Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Event Update

Lumax Auto Technologies Ltd

Value accretive acquisition

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: Buy ↔	CMP: Rs. 245
	Price Target: Rs. 288 ↔

↑ 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. 1,670 cr
52-week high/low:	Rs. 312 / 141
NSE volume: (No of shares)	1.84 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	19.4
DII	5.6
Others	19.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	-2.3	5.8	37.3
Relative to Sensex	4.9	-1.6	3.7	32.9

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on Lumax Auto Technologies with an unchanged PT at Rs 288 as the IACI's acquisition is expected to be EBITDA margin accretive.
- On consolidation, while the content per vehicle would increase, the profitability is also expected to improve on a better product mix.
- Considering the superior financials, access to technology and complementary product profile - the offered valuation to IACI's appears to be reasonable.
- The stock trades at P/E multiple of 11.9x and EV/EBITDA multiple of 6.1x its FY25E estimates.

Lumax Auto Technologies Ltd (LATL) has decided to acquire 75% stake in IAC International Automotive India (IACI), which manufactures interior as well as exterior components for passenger vehicles and commercial vehicles. While LATL has been largely considered a two-wheeler focussed player, IACI has been catering to four-wheeler segment. Hence this acquisition would help LATL in expanding its (1) product portfolio in PV segment (2) wallet shares with the PV players and (3) overall content per vehicle on improvement in product mix. Further, an increase in revenue share from PVs would reduce its dependence on two-wheeler segment. The IACI's acquisition would be EBITDA margin accretive as the post consolidated EBITDA margin is expected to enhance by 90 bps to 12.4% in FY25E from current estimates of 11.5% assuming IACI to deliver 18% revenue CAGR over FY22-25E and EBITDA margin at 15%. While the detail financials would be available on the closing of the deal, the back of envelop calculation suggests that IACI would contribute 34% and 31% to the LATL's consolidated Revenue and EBITDA (before minority interest) respectively in FY25E.IACI has been valued at Rs 587 crore and LATL would pay Rs 440 cr for 75% stake. Considering IACI's (1) superior EBITDA margin profile (~ 15%) (2) presence in PV segment (87% revenue from PVs) (3) global parentage (IAC) and (4) complementary product profile, the implied valuation of IACI at ~1xCY22 EV/ sales appears reasonable. We maintain our Buy rating with an unchanged PT at Rs 288.

IACI delivers superior margins: IAC India (IACI) is a wholly owned subsidiary of IAC Mauritius and was incorporated in India in 2008.IACI is a leading tier 1 interior and exterior component supplier to the commercial vehicle and passenger car segment. With its established engineering centre it provides advanced design and engineering services to its customers. IACI's key clients are Maruti Suzuki India Ltd, Volkswagen, M&M and VECV. The company has 5 manufacturing units. IACI generates 87% of its revenue from the PV segment and 13% of its revenue from the CV segment. While the detailed financials have not been disclosed the indicative financials for CY22 are Revenue: Rs 595 cr, EBITDA: Rs 90 cr and EBITDA margin at 15%.

Acquisition at reasonable valuation: LATL has decided to acquire 75% stake in IACI via its subsidiary at an investment of ~Rs 440 cr and valuing the company at Rs 587 crore. The implied valuation works out to be ~1xCY22 EV/ sales. IAC would maintain its 25% stake in IACI and the technical support from the parent (IAC) would continue to IACI. The acquisition is expected to be completed by March 2023. LATL would fund the acquisition via internal accrual and debt. The management has indicated that the strong cash flow from IACI would be used to repay the debt in 5 years.

Key products and revenue mix: IACI's product portfolio includes Instrument panels, cockpits, headliner, door and trim systems etc. Instrument panel, cockpit and consoles is the largest revenue contributor segment for IACI as it constitutes 69% to its total revenue.

Customer wise revenue break up: M&M: 69%, Volkswagen: 15%, VECV : 10%, MSIL : 6%

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 288: The management has guided for double-digit growth in its existing business as well as in IACI business for FY24 on the back of revival in OEM's volumes and increase in content per vehicle. LATL has been aiming to diversify its revenue mix and has been looking for 1/3rd of its revenue from 4w business, 1/3rd from two- and three-wheelers and the remaining from aftermarket and CVs. We believe the acquisition of IACI would help LATL in increasing revenue share from the PV segment and expanding its EBITDA margin on consolidation. Given the superior EBITDA margin profile, cross-selling opportunity, access to new global technology and expectation of a rise in content per vehicle, it appears that IACI's acquisition would be EBITDA margin accretive and vat ~1xCY22 EV/sales appear attractive. Though we have not incorporated IACI's financials in our forecasts, but our back-of-envelope calculation suggests that IACI may contribute 34% and 31% to consolidated revenue and EBITDA (before minority interest) estimates respectively in FY25E. We believe that a successful consolidation of the business would result in rerating of the stock on improvement in product profile and margin trajectory. We maintain our Buy rating on the stock with a target price of Rs 288. The stock trades at P/E multiple of 11.9x and an EV/EBITDA multiple of 6.1x its FY25E estimates.

