Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Lumax Auto Technologies Ltd

Diversification paying dividend

Automobiles	Sharekhan code: LUMAXTECH

Reco/View: Buy	↔	CMP: Rs. 536	Price Target: Rs. 650	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- LATL continue to look for suitable inorganic growth opportunities after the successful integration of IACI.
- Improvement in the aftermarket segment and increased premiumisation in its 2W order book would augur well for profitability.
- We maintain BUY on the stock with a revised PT of Rs. 650, based on anticipated improvement in the product mix, increased content per vehicle, and expanded growth opportunities, supported by IACI's business.
- The stock trades at a P/E multiple of 16.5x and EV/EBITDA multiple of 7.2x its FY2026 estimates.

Lumax Auto Technologies Limited's (LATL) strategic focus on revenue diversification via inorganic growth is a well-paying dividend to it as (1) its recently acquired IACI has contributed 31% to its revenue in FY2024, (2) IACI is constituting 44% to its outstanding order book , (3) revenue contribution from M&M has increased from 7% in FY2023 to 26% in FY2024 as M&M is IACI's largest customer, and (4) PV mix in its revenue has improved to 48% in FY2024 from 29% in FY2023. Going forward, management aims to add new customers in the IACI business along with increasing wallet share with existing customers and is looking for cross synergy with its existing portfolio. The company is looking for suitable inorganic growth opportunities to boost its growth potential. FY2024 performance was impacted by a change in the model mix in Bajaj Auto and cash crunch in the aftermarket segment. Management is looking for improvement in the aftermarket segment going forward and has been discussing with Bajaj Auto for an order for Pulsar brand. Further, the company has been in discussions with its customers for new orders. New orders are assumed to deliver better profitability and, hence, increased revenue contribution from new orders would enhance its profitability.

- **Healthy order book:** LATL has been continuously securing healthy orders from its customers. Further, IACI's acquisition has been helping it in boosting its business. At the end of FY2024, its order book stood at Rs. 900 crore and 90% of the order book is for the new business. IACI's business constitutes an order of Rs. 400 crore to the total order book. Almost 30% of the orders are expected to be matured in FY2026, while 55% of the order book will be matured in FY2026. The order book's quality has been consistently improving as management has been endeavouring for an improved revenue mix for better operating profitability. This has been reflected in its order book mix also as the EV segment constitutes around 40% of its order book. The company has been continuously in talks with leading OEMs to boost its order book position. New orders are assumed to deliver better operating margins and, hence, LATL is assumed to sustain improvement in the margin trajectory. The company is investing in capacity expansions to support growth and meet order book demands. LATL has scheduled a capex of Rs. 150 crore to Rs. 175 crore for FY2025.
- **IACI: Successful integration:** Lumax Technologies successfully completed the integration of IAC India business, which is poised to be a significant growth driver. The integration of IACI has benefitted its product mix and customer mix. IACI has constituted 31% of its topline in FY2024 and assumes to grow in double digits in FY2025 because of new launches. With IACI's support, revenue contribution from the PV segment has improved to 48% in FY2024 from 29% in FY2023. Similarly, M&M has constituted 26% of its revenue in FY2024 compared to 7% in FY2023, as M&M has been one of the largest customers of IACI. M&M contributed 70% to IACI's topline in FY2024. IACI is supplying content to M&M's newly launched product XUV 3XO. M&M's XUV 3XO has been receiving a healthy response from the market as it has built up an order book for 50,000 units in the initial round. IACI is undergoing capacity expansions with a capex outlay of around Rs. 50 crore in FY2025. Going forward, management aims to add new customers in the IACI business along with increasing wallet share with existing customers and looking for cross synergy with its existing portfolio. Recently, IACI has added Tata Motors as its new customer.
- **Continues to look for an inorganic growth opportunity:** LATL's performance in FY2024 was impacted by changes in the product mix in Bajaj Auto and liquidity issues in the aftermarket segment. Bajaj Auto had constituted 15% of its topline in FY2024 compared to 24% in FY2024. Bajaj Auto's Pulsar has registered healthy performance, while LATL has not been strongly present with Bajaj Auto. LATL has been engaged with Bajaj Auto and is looking for an opportunity to get orders from Bajaj Auto for Pulsar in future, as LATL has already makes inroads with Bajaj Auto for its EV projects. Revenue contribution from aftermarket also came down to 14% in FY2024 from 20% in FY2023 due to liquidity issues. We assume improvement in the aftermarket segment in FY2025 in support of new product launches. Post the successful integration of IACI with itself, going forward management is continuing to look for inorganic growth opportunities to derisk its business model and diversify its revenue mix. LATL is exploring opportunities in new product lines, including mechatronics, sensors, switches, and EV-related products.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 650: LATL has begun supplying components for Mahindra's new 3X0 model, and IACI has added Tata Motors as its new customer. Following IACI's integration, revenue proportion from passenger vehicles (PVs) has been rising, which we believe will enhance content per vehicle and profitability. In its traditional two-wheeler (2W) business, LATL is looking to expand in the premium segment and is in discussions with Bajaj Auto for an order for its Pulsar brand. We anticipate that increasing content per vehicle from the growing four-wheeler (4W) segment and the probable rise in premiumisation in its order book for the 2W segment will support sustained profitability. LATL's current order book stands at Rs. 900 crore. With higher content per vehicle, increased wallet shares with existing customers, and the potential to expand its customer base, we remain positive about LATL's prospects. Recently, M&M and Tata Motors, which contributed 26% and 4%, respectively, to LATL's revenue in FY2024, have announced a healthy pipeline of new launches. This presents an opportunity for LATL to enhance its growth potential. Therefore, we maintain our BUY rating on the stock with a revised price target (PT) of Rs. 650, based on the anticipated improvement in the product mix, increased content per vehicle, and expanded growth opportunities, supported by 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

