Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Lumax Auto Technologies Ltd

Enhancing value inorganically

Automobiles	Sharekhan code: LUMAXTECH
Reco/View: Buy ⇔	CMP: Rs. 573
	Price Target: Rs. 682 ↑

↑ 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		⇔	

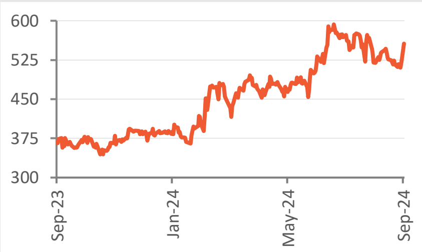
Company details

Market cap:	Rs. 3,905 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	10.2	10.8	20.9	56.7
Relative to Sensex	5.3	2.7	8.3	30.7

Sharekhan Research, Bloomberg

Summary

- Acquisition of Greenfuel marks LATL's foray into alternative fuel segment; acquisition is EPS accretive.
- The strategic move positions Lumax to capitalize on the anticipated growth of the CNG vehicle market in India.
- We maintain a Buy rating on the stock with a revised price target (PT) of Rs. 682, on anticipated improvement in product mix, increased content per vehicle, and expanded growth opportunities supported by inorganic growth opportunities.
- Stock trades at P/E multiple of 17.6x and EV/EBITDA multiple of 7.7x its FY26 estimates.

Lumax Auto Technologies (LATL) has decided to acquire a 60% stake in Greenfuel Energy Solutions Private Limited (Greenfuel) for Rs 132.6 crore. Greenfuel is a prominent player in the alternative fuel sector (including CNG and hydrogen) and reported a turnover of Rs 214 crore in FY24. The implied valuation of Greenfuel equates to 1.03x FY24 sales. Greenfuel supplies to major OEMs such as Maruti Suzuki, Tata Motors and VECV. The acquisition, expected to be finalized by November 2024 following the demerger of some ancillary businesses from Greenfuel, is anticipated to enhance both EPS and RoCE for LATL, according to management. Our primary reading suggests that given that the acquisition is expected to be accretive to RoCE and EPS, it provides LATL an entry into the alternative fuel sector and an opportunity to broaden its product portfolio. This acquisition will create cross-selling opportunities, increasing the content per vehicle and boosting the proportion of four-wheelers in its overall portfolio. We remain optimistic about LATL's diversification strategy through inorganic route to enhance its revenue growth potential from the 4W segment, given consolidation of IACI has resulted into a rise in business from the PV segment. It is to be highlighted following the acquisition of IACI, revenue from PVs rose from 29% in FY23 to 48% in FY24, while revenues from M&M increased from 7% in FY23 to 26% in FY24.

- **Greenfuel – Inroads into alternative fuel segment:** Greenfuel Energy Solutions Private Limited (Greenfuel) is a private company entirely owned by Mr. Akshay Kashyap and his family. Greenfuel specializes and focuses on two main product areas - High-pressure fuel systems for vehicles running on CNG and hydrogen, and fire and smoke safety systems for the automotive industry. The company has significant clients, including major car manufacturers like Maruti Suzuki and TATA Motors, and benefits from strong technology partnerships that give it an edge in the market. The company's revenue has been growing over the past few years, with notable Increases from Rs 159 crore in FY22 to Rs 214 crore in FY24 (16% CAGR) . Additionally, Greenfuel has other business interests that will be separated from the main company through a demerger and will not be part of the acquisition.
- **Benefits of the acquisition:** The proposed acquisition marks LATL's initial entry into the green and alternative fuels sector. By partnering with Greenfuel, Lumax will significantly broaden its range of solutions offered to automotive OEMs in India. This strategic move positions Lumax to capitalize on the anticipated growth of the CNG vehicle market in India, where major OEMs like Maruti Suzuki and TATA Motors have outlined ambitious expansion plans. By integrating Greenfuel's expertise and resources, LATL may enhance its product offerings and tap into this growth potential, providing high-quality solutions to meet the OEMs' evolving needs. The partnership will allow LATL and Greenfuel to combine their strengths, with LATL leveraging its capabilities and Greenfuel continuing to drive daily operations under the leadership of Mr. Akshay Kashyap and his experienced management team. This collaborative effort is expected to strengthen LATL's position in the alternative fuels segment and contribute positively to its EPS and RoCE, enhancing overall financial performance and market standing.
- **Acquisition EPS accretive:** After the successful integration of IACI with itself, the management has been looking for a suitable inorganic opportunity to derisk its business and diversify its revenue mix, given LATL has been exploring opportunities in new product lines including mechatronics, sensors and fuel-agnostic solutions. We believe that Greenfuel's acquisition would be in line with management's well-carved strategy. While the detailed financials, funding arrangements and future growth prospects has not been disclosed yet but it has been indicated that the Greenfuel's acquisition would be earnings-accretive and hence we assume that it would enhance LATL's proforma EBITDA by ~8% in FY26E on a line-by-line consolidation of Greenfuel's financials with itself.

