Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Lumax Auto Technologies Ltd

Beat in Q4, optimistic outlook

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: Buy ↔	CMP: **Rs. 447**
	Price Target: **Rs. 540** ↑

↑ 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		↔	

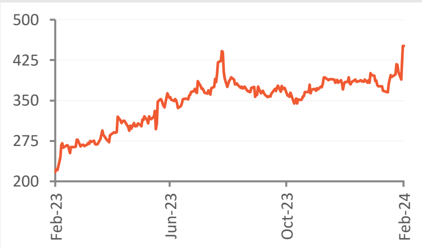
Company details

Market cap:	Rs. 3,047 cr
52-week high/low:	Rs. 498 / 210
NSE volume: (No of shares)	2.6 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	15.9
DII	8.3
Others	19.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.1	21.5	6.7	92.2
Relative to Sensex	15.8	10.5	-3.0	72.7

Sharekhan Research, Bloomberg

Summary

- For Q3FY24, AEBITDA increased by 17.5% q-o-q to Rs 106 cr - against our estimate of Rs 94 cr.
- Order book stands at Rs 1100 cr (up by Rs 50 cr q-o-q) with a 40% share from EV segment.
- We continue to maintain our Buy rating on the stock with revised PT of Rs. 540 on an expectation of the improvement in product mix, rise in content per vehicle and expansion of growth opportunity on consolidation of IACI's business.
- Stock trades at P/E multiple of 14.1x and EV/EBITDA multiple of 6.0x its FY26 estimates.

LATL's (Lumax Auto Technologies Ltd) operating performance exceeded our estimates in Q3FY24 on healthy traction in the high margin IACI business. The acquisition of IACI is paying the dividend as rise in share of revenue from PV segment is translating into the operating excellence. Revenue increased by 4.6% q-o-q to Rs 732 cr (vs estimate of Rs 715 cr) as revenue from IACI increased by 12.8% q-o-q and revenue from other's business has increased by mere 0.9% q-o-q. AEBITDA increased by 17.5% q-o-q to Rs 106 cr (vs estimate of Rs 94 cr). AEBITDA margin expanded by 160 bps q-o-q to 14.5% (vs estimate of 13.2%) on the back of 100 bps q-o-q expansion in gross margin. APAT increased by 33.7% q-o-q to Rs 36 cr (vs estimate of 29 cr). While aftermarket business has been facing cash crunch issues, but the management has guided for an improvement in aftermarket business in Q4FY24. Revenue mix has been continuously improving as the share of two and three wheeler business in topline has come down from 38% in 9MFY23 to 24% in 9MFY24 while the share of PVs in topline has increased from 25% in 9MFY23 to 47% in 9M FY24. We believe that an improvement in revenue mix would augur well for rise in content per vehicle and hence for profitability.

Key positives

- Revenue share from PVs has improved from 25% in 9MFY23 to 47% in 9MFY24.
- Gross margin expanded by 100 bps q-o-q to 37.7% in Q3FY24.
- M&M constituted 26% to its turnover in 9MFY24 against 5% in 9MFY23 as M&M is one of the key customer to IACI.

Key negatives

- Revenue share from after market segment has contracted from 20% in 9MFY23 to 14% in 9MFY24.
- Bajaj Auto constituted 15% to its turnover in 9MFY24 against 26% in 9MFY23 as the models in which LATL has present has not performed well.
- IACI contributed 32% to the topline in 9MFY24. On excluding IACI, LATL's business has grew by mere 3.3% compared to reported topline growth of 52% in 9MFY24.

Management Commentary

- The management believes that 13-14% EBITDA margin in non IACI business and 18% EBITDA margin in IACI business is sustainable.
- LATL would continue to focus on increase in content per vehicle and improvement in product mix.
- Management is looking to double its aftermarket business in next 3-4 years.

