Initiating Coverage

Lumax Auto Technologies Ltd.

November 28, 2022

RETAILRESEARCH

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20 YEARS

Lumax Auto Technologies Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 264	Buy in Rs 262-267 band & add more on dips in Rs 230-235 band	Rs 290	Rs 312	2-3 quarters

HDFC Scrip Code	LUMLTDEQNR
BSE Code	532796
NSE Code	LUMAXTECH
Bloomberg	LMAX IN
CMP Nov 25, 2022	264.4
Equity Capital (Rs cr)	13.6
Face Value (Rs)	2
Equity Share O/S (cr)	6.8
Market Cap (Rs cr)	1801
Book Value (Rs)	89.5
Avg. 52 Wk Volumes	262,600
52 Week High (Rs)	312.0
52 Week Low (Rs)	139.8

Share holding Pattern % (Sep 2022)	
Promoters	56.0
Institutions	25.0
Non Institutions	19.1
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Lumax Auto Technologies Ltd. (LATL) is among the largest automobile ancillary manufacturers in India with a diversified portfolio of products and marquee client base. The outlook for automobile demand is improving and the company is witnessing increased offtake for its products. It has added new models to its portfolio. The company is in talks with various OEMs for producing and developing products for their future EV requirement. It is also looking for inorganic growth opportunities in the non-EV space. Post the implementation of BS-VI emission norms, the company has introduced new products such as urea tanks for PVs and CVs and oxygen sensors for 2W. New products will increase content per vehicle and drive the company's growth.

LATL has entered into JVs with industry leaders which is likely to enhance their product offering and also improve their technology. The company's application along with its various joint venture partners for the PLI scheme has been approved by the Government of India. Tremendous growth opportunities exist for each of the product line and LATL will be aggressively working on all the products approved under the PLI scheme to meet its strategic objectives.

Valuation & Recommendation:

EBITDA margin is expected to remain firm, led by operating leverage and cost-control measures. The company expects its EBITDA margin profile to improve gradually to 12-13% over the next 3-5 years. Modest expansion needs and negligible debt levels provide comfort on the net profitability front for the company. We expect LATL's Revenue/EBITDA/PAT to grow at 20/25/32% CAGR over FY22-FY24E, led by increased demand from end user industries. We believe investors can buy the stock in Rs 262-267 band and add on dips in Rs 230-235 band (13x FY24E EPS) for base case fair value of Rs 290 (16.25x FY24E EPS) and bull case fair value of Rs 312 (17.5x FY24E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY21	FY22	FY23E	FY24E
Operating Income	487	403	*20.9*	422	*15.4*	1,108	1,508	1,908	2,184
EBITDA	52	45	*16.3*	44	*16.6*	98	151	202	236
APAT	29	23	*24.3*	22	*33.3*	47	69	101	121
Diluted EPS (Rs)	4.3	3.4	*24.3*	3.2	*33.3*	6.9	10.2	14.8	17.8
RoE (%)						9.6	12.9	17.5	18.7
P/E (x)						38.2	26.0	17.8	14.8
EV/EBITDA (x)						17.7	11.4	8.3	6.8

(Source: Company, HDFC sec)

Q2FY23 Result Review

LATL recorded its highest ever quarterly and six monthly revenues at Rs.487 crores and Rs.909 crores, respectively. Consolidated revenues of the company grew by 21% YoY in Q2FY23 to Rs 487cr due to increase offtake by almost all the OEMs coupled with growth in shifter and other products. Shifter segment grew by 61% YoY and Others reported 101% growth. EBITDA increased by 16% YoY to Rs 52cr while EBITDA margin contracted 42bps to 10.7% on account of increase other expenses. PAT increased by 24% to Rs 29cr. PAT margin expanded 16bps to 6%.

Concall highlights

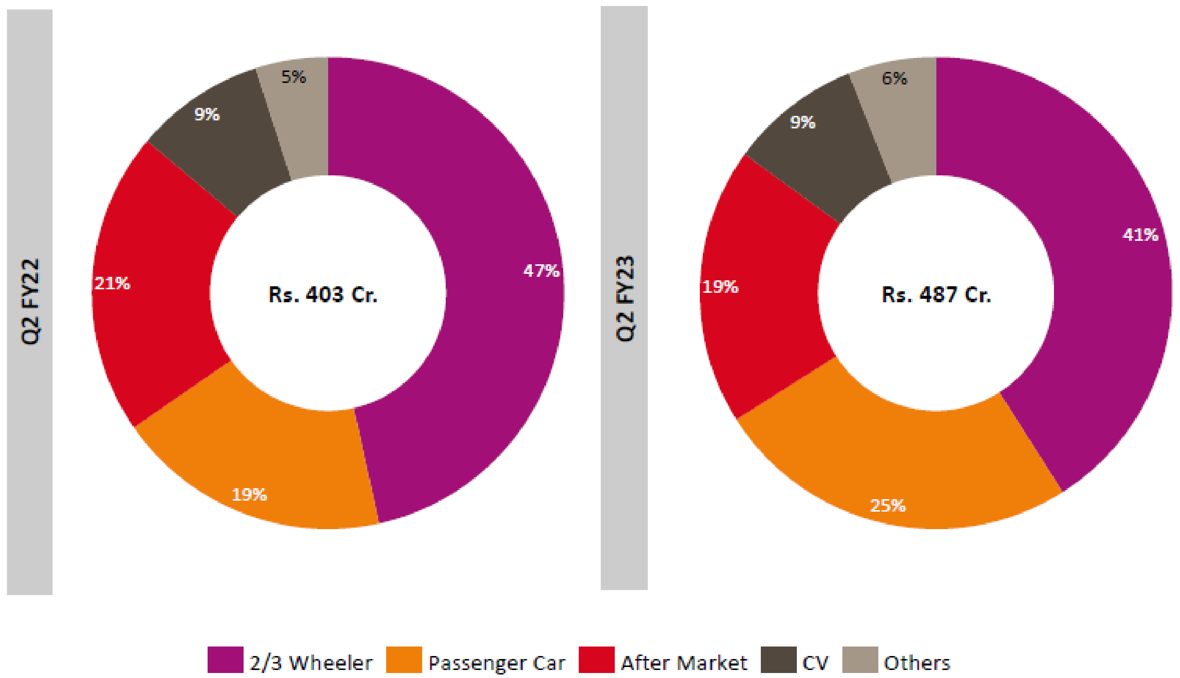
LATL is sitting on a healthy order book of around Rs 700cr, majority of it is new business, and out of which approximately 75% to 80% is of joint ventures which is in line with the earlier guidance, given of joint ventures and subsidiaries achieving 35% share of the total consolidated revenues.