Our Call

Valuation – Maintain a Buy with a revised PT of Rs. 682: Given the stake Buy in Greenfuel would be EPS accretive and offering an opportunity to play in CNG segment, we believe that this would further help LATL in diversifying its product mix along with increase in exposure towards the four-wheeler segment. LATL has already 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. 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. 682, based on the anticipated improvement in the product mix, increased content per vehicle, and expanded growth opportunities supported by inorganic growth opportunities.

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)	54.9	38.4	30.0	24.2	17.6
P/BV (x)	7.2	5.9	4.9	4.1	3.3
EV/EBIDTA (x)	24.9	20.5	11.2	9.8	7.7
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

Proforma EBITDA for FY26 may increase by ~8%

Given the management' indication of EPS accretive acquisition, our back of envelope calculation suggests that LATL's proforma topline and EBITDA may increase by ~8% from our current estimates on assuming (1) Greenfuel's business will grow by 20% CAGR over FY24-26 due to low base and assuming continued traction in CNG segment (2) Greenfuel's margin at 14% in FY26 in line with LATL's margin aspirations.

Proforma estimates

Rs crore	FY24	FY26E
LATL's existing estimates		
Revenue	2822	3642
EBITDA	368	524
EBITDA margin	13.0%	14.4%
Greenfuel		
Reported Revenue	214	308
EBITDA		43.1
EBITDA margin		14.0%
Proforma combined entity		
Revenue		3950
EBITDA		568
EBITDA margin		14.4%

Source: Company; Sharekhan Research

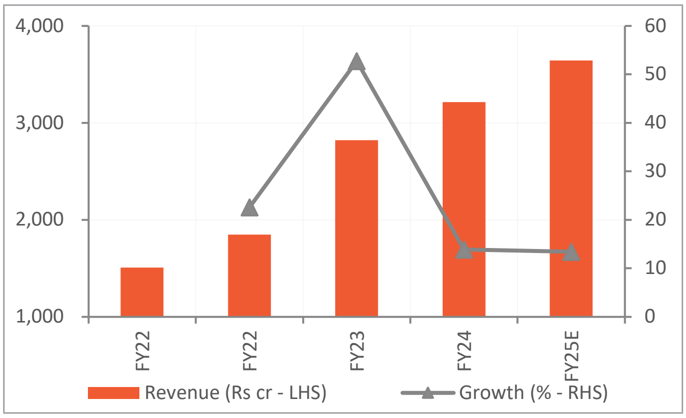
Change in earning estimates

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

Source: Company; Sharekhan Research

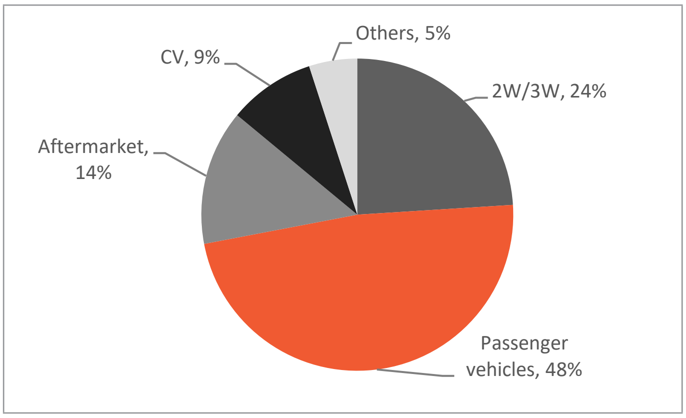
Financials in charts

Revenue and Growth Trend



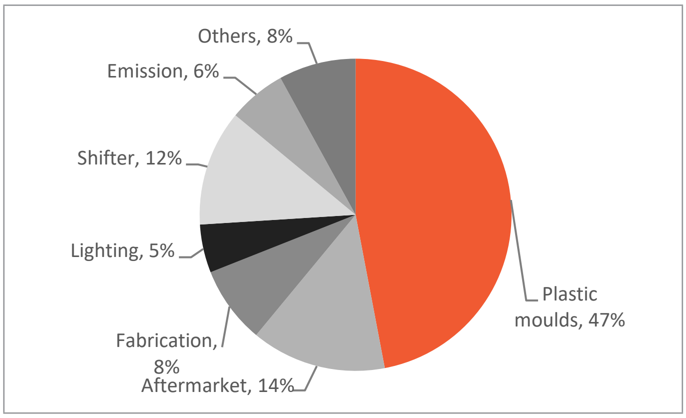
Source: Company, Sharekhan Research

Segmental Revenue Mix (%)



