Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Lumax Auto Technologies Ltd

Continue to focus on diversification

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: **Buy** ↔	CMP: **Rs. 539**
	Price Target: **Rs. 650** ↔

↑ 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		↔	

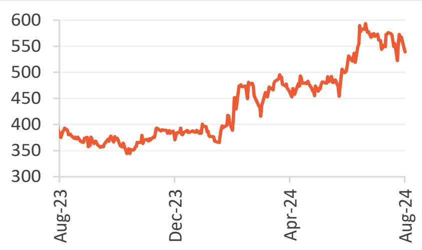
Company details

Market cap:	Rs. 3,674 cr
52-week high/low:	Rs. 608/334
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	6.9
DII	15.8
Others	21.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	16.3	35.6	35.2
Relative to Sensex	-4.9	7.8	25.4	14.2

Sharekhan Research, Bloomberg

Summary

- EBITDA missed estimates on higher-than-expected employee cost.
- Order book has reached Rs. 1,000 crore in Q1FY2025 (vs. Rs. 900 crore in Q4FY2024). Further, management is looking for healthy demand trends in H2FY2025.
- We maintain our BUY rating on the stock with an unchanged PT of Rs. 650, based on the anticipated improvement in the product mix, increased content per vehicle, inorganic growth opportunity, and expanded growth opportunities, supported by IACI's business.
- The stock trades at a P/E multiple of 16.6x and EV/EBITDA multiple of 7.3x its FY2026 estimates.

Lumax Auto Technologies Limited's (Lumax) Q1FY2025 revenue beat our estimates by 6.6% on account of healthy revenue growth across the product segment, except the aftermarket segment. However, EBITDA missed estimates on higher-than-expected employee cost. Further, higher-than-expected other income was partially offset by the rise in minority interest. Hence, APAT came at Rs. 32 crore against our estimate of Rs. 39 crore. Revenue increased by 19.7% y-o-y to Rs. 756 crore (against our estimate of Rs. 709 crore) on account of a 7.5% y-o-y growth in IACI's business and 13.3% y-o-y growth in Ex-IACI business. EBITDA increased by 9.8% y-o-y to Rs. 88 crore (against our estimate of Rs. 100 crore). EBITDA margin contracted by 100 bps q-o-q to11.6% (against our estimate of 14.1%) because of higher-than-expected revenue and a sharp increase in employee cost. Employee cost as a percentage of sales grew 100 bps q-o-q. Other income increased from Rs. 8 crore to Rs. 17.4 crore (against our estimate of Rs. 10 crore), which was partially offset by higher-than-expected minority interest at Rs. 10 crore (against our estimate of Rs. 5.5 crore). With this, APAT increased by 43.2% y-o-y to Rs. 32 crore (against our estimate of Rs. 39 crore).

Key positives

- Gross margin expanded by 30 bps y-o-y and 230 bps q-o-q.
- Revenue share from PVs has increased to 50% in Q1FY2025 from 45% in Q1FY2024.
- Revenue contribution from M&M has increased to 26% in Q1FY2025 from 25% in Q1FY2024.

Key negatives

- IACI business reported a 2.3% q-o-q decline in revenue and a 140-bps contraction in EBITDA margin.
- The aftermarket segment's revenue remained flat on a y-o-y basis.
- Employee costs as a percentage of sales expanded by 100 bps q-o-q.

Management Commentary

- Management continues to look for suitable inorganic growth opportunities.
- Demand trends would be better in H2FY2025.
- The aftermarket segment is expected to register double-digit growth in FY2025.

Our Call

Maintain BUY with an unchanged PT of Rs. 650: Post Q1FY2025 result, management has indicated for a healthy uptick in the demand scenario in H2FY2025 in support of the festive season and new product launches, while it assumes a slow uptick in Q2FY2025. In Q1FY2025, the company witnessed healthy traction in most of the business segments except in the aftermarket segment. The aftermarket segment faced a liquidity crunch in Q1FY2025, though it started picking up in Q2FY2025, and management has guided for double-digit growth in the aftermarket segment in FY2025. We anticipate 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. The company's current order book stands at Rs. 1,000 crore. Post the successful integration of IACI with itself, going forward management continues to look for inorganic growth opportunities to derisk its business model and diversify its revenue mix. With higher content per vehicle, increased wallet shares with existing customers, and the potential to expand its customer base, we remain positive about the company's growth prospects. We maintain our BUY rating on the stock with an unchanged 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	FY24	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	418	524
OPM (%)	10.0	10.8	13.0	13.0	14.4
Adj Net Profit (Rs cr)	71	102	130	161	221
Growth (%)	49.0	42.9	28.0	23.8	37.3
AEPS	10.4	14.9	19.1	23.6	32.5
P/E (x)	51.6	36.1	28.2	22.8	16.6
P/BV (x)	6.8	5.6	4.7	3.8	3.1
EV/EBIDTA (x)	23.4	19.3	10.5	9.3	7.3
ROE (%)	13.2	16.9	17.9	18.5	20.6
ROCE (%)	14.5	14.1	16.2	16.6	19.5