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	FY25E
Net sales	1107.9	1507.9	1804.1	2074.8	2303.0
Growth (%)	-2.9	36.1	19.6	15.0	11.0
EBIDTA	98.0	150.9	195.4	228.2	264.8
OPM (%)	8.8	10.0	10.8	11.0	11.5
PAT	48.5	80.3	99.7	120.3	140.1
Growth (%)	-2.6	65.5	24.2	20.7	16.4
FD EPS (Rs)	7.1	11.8	14.6	17.7	20.6
P/E (x)	34.4	20.8	16.8	13.9	11.9
P/BV (x)	3.5	3.0	2.6	2.3	1.9
EV/EBITDA (x)	16.6	10.6	7.9	7.5	6.1
RoE (%)	10.1	14.7	15.7	16.2	16.2
RoCE (%)	4.7	4.7	15.6	16.0	15.9

Source: Company; Sharekhan estimates

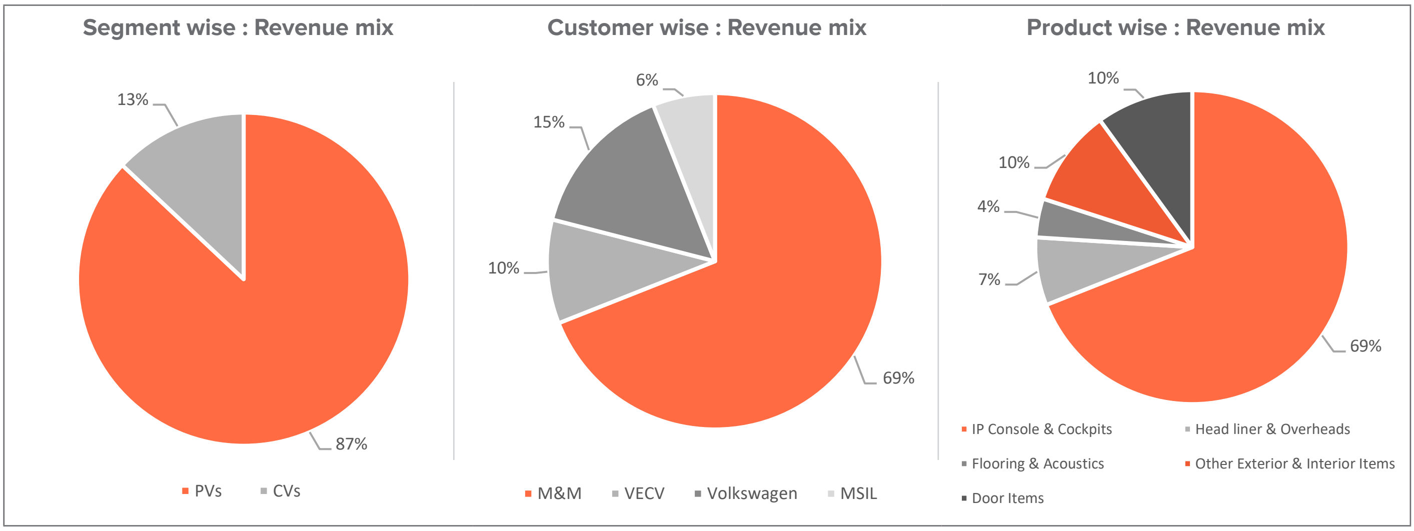
- **Order book:** LATL's current order book stood at Rs 500 crore and out of that 90% would be for new business and rest is for the replacement business. The company has benefitted from the new launches from OEMs as it would result in a robust order book. As per the management the content per vehicle is due to expanded product categories. Though the management has not shared the order book details for IACI but guided that IACI would grow by double digits in FY24.
- **Aftermarket segment:** While IACI has no major presence in the aftermarket space but LATL continues to be optimistic on the growth prospects. Its aftermarket segment business, given the management, is targeting to double its aftermarket revenue in the next 3-4 years. In order to enhance revenue from aftermarket the company has been expanding its distribution network and broadening its product portfolio. In last year, the company has increased its channel partners by 15%. The company is continuously looking to expand its aftermarket reach in the domestic market.
- **Capex:** The company has reduced its capex requirements for FY23 due to a delay in product launches from OEMs. Initially, the company has guided for a capex of Rs 75-80 crore but is now looking for a capex of Rs 60 crore in FY23 and out of that it has completed a capex of Rs. 40 crore in 9MFY23. Though the capex for FY24 is yet to be finalized, the management has indicated that capex requirements would not change materially in FY24. Currently, blended capacity utilisation is at 70%.
- **Outlook:** The company is expecting that its growth traction would continue in the near term and hence looking for double-digit growth in FY24.Besides top line the company has been eyeing on the improvement of the profitability and hence targeting a 13% kind of EBITDA margin (including other income) in the near term and further expansion in long term. The PV business has contributed 25% to the topline in 9MFy23 and the company is expecting going forward 1/3rd of its revenue from the four-wheeler business, 1/3rd from 2&3 wheeler and the remaining from aftermarket and CVs. The company is looking to expand in EV business and has been securing orders in the EV business in metallic frame business. We believe that the acquisition of IACI would help the company in diversifying its revenue mix and achieving the desired mix from the PV segment.
- **Back-of-envelope calculation suggests IACI's acquisition is EBITDA margin accretive:** While the detailed financials are yet to be disclosed but on assuming (1) IACI revenue CAGR at 18% , (2) consistent EBIDTA margin at 15% over FY23E- 25E and(3) line by line consolidation of the financials, than the proforma EBITDA margin (before minority interest) would work out to be 12% and 12.4% respectively for FY24E and FY25E compared to existing EBITDA margin estimates of 11% and 11.5% for FY24E and FY25E respectively.

