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Stock Update

Result Update

Lumax Auto Technologies Ltd

Going strong

Automobiles		Sharekhan code: LUMAXTECH		
Reco/View: Buy	↔	CMP: **Rs. 255**	Price Target: **Rs. 356**	↔

↑ 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		↔	

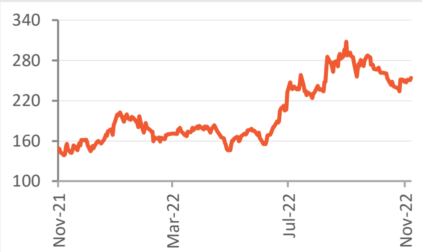
Company details

Market cap:	Rs. 1,738 cr
52-week high/low:	Rs. 312 / 136
NSE volume: (No of shares)	2.71 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	-5.7	7.4	73.5	73.9
Relative to Sensex	-9.6	5.5	57.6	72.1

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Lumax Auto Technologies Limited (Lumax Auto) with an unchanged PT of Rs. 356, factoring in strong business traction, margin improvement, and comfortable valuations. The stock trades below its historical average multiples at 10.4x P/E multiple and 6.4x EV/EBITDA on FY2024E estimates.
- Q2FY2023 results were above expectations, led by higher-than-expected revenue growth, partially offset by slightly lower EBITDA margin than expected.
- Lumax Auto is well positioned to benefit from improving demand outlook for 2Ws and 3Ws and continued growth momentum in PV and CV segments.
- Earnings are expected to report a robust 41% CAGR over FY2022-FY2024E, driven by a 26% revenue CAGR and a 100-bps improvement in EBITDA margin at 11% in FY2024E.

Lumax Auto Technologies Limited's (Lumax Auto's) Q2FY2023 results were above expectations, led by higher-than-expected revenue growth, partially offset by slightly lower EBITDA margin than expected. Revenue, EBITDA, and PAT exceeded expectations by 6.9%, 4.4%, and 16.2%, respectively. We continue to maintain our positive view on Lumax Autoon account of improving demand scenario for two-wheelers (2Ws), and three-wheelers (3Ws) and continued growth improvement in passenger vehicles (PVs) and commercial vehicle (CV) segments. The company is one of the top suppliers for most original equipment manufacturers (OEMs) and commands a dominant market share per product per OEM. Led by strong relationships with OEMs, 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. Management continues to maintain its revenue guidance of 20-30% in FY2023E and expects its EBITDA margin to normalise at ~13% over the next couple of years. We expect Lumax Auto to benefit from increased revenue per client and a richer product mix going forward. Given its strong order book and revenue visibility, we expect Lumax Auto's earnings to report a robust 41% CAGR over FY2022-FY2024E, driven by a 26% revenue CAGR and a 100-bps improvement in EBITDA margin at 11% in FY2024E. Hence, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 356.

Key positives

- Consolidated revenue continued to grow strongly by 20.9% y-o-y in Q2FY2023, 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*.

Key negatives

- EBITDA margin for Q2FY2023 was 20bps lower than expectations at 10.7%.

Management Commentary

- Management remains optimistic and expects revenue to grow by 20-30% in FY2023E, led by a robust order book, new launches, and continued growth momentum in the existing product portfolio.
- The company's order book stands at ~Rs. 700 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, ~Rs. 560 crore (80%) consists of new orders, while the balance Rs. 140 crore (20%) is replacement business.
- Management expects EBITDA margin to improve and targets 13% EBITDA margin in 1-2 years on a sustainable basis.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 356: 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 multiples of 6.4x its FY2024E estimates. We retain Buy on the stock with an unchanged PT of Rs. 356.

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	1107.9	1507.9	1932.1	2405.4
Growth (%)	-2.9	36.1	28.1	24.5
EBIDTA	98.0	150.9	202.9	264.6
OPM (%)	8.8	10.0	10.5	11.0
PAT	48.5	84.1	123.6	167.2
Growth (%)	-2.6	73.4	47.0	35.3
FD EPS (Rs)	7.1	12.3	18.1	24.5
P/E (x)	35.8	20.7	14.1	10.4
P/BV (x)	3.6	3.2	2.6	2.1
EV/EBITDA (x)	17.3	11.0	7.9	6.4
RoE (%)	10.1	15.2	18.3	19.8
RoCE (%)	12.8	17.4	21.4	23.8

Source: Company; Sharekhan estimates

Key highlights of the Q1FY2023 conference call are as follows

- **Q2FY23 results above expectations:** Lumax Auto's Q2FY2023 results were above expectations, led by higher-than-expected revenue growth, partially offset by slightly lower EBITDA margin than expected. Revenue, EBITDA, and PAT exceeded expectations by 6.9%, 4.4%, and, 16.2% respectively. Consolidated net revenue grew by 20.9% y-o-y and 15.4% q-o-q to Rs. 487 crore in Q2FY2023, 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 expanded by 20 bps q-o-q to 10.7% in Q2FY2023, aided by operating leverage benefits. As a result, EBITDA increased by 16.1% y-o-y to Rs. 51.9 crore in Q2 on margin expansion, while PAT grew by 28.8% y-o-y to Rs. 33.8 crore, driven by higher other income and lower effective tax rate. During Q2FY2023, the company's product mix was – integrated plastic modules (27%); aftermarket (19%); fabrication (14%); shifter (16%); lighting products (7%); emission (7%); and others (10%).
- **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. Although the contribution from electric vehicles (EV) is insignificant currently, it is expected to grow strongly going forward. Management expects the 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 2-3 years. Management expects revenue share from the joint venture (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. 700 crore, which will be booked in P&L over the next 3-4 years. Out of the total order book, ~Rs. 560 crore (80%) consists of new orders, while the balance Rs. 140 crore (20%) 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 key highlights