Source: Company; Sharekhan estimates

- **Revenue break-up Q1FY2025:** PVs contributed 50% to overall revenue, 2W and 3W reported a share of 24%, aftermarket's share was at 11%, CV at 8%, and others at 6%. Advance plastic models contributed 56% to the overall revenue, followed by the aftermarket at 11%, structures and control systems at 22%, mechatronics at 4%, and others at 7%.
- **Advance plastic division:** The advance plastic division registered 13.2% y-o-y revenue growth to Rs. 410 crore. It contributed 56% to the topline in Q1FY2025 compared to 59% in Q1FY2024. The PV segment constituted 70% of the revenue of the advance plastic division. With an order book of Rs. 610 crore, management has shared an optimistic outlook for the advance plastic division.
- **Mechatronics division:** Mechatronics business has seen a doubling of revenue from Rs. 11 crore in Q1FY2024 to Rs.28 cr Q1FY2025 due to a low base. The mechatronics division is enjoying an order book of Rs. 150 crore.
- **Structures and control systems division:** The structures and control systems divisions witnessed 12% y-o-y revenue growth to Rs. 147 crore and contributed 22% to the topline in Q1FY2025. 60% of the division's revenue comes from the PV segment and has an order book of Rs. 240 crore.
- **Aftermarket division:** The aftermarket segment's revenue remained flat on a y-o-y basis at Rs. 84 crore, as the aftermarket segment faced liquidity crunch. However, management has been witnessing a green shoot in after market segment in Q2FY2025 and is looking for double-digit growth in FY2025. OEMs are now more aggressive in aftermarket segment.
- **Order book:** Total order book position stands at Rs. 1,000 crore and 90% of the order book is constituted by new orders. Out of the total order book, 25% will be executed in H2FY2025, 55% in FY2026, and the remaining in FY2027. The EV segment constituted 40% of the order book.
- **Capex:** Lumax has scheduled a capex of Rs. 120 crore – 140 crore in FY2025 as it did not carry out any major capex in Q1FY2025.
- **IACI business:** While the IACI business has reported 7.5% y-o-y revenue growth, management has indicated that slower growth was due to higher tooling income sitting in IACI's revenue in Q1FY2024, which was nil in Q1FY2025. As per management, excluding the tooling income in Q1FY2024, revenue has increased by 19% in Q1FY2025. Further, management believes a sustainable EBITDA margin for IACI is at 17%. IACI's capacity utilisation is above 50%. Out of the total capex (Rs. 120 crore – 140 crore) in FY2025, 50% would be incurred in IACI business as it would be supporting to some new model launches in H2FY2025.
- **Inorganic growth opportunity:** Post the successful integration of IACI with itself, going forward management continues to look for inorganic growth opportunities to derisk its business model and diversify its revenue mix.
- **Outlook:** While management has indicated a demand headwind in Q2FY2025, it has guided for 15-20% revenue growth in FY2025 on account of healthy traction in H2FY2025 in support of new model launches and festive season.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	%YoY	Q3FY24	% QoQ
Total Income	756	632	19.7	757	(0.2)
Total Operating expenses	668	552	21.1	666	0.4
EBIDTA	88	80	9.8	92	(4.2)
Depreciation	30	29	1.3	29	2.2
Interest	19	16	23.8	19	2.1
Other Income	17	8	118.4	18	(2.4)
PBT	57	43	30.5	62	(8.6)
Tax	15	13	12.5	10	41.9
Adjusted PAT	32	22	43.2	44	(28.3)
EPS	4.7	3.2	43.2	6.5	(28.3)

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q1FY25	Q1FY24	YoY (bps)	Q3FY24	QoQ (bps)
Gross margin (%)	36.4	36.2	30	34.1	230
EBIDTA margin (%)	11.6	12.7	(100)	12.1	(50)
Net profit margin (%)	4.2	3.5	70	5.8	(160)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Auto demand reviving up

We remain positive on demand for 2Ws, 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 may improve, aided by strong farming income and positive prediction for monsoon this year.

■ Company outlook - Strong growth visibility

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

■ Valuation - Maintain BUY with an unchanged PT of Rs. 650

Post Q1FY2025 result, management has indicated for a healthy uptick in the demand scenario in H2FY2025 in support of the festive season and new product launches, while it assumes a slow uptick in Q2FY2025. In Q1FY2025, the company witnessed healthy traction in most of the business segments except in the aftermarket segment. The aftermarket segment faced a liquidity crunch in Q1FY2025, though it started picking up in Q2FY2025, and management has guided for double-digit growth in the aftermarket segment in FY2025. We anticipate 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. The company's current order book stands at Rs. 1,000 crore. Post the successful integration of IACI with itself, going forward management continues to look for inorganic growth opportunities to derisk its business model and diversify its revenue mix. With higher content per vehicle, increased wallet shares with existing customers, and the potential to expand its customer base, we remain positive about the company's growth prospects. We maintain our BUY rating on the stock with an unchanged 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 earnings estimates (Rs. crore)

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,213	3,642	3,213	3,642	-	-
EBITDA	418	524	450	524	(7.1)	-
EBITDA margin (%)	13.0	14.4	14.0	14.4		
PAT	161	221	188	221	(14.3)	-
EPS (Rs)	23.6	32.5	27.6	32.5	(14.3)	-

Source: Company, Sharekhan Research

About company

Lumax is part of Lumax – D. K. Jain Group. The company is a leading auto component manufacturer with a well-diversified product portfolio. Lumax supplies to most of the leading 2W OEMs in the country and is present in the 2W and 3W segments (37% of revenue in FY2023), passenger cars (29% of revenue in FY2023), and aftermarkets (20% of revenue in FY2023). 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 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. We expect Lumax 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 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 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

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

Source: Company

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	8.93
5	Nippon Life India Asset Management	3.67
6	Griffin Growth Fund	3.38
7	Srimathi D	1.19
8	IDFC Mutual Fund/India	1.00
9	Caisse de Depot et Placement du Qu	0.76
10	ASHOKA INDIA EQUITY INVESTMENTS	0.62

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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