Proforma estimates

Rs cr	FY23E	FY24E	FY25E
LATL existing estimates			
Revenue	1804	2075	2303
growth	19.6	15.0	11.0
EBITDA	195	228	265
EBITDA %	10.8	11.0	11.5
IACI			
Revenue	600	690	794
growth	24.7	12.0	12.0
EBITDA	90	104	119
EBITDA %	15.0	15.0	15.0
Proforma combined entity			
Revenue		2765	3096
growth		-	12.0
EBITDA		332	384
EBITDA %		12.0	12.4

Source: Company, Sharekhan Research

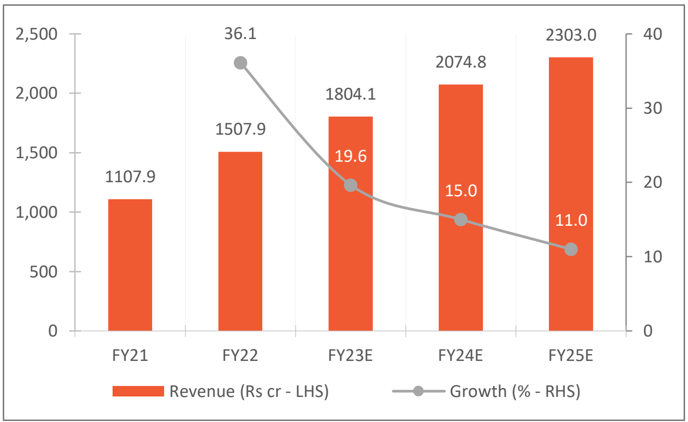
IACI revenue mix



Source: Sharekhan Research

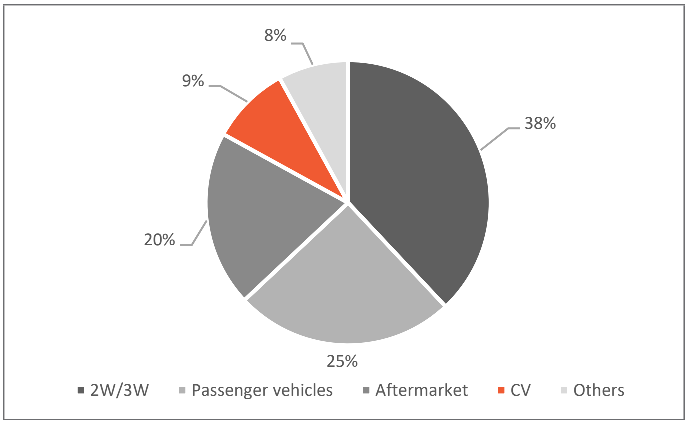
Financials in charts (LATL)