- The integrated plastic division continues to grow strongly. During Q2FY2023, 2W growth was propelled by Bajaj Auto and Honda 2W, while growth in the passenger vehicle (PV) segment was reported by Maruti Suzuki and Hyundai Kia. The share of 4W is 10-15% in the integrated plastic division. The share of 4W is expected to improve on account of strong order book.
- The company has benefitted from new successful launches of Maruti Suzuki and M&M.
- The company maintained its capex guidance of Rs. 75 crore-80 crore for FY2023E. The company has done capex of Rs. 26 crore in H1FY2023.
- The company has launched electric gear shifter for Switch Mobility, the subsidiary of M&M.

Strong balance sheet and robust earnings growth: The company has a strong balance sheet, with debt-to-equity ratio of 0.03x. The company has been managing capacity expansions through internal cash accruals. Given the robust order book size of Rs. 600 crore and improving demand, we expect the company's consolidated earnings to report a robust 41% CAGR over FY2022-FY2024E, driven by a 26% revenue CAGR and a 100-bps improvement in EBITDA margin at 11% in FY2024E.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Total Income	487.0	402.9	20.9	421.9	15.4
Total Operating expenses	435.1	358.2	21.5	377.5	15.3
EBIDTA	51.9	44.7	16.1	44.5	16.6
Depreciation	11.8	9.4	25.7	11.3	4.9
Interest	3.3	2.1	55.4	2.8	21.3
Other Income	7.7	3.2	138.1	4.0	92.7
PBT	36.7	33.1	10.8	30.4	20.6
Tax	10.6	10.0	6.1	8.4	25.9
Adjusted PAT	33.8	26.3	28.8	26.0	29.9
EPS	5.0	3.9	28.8	3.8	29.9

Source: Company; Sharekhan Research

Key ratios (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Gross margin (%)	32.2	32.1	-	32.3	(10)
EBIDTA margin (%)	10.7	11.1	(40)	10.5	10
EBIT margin (%)	8.2	8.8	(50)	7.9	40
Net profit margin (%)	6.9	6.5	40	6.2	80
Effective tax rate (%)	28.8	30.1	(130)	27.6	120

Source: Company; Sharekhan Research

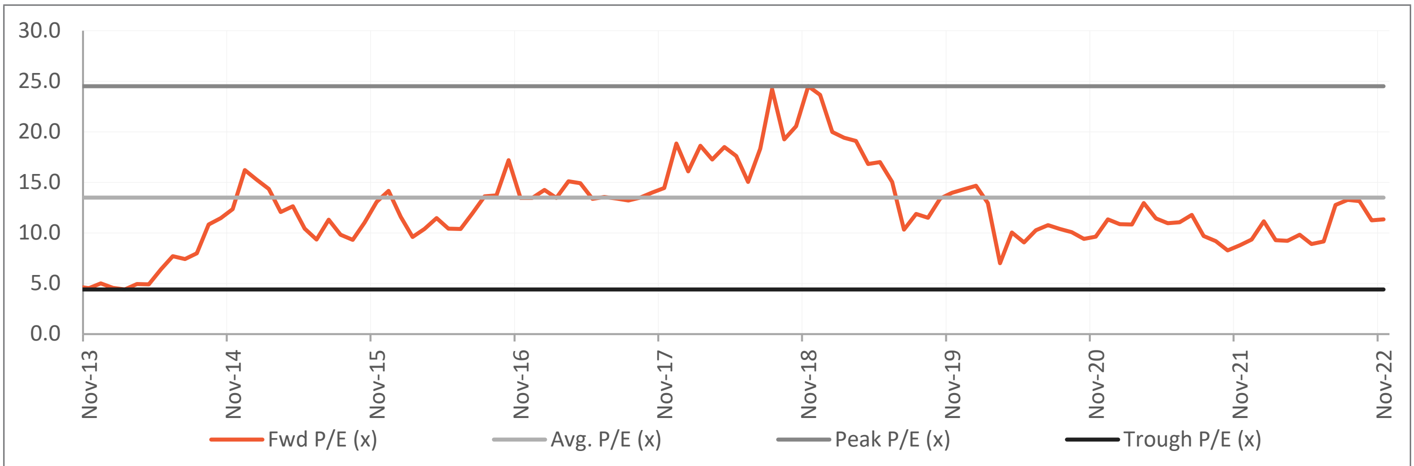
Outlook and Valuation

- **Sector Outlook – Auto demand revving up:** We remain positive on demand for the 2W, PV, and CV industries 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, 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 an increased share of business from clients. In the 2W segment, the company has received orders for the 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 robust 41% CAGR over FY2022-FY2024E, driven by a 26% revenue CAGR and a 100-bps improvement in EBITDA margin at 11% in FY2024E.

- **Valuation – Maintain Buy with an unchanged PT of Rs. 356:** 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 multiples of 6.4x its FY2024E estimates. We retain Buy on the stock with an unchanged PT of Rs. 356.

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	255	20.7	14.1	10.4	11.0	7.9	6.4	17.4	21.4	23.8
Alicon Castalloy	1041	69.4	23.0	14.6	14.0	8.8	6.5	10.9	19.8	23.6
Gabriel India	177	28.4	18.1	13.9	15.4	10.5	8.0	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 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 its 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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