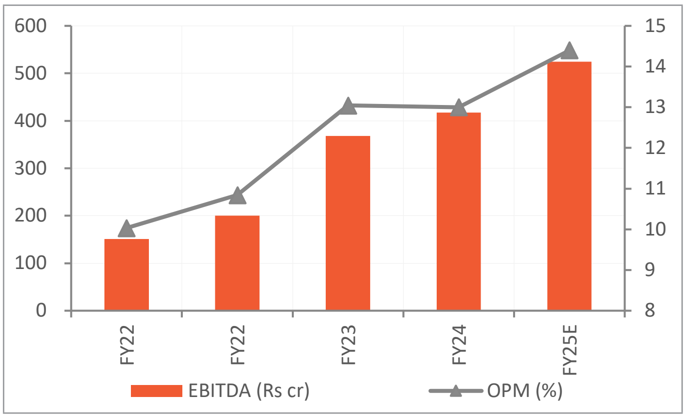
Source: Company, Sharekhan Research

Product-wise revenue mix (%)



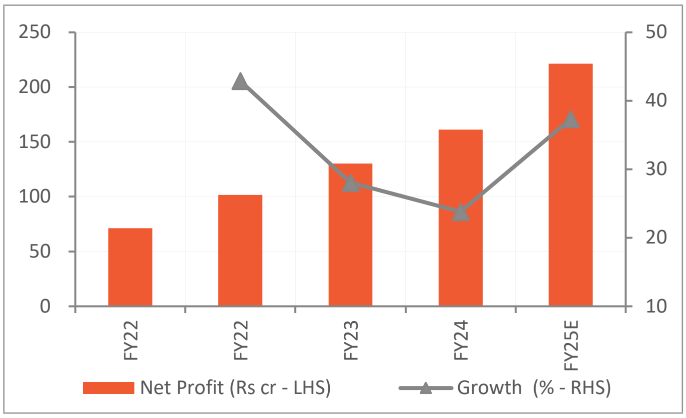
Source: Company, Sharekhan Research

EBITDA and OPM Trend



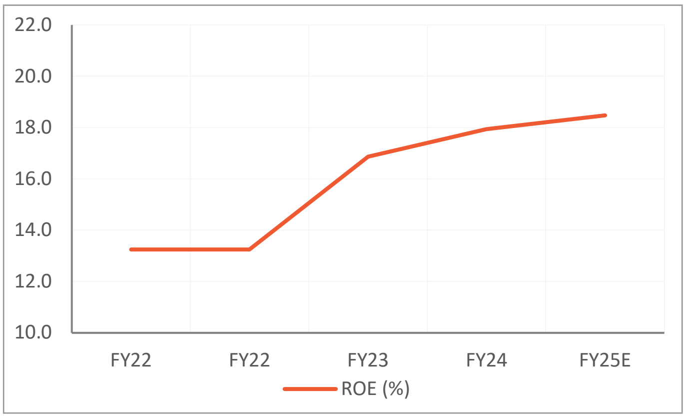
Source: Company, Sharekhan Research

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 stay 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 may improve, aided by strong farming income and positive prediction for monsoon this year.

■ Company Outlook – Strong growth visibility

Lumax Auto is witnessing a higher 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 a revised PT of Rs. 682:

Given the stake Buy in Greenfuel would be EPS accretive and offering an opportunity to play in CNG segment, we believe that this would further help LATL in diversifying its product mix along with increase in exposure towards the four-wheeler segment. LATL has already 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. 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. 682, based on the anticipated improvement in the product mix, increased content per vehicle, and expanded growth opportunities supported by inorganic growth opportunities.

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 (24% of revenue in FY24), passenger cars (48% of revenue in FY24),and aftermarkets (14% of revenue in FY24) . 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.

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	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
9	IDFC Mutual Fund/India	1.00
8	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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