Particulars	FY22	FY23	FY24P	FY25E	FY26E
Revenues (Rs cr)	1,508	1,847	2,822	3,213	3,642
Growth (%)	36.1	22.5	52.7	13.8	13.4
AEBIDTA (Rs cr)	151	200	368	450	524
OPM (%)	10.0	10.8	13.0	14.0	14.4
Adj Net Profit (Rs cr)	71	102	130	188	221
Growth (%)	49.0	42.9	28.0	44.4	17.7
AEPS	10.4	14.9	19.1	27.6	32.5
P/E (x)	51.2	35.9	28.0	19.4	16.5
P/BV (x)	6.7	5.5	4.6	3.7	3.0
EV/EBIDTA (x)	23.2	19.2	10.4	8.5	7.2
ROE (%)	13.2	16.9	17.9	21.2	20.1
ROCE (%)	14.5	14.1	16.2	18.3	19.3

Source: Company; Sharekhan estimates

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		↔	

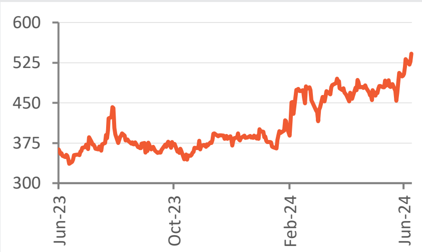
Company details

Market cap:	Rs. 3,654 cr
52-week high/low:	Rs. 544 / 332
NSE volume: (No of shares)	2.4 lakh
BSE code:	532796
NSE code:	LUMAXTECH
Free float: (No of shares)	3.0 cr

Shareholding (%)

Promoters	56.0
FII	9.0
DII	14.2
Others	20.8

Price chart



Price performance

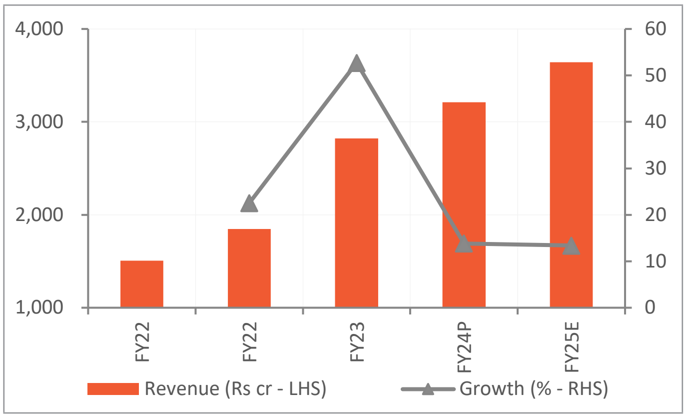
(%)	1m	3m	6m	12m
Absolute	12.6	23.9	41.5	49.2
Relative to Sensex	8.0	18.0	30.7	25.8