Revenue and Growth Trend



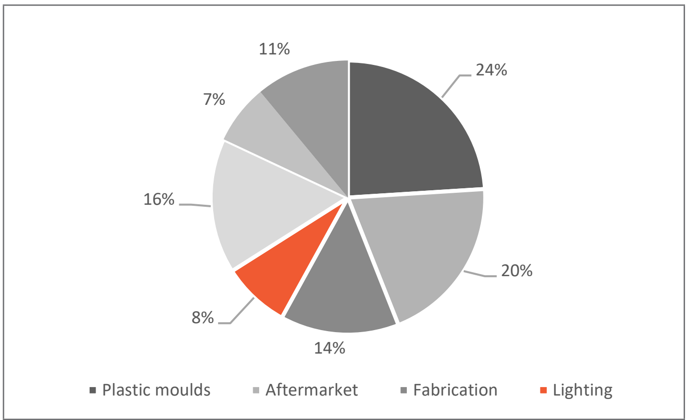
Source: Company, Sharekhan Research

Segmental Mix 9MFY23 (%)



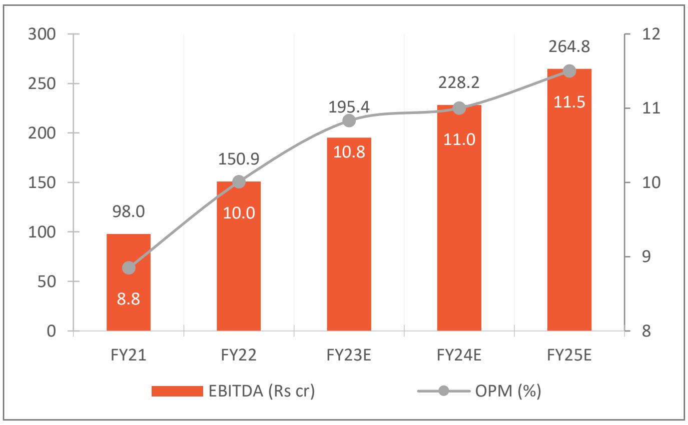
Source: Company, Sharekhan Research

Product Mix 9MFY23 (%)



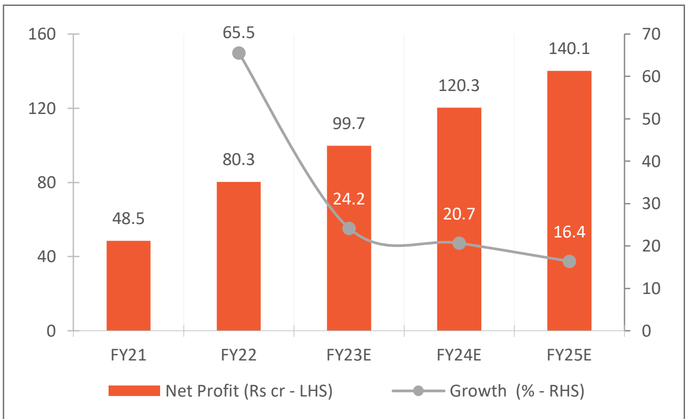
Source: Company, Sharekhan Research

EBITDA and OPM trend



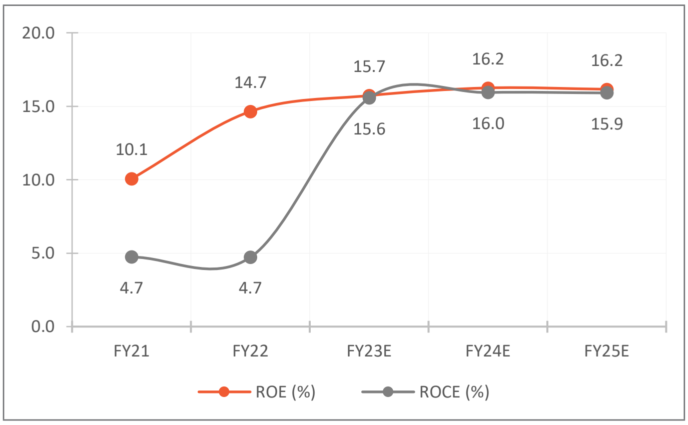
Source: Company, Sharekhan Research

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

We remain positive on the demand for the two-wheelers, PVs and CV industries in the medium term and expect a recovery across sub-segments after the normalisation of economic activities, led by a 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 remain strong, aided by strong farming income and positive predictions 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 sales volume offtake across regional markets.