Our Call

Maintain Buy with revised PT of Rs. 540: Post reporting operating performance ahead of estimates the management has shared optimistic guidance for FY25 on the back of strong order book. The management is continuing to look for improvement in operating profitability via increasing content per vehicle. IACI's acquisition is resulting in increase in revenue from M&M and hence the share of PVs in overall revenue is showing upward trend. In its traditional two-wheeler business, the company is aiming to expand its presence in the premium category. We believe that an increase in content per vehicle on rise in revenue share from four-wheeler segment and reduction in revenue share from two-wheeler segment would augur well for sustaining its profitability. With rise in content per vehicle, increase in wallet share with existing customers and hope of expansion of its customer bandwidth, we remain positive on LATL. After incorporating Q3FY24 numbers in our earnings estimates and introduction of earnings estimates for FY26E. We continue to maintain our Buy rating on the stock with revised PT of Rs. 540 on expectation of improvement in product mix, rise in content per vehicle and expansion of growth opportunity on consolidation of IACI's business.

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

Valuation table	FY22	FY23	FY24E	FY25E	FY26E
Revenues (Rs cr)	1,508	1,847	2,825	3,219	3,641
Growth (%)	36.1	22.5	52.9	13.9	13.1
AEBIDTA (Rs cr)	151	200	381	451	524
OPM (%)	10.0	10.8	13.5	14.0	14.4
Adj Net Profit (Rs cr)	71	102	127	188	217
Growth (%)	49.0	42.9	25.2	47.8	15.1
AEPS	10.4	14.9	18.7	27.6	31.8
P/E (x)	42.8	30.0	23.9	16.2	14.1
P/BV (x)	5.6	4.6	3.8	3.1	2.5
EV/EBIDTA (x)	19.2	16.2	8.4	7.1	6.0
ROE (%)	13.2	16.9	17.5	21.0	19.4
ROCE (%)	14.5	14.1	16.6	19.1	19.9

Source: Company Data; Sharekhan estimates

Q3FY24 performance

- During the quarter its 50% subsidiary Lumax Cornaglia Auto Technologies has commissioned a new facility at Pune. The new plant would carry diverse product range, including air filter systems and various -moulded products. This will be the first plant to manufacture plastic fuel tanks for commercial vehicles. With this new facility, Lumax Cornaglia 's production capacity would enhance by 40% in phased manner. This plant may contribute additional Rs 40 cr to turnover in FY25.
- The company has entered into a strategic partnership with German based player to offer Indian consumers world-class automotive care products.
- Product wise revenue break up in Q3FY24 : Intergrated Plastic Modules :49%, After Market: 15%, Fabrication: 8%, Shifter: 12%, Lighting :5%, Emission :5%, Others :7%.
- The net debt as 9MFY24 is Rs 91 cr.
- Capex incurred in 9M FY24 is at Rs 78 cr.

Revenue mix

- Lumax Mannoh Allied Technologies (55% subsidiary) has contributed 13% to the total consolidated revenues for 9MFY24.
- Lumax Cornaglia Auto Technologies (a 50% subsidiary) has contributed 6% to the total consolidated revenues for 9MFY24.
- Lumax Alps Alpine India Private Limited has contributed 1% to the total consolidated revenues for 9MFY24.
- Standalone business contributed 47% to the consolidated revenue in 9MFY24.
- IACI contributed (75% subsidy) 32% to the consolidated revenue in 9MFY24.

Order book

- LATL has total order book stands at Rs 1100 cr. Out of that 90% is for the new business and EV orders constitutes 40% of the total order book.IACI constitutes around 55% of the total order book.
- Almost 50% of the order book is expected to be executed in FY25 and 30% in FY26.
- The company has already secured some orders for the born electric vehicles of M&M and the new variants of electric platforms of Bajaj Auto.
- The company envisages a capex of Rs 400 cr to execute this order book.
- Lumax alpine has order book of Rs 100 cr.
- Lumax Cornaglia Auto Technologies has an order book of Rs 70 cr.
- Lumax Mannoh Allied Technologies has an order book of Rs 50 cr.
- The company has reduced its capex guidance from Rs 100-120 cr to Rs 90-100 cr for FY24.

Others

- The company has witnessed a muted business with Bajaj Auto as LATL the models to which LATL caters have registered weak performance. Going forward the company is expecting to get orders for some other models from Bajaj.

IACI

- The management has been positive on the growth prospects in IACI business. The scheme of merger with IACI has been filed with NCLT .
- IACI has generated Revenue of Rs 665 cr and EBITDA of Rs 131 cr in 9MFY24.
- Sustainable EBITDA margin in IACI business is assumed at 18%.

