumax Auto's earnings are expected to report a 32% CAGR over FY2022-FY2024E, driven by a 20% revenue CAGR and an 80-bps improvement in EBITDA margin at 10.8% in FY2024E.

■ Valuation – Maintain Buy with a revised PT of Rs. 268

Lumax Auto is expected to benefit from strong underline demand from its clients in the 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 20-30% growth in FY2023E, driven by recovery in the automotive industry, widening of the 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 10.4x and EV/EBITDA multiple of 6.2x its FY2024E estimates. We retain Buy on the stock with a revised PT of Rs. 268.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Lumax Auto Technologies Limited	224	18.2	13.2	10.4	9.6	7.3	6.2	17.4	20.4	21.6
Alicon Castalloy	752	50.1	16.6	10.6	10.5	6.6	4.9	10.9	19.8	25.6
Gabriel India	142	22.8	15.3	11.7	12.9	8.8	6.6	16.8	22.0	25.0

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 FY2021 sales), and aftermarkets (20% of FY2022 sales). The OEM segment accounts for 80% of FY2022 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 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%
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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