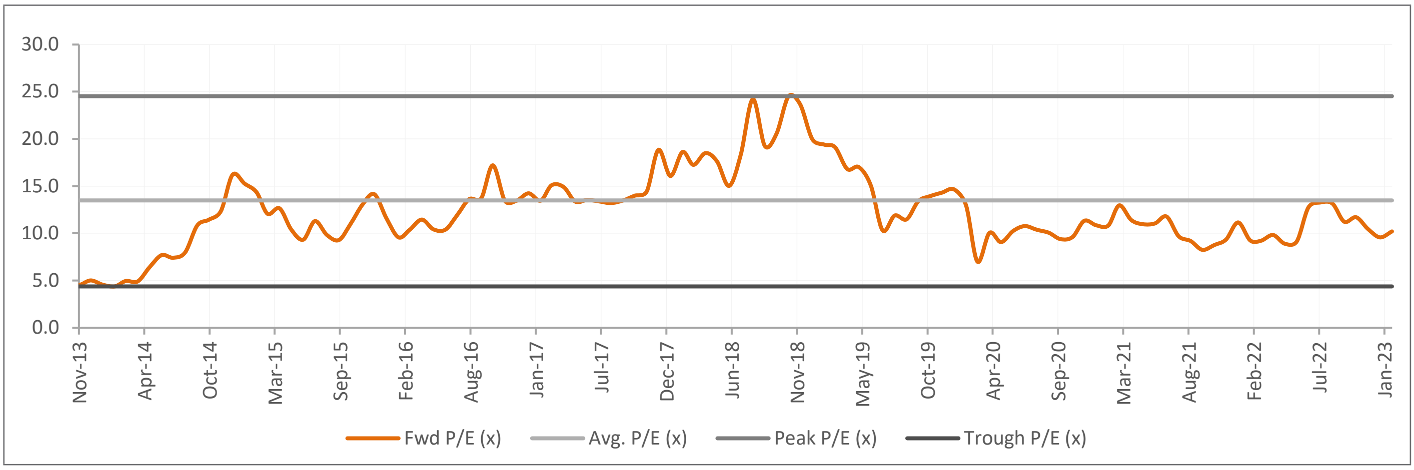
■ Company Outlook – Strong growth visibility

Lumax Auto is witnessing an increased share of business from clients. In the 2W segment, the company received orders for the supply of chassis for KTM (a division of Bajaj Auto) and plastic parts from Bajaj Auto and HMSI. 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 two-wheelers. 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.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 288

The management has guided for double-digit growth in its existing business as well as in IACI business for FY24 on the back of a revival in OEM's volumes and increase in content per vehicle. LATL has been aiming to diversify its revenue mix and has been looking for 1/3rd of its revenue from 4w business, 1/3rd from two- and three-wheelers and the remaining from aftermarket and CVs. We believe the acquisition of IACI would help LATL in increasing revenue share from the PV segment and expanding its EBITDA margin on consolidation. Given the superior EBITDA margin profile, cross-selling opportunity, access to new global technology and expectation of a rise in content per vehicle, it appears that IACI's acquisition would be EBITDA margin accretive and at ~1xCY22 EV/sales appear attractive. Though we have not incorporated IACI's financials in our forecasts, but our back-of-envelope calculation suggests that IACI may contribute 34% and 31% to consolidated revenue and EBITDA (before minority interest) estimates respectively in FY25E. We believe that a successful consolidation of the business would result in rerating of the stock on improvement in product profile and margin trajectory. We maintain our Buy rating on the stock with a target price of Rs 288. The stock trades at P/E multiple of 11.9x and EV/EBITDA multiple of 6.1x its FY25E estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Lumax Auto Technologies Limited	245	20.8	16.8	13.9	10.6	7.9	7.5	4.7	15.6	16.0
Alicon Castalloy	863	57.5	24.9	14.5	11.9	7.9	5.7	10.9	17.5	22.1
Gabriel India	163	26.2	17.9	12.8	14.9	10.1	7.3	16.8	21.1	25.4

Source: Company; Sharekhan Research

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 electronic 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	DSP Investment Managers Pvt Ltd	5.1%
6	Asia Investment Corporation (mauritius) Ltd	4.12%
7	Mitsubishi UFJ	1.47
8	Caisse de Depot	0.8%
9	Dinmensional Fund	0.58
10	Ashoka India Equit	0.4%

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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