Sharekhan Research, Bloomberg

- In FY2024, PVs contributed 48% to overall revenue, 2Ws and 3Ws contributed 24%, aftermarket's contribution stood at 14%, while that of EV stood at 9% and that of others was at 5%.
- In FY2024, integrated plastic models contributed 47% to the overall revenue, followed by the aftermarket segment stood at 14%, gear sector stood at 12%, fabrication was at 8%, emission was at 6%, lighting products stood at 5%, and others stood at 8%.
- LATL is consistently securing substantial orders from its customers. IACI's acquisition has significantly boosted LATL's business. By the end of FY2024, LATL's order book stood at Rs. 900 crore.
- The order book's quality has been improving due to a better revenue mix aimed at higher operating profitability.
- LATL has successfully integrated the IACI India business, positioning it as a significant growth driver. The integration has improved LATL's product mix and customer mix.
- Management aims to add new customers to the IACI business, increase wallet share with existing customers, and explore cross-synergies with its existing portfolio. Recently, IACI added Tata Motors as its new customer.
- LATL is engaged with Bajaj Auto, seeking future orders for the Pulsar brand, having already made inroads for Bajaj Auto's EV projects.
- An improvement in the aftermarket segment is expected in FY2025, supported by new product launches.
- Following the successful integration of IACI, management is pursuing inorganic growth opportunities to diversify its revenue mix and derisk the business model.
- Lumax Auto Technologies is exploring new product lines, including mechatronics, sensors, switches, and EV-related products.
- Lumax Mannoh Allied Technologies (55% subsidiary) has contributed 12% to the total consolidated revenue for FY2024.
- Lumax Cornaglia Auto Technologies (a 50% subsidiary) has contributed 6% to the total consolidated revenue for FY2024.
- Lumax Alps Alpine India Private Limited has contributed 1% to the total consolidated revenue for FY2024.
- Standalone business contributed 47% to the consolidated revenue in FY2024.
- IACI contributed (75% subsidy) 31% to the consolidated revenue in FY2024.

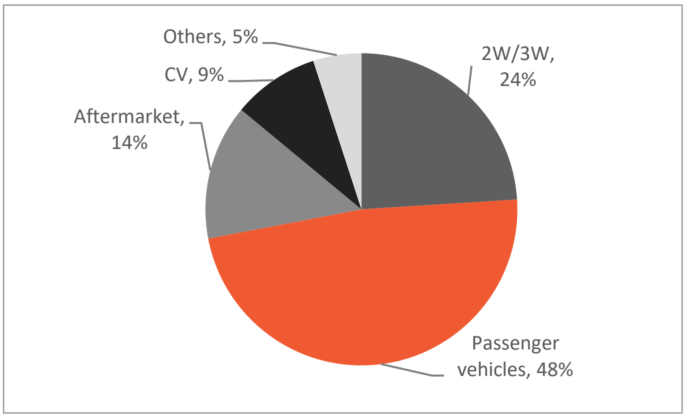
Financials in charts

Revenue and Growth Trend



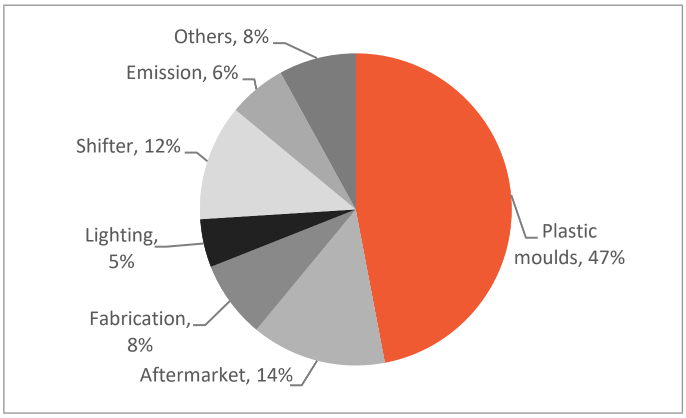
Source: Company, Sharekhan Research

Segmental Revenue Mix (%)



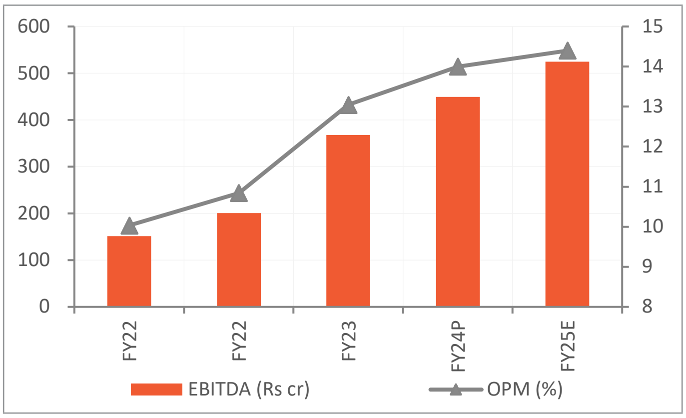
Source: Company, Sharekhan Research

Product wise revenue mix (%)