- M&M is the largest customer in IACI business. Beyond that it also caters to other 3 other players in PV segment including Maruti Suzuki.
- IACI has generated Rs 50 cr from MSIL in 9MFY24.
- Going forward the management expects to expand its overall customer bandwidth and penetration with existing customers with the help of IACI.
- IACI is also working closely with Tata Motors.
- IACI would continue to contribute around 30%-35% to the conso revenue in near future.

After market sgmet

- The after-market segment reported mere 7% growth in 9MFY24 due to cash flow related challenges .However the management guided for an improvement in aftermarket business in Q4FY24.
- With new partnerships and product development the management is looking to double its aftermarket business in next 3-4 years.

Outlook

- LATL is looking for strong double digit revenue growth in FY25 and assumes IACI business to grow by 15% in FY25.
- The management has guided for 20% of its revenue to come from JVs in FY24 . Similarly JVs are expected to contribute 20 -25% of topline in FY25 backed by healthy order book.
- The management expects a 13-14%% EBITDA margin is sustainable with a room to reach to 15% on the back of healthy order book, strong performance in JVs and IACI and steady demand trend.
- New order book is offering better EBITDA margin profile.
- The management is not planning to increase its stake in its existing JVs.

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	%YoY	Q2FY24	%QoQ
Total Income	732	445	64.5	700	4.6
Total Operating expenses	627	398	57.5	610	2.7
EBIDTA	106	47	124.0	90	17.5
Depreciation	30	12	146.5	30	(1.0)
Interest	18	3	419.6	16	9.3
Other Income	10	7	44.1	9	7.7
PBT	68	39	76.9	53	28.8
Tax	21	11	90.0	16	30.6
Adjusted PAT	36	23	56.2	27	33.7
EPS	5.3	3.4	56.2	4.0	33.7

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q3FY24	Q3FY23	YoY (bps)	Q2FY24	QoQ (bps)
Gross margin (%)	37.7	32.4	530	36.6	100
EBIDTA margin (%)	14.5	10.6	380	12.9	160
Net profit margin (%)	5.0	5.2	(30)	3.9	110
Effective tax rate (%)	30.0	27.9	210	29.6	40

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Auto demand reviving up

We remain positive on 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 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 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.

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. Further the acquisition of IACI's business would improve overall revenue mix and profitability profile.

Valuation – Maintain Buy with revised PT of Rs. 540

Post reporting operating performance ahead of estimates the management has shared optimistic guidance for FY25 on the back of strong order book. The management is continuing to look for improvement in operating profitability via increasing content per vehicle. IACI's acquisition is resulting in increase in revenue from M&M and hence the share of PVs in overall revenue is showing upward trend. In its traditional two-wheeler business, the company is aiming to expand its presence in the premium category. We believe that an increase in content per vehicle on rise in revenue share from four-wheeler segment and reduction in revenue share from two-wheeler segment would augur well for sustaining its profitability. With rise in content per vehicle, increase in wallet share with existing customers and hope of expansion of its customer bandwidth, we remain positive on LATL. After incorporating Q3FY24 numbers in our earnings estimates and introduction of earnings estimates for FY26E. We continue to maintain our Buy rating on the stock with revised PT of Rs. 540 on expectation of improvement in product mix, rise in content per vehicle and expansion of growth opportunity on consolidation of IACI's business.

Change in earning estimates — Rs cr

Particulars	New			Earlier			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,825	3,219	3,641	2,806	3,170	3,589	0.7	1.5	1.5
EBITDA	381	451	524	351	406	467	8.7	11.1	12.4
EBITDA margin (%)	13.5	14	14.4	12.5	12.8	13			
PAT	127	188	217	112	158	181	13.4	19.4	19.4
EPS	18.7	27.6	31.8	16.5	23.1	26.6	13.4	19.4	19.4

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 (37% of revenue in FY23), passenger cars (29% of revenue in Fy23),and aftermarkets (20% of revenue in FY23) . 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.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). Further the acquisition of IACI's business would improve overall revenue mix and profitability profile.

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	8.5
5	DSP Investment Managers Pvt Ltd	6.5
6	Griffin Growth Fund	4.1
7	IDFC Mutual Fund/India	1.2
8	Srimathi D	1.1
9	Mitsubishi UFJ Financial Group Inc	0.9
10	Caisse de Depot et Placement du Qu	0.8

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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