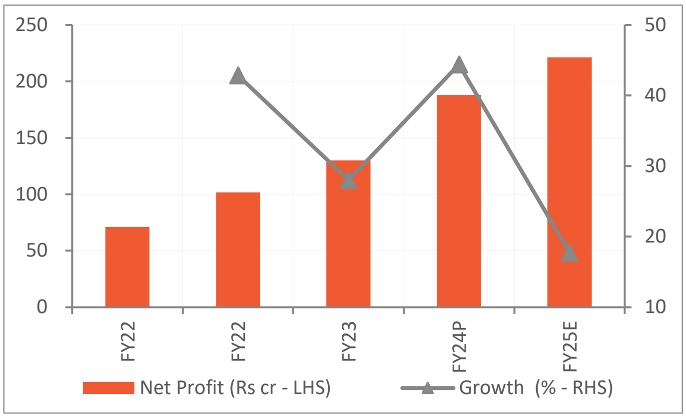
Source: Company, Sharekhan Research

EBITDA and OPM Trend



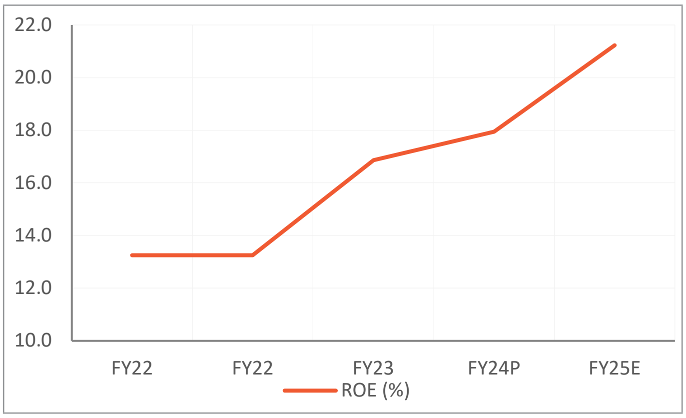
Source: Company, Sharekhan Research

Net Profit and Growth Trend



Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Auto demand reviving up

We remain positive on demand for the 2Ws, PVs, and CV industries in the medium term and expect a recovery across sub-segments in hope of rising economic activities in rural, semi-urban, and urban demand along with a favourable macro outlook. 2W and PV demand is expected to remain steady, as a preference for personal transport and the 2W segment remains the most affordable mode of transportation. Rural sentiments may improve, aided by strong farming income and positive prediction for monsoon this year.

■ Company Outlook – Strong growth visibility

LATL 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 2Ws. 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 LATL to benefit from increased revenue per client and a richer product mix. Further, the acquisition of IACI's business would improve its overall revenue mix and profitability profile.

■ Valuation – Maintain Buy with revised PT of Rs. 650

LATL has begun supplying components for Mahindra's new 3X0 model, and IACI has added Tata Motors as its new customer. Following IACI's integration, revenue proportion from passenger vehicles (PVs) has been rising, which we believe will enhance content per vehicle and profitability. In its traditional two-wheeler (2W) business, LATL is looking to expand in the premium segment and is in discussions with Bajaj Auto for an order for its Pulsar brand. We anticipate that increasing content per vehicle from the growing four-wheeler (4W) segment and the probable rise in premiumisation in its order book for the 2W segment will support sustained profitability. LATL's current order book stands at Rs. 900 crore. With higher content per vehicle, increased wallet shares with existing customers, and the potential to expand its customer base, we remain positive about LATL's prospects. Recently, M&M and Tata Motors, which contributed 26% and 4%, respectively, to LATL's revenue in FY2024, have announced a healthy pipeline of new launches. This presents an opportunity for LATL to enhance its growth potential. Therefore, we maintain our BUY rating on the stock with a revised PT of Rs. 650, based on the anticipated improvement in the product mix, increased content per vehicle, and expanded growth opportunities, supported by IACI's business.

Change in earning estimates Rs cr

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,213	3,642	3,213	3,642	-	-
EBITDA	450	524	450	524	-	-
EBITDA margin (%)	14.0	14.4	14.0	14.4	-	-
PAT	188	221	188	221	-	-
EPS (Rs)	27.6	32.5	27.6	32.5	-	-

Source: Company; Sharekhan Research

About company

LATL is part of Lumax – D. K. Jain Group. The company is a leading auto component manufacturer with a well-diversified product portfolio. The company supplies to most of the leading 2W OEMs in the country and is present in the 2W and 3W segments, passenger cars, and aftermarkets. 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

LATL 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 LATL 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 the company 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 rising automatic transmission in 4Ws (shifting from manual gears to automatic gears). Moreover, we expect the company to benefit from increased revenue per client and a richer product mix.

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

D. K. Jain	Chairman
Anmol Jain	Managing Director
Deepak Jain	Director
Ashish Dubey	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jain Deepak	18.96
2	Jain Anmol	18.95
3	Lumax Finance Pvt Ltd	17.77
4	DSP Investment Managers Pvt Ltd	8.73
5	Nippon Life India Asset Management	3.67
6	Griffin Growth Fund	3.38
7	Albula Investment Fund Ltd	2.03
9	Srimathi D	1.19
8	IDFC Mutual Fund/India	1.04
10	Caisse de Depot et Placement du Qu	0.76

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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