For H1FY23 integrated plastic modules contributed 25% of overall revenue followed by aftermarket at 19%, gear shifter at 16%, chassis at 14%, lighting product at 8%, emission at 7% and others at 11%. Two and three wheelers contributed 40% to overall revenue, passenger car at 24%, aftermarket at 19%, CVs at 9%, and others at 8% for H1FY23.

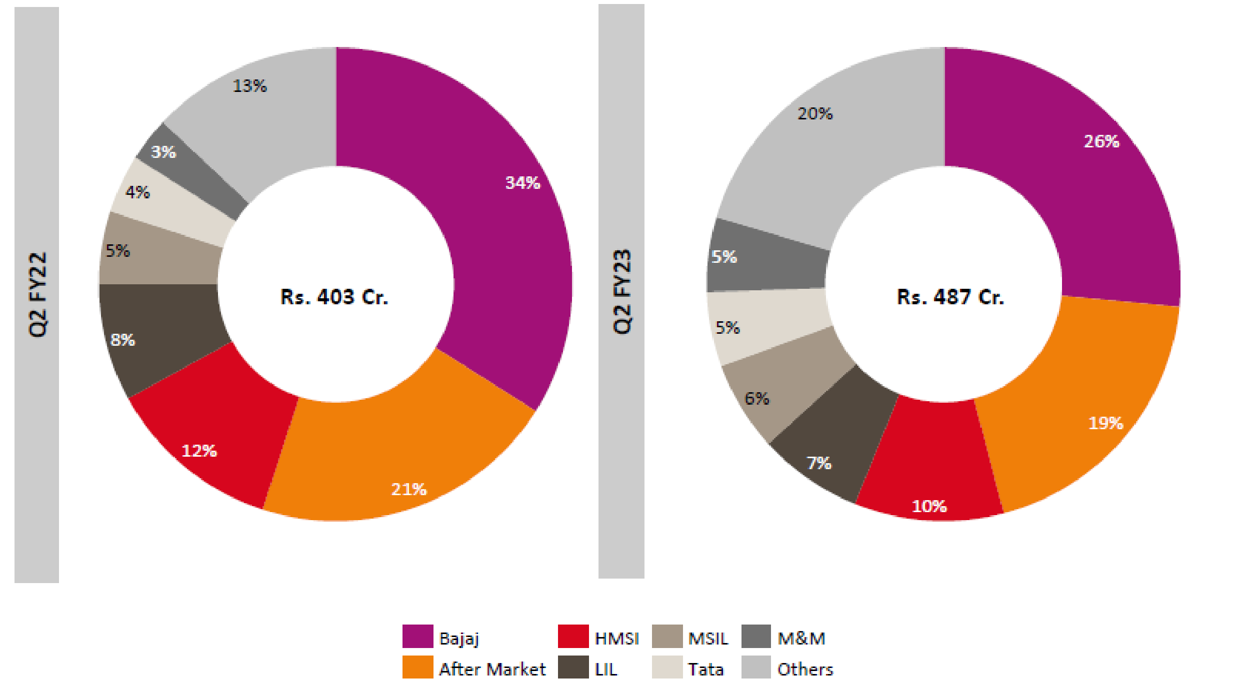
During the quarter, LATL has made the following launches, the gear shifter for Toyota Hyryder, Maruti Grand Vitara and Mahindra Scorpio Classic. And in the commercial vehicle segment, the urea tanks for Tata Ace and Winger models.

The standalone entity has contributed 71% of the total consolidated revenues for H1FY23. Lumax Mannoh Allied Technologies, the 55% subsidiary, which manufacturers manual AMT and automatic gearshifter system, and has a market leadership position, contributed 16% to total consolidated revenues. Lumax Cornaglia Auto Technologies, the 50% subsidiary manufacturing air intake system and urea tank, commanding 100% share of business with Volkswagen and Tata Motors, contributed 7% to the consolidated revenues. Lumax Metallics Private Limited, the 100% subsidiary manufacturing seat frames, contributed 5% to the total consolidated revenues. The capex incurred during H1FY23 is Rs 26cr, including Rs 4cr on account of leasehold asset.

Revenue breakup Segment wise



Customer wise



(Source: Company, HDFC Sec)

Key Triggers

Growing vehicle sales

According to Crisil, CV and PV volume could grow 18% and 12%, respectively, this fiscal after rising 26% and 13%, respectively, in FY22. Two-wheelers will see a modest sales growth of 6% after a 10% cut last fiscal, while tractor volume growth is expected to be flat or in the low single digit compared with a 6% decline. CV demand growth, particularly for medium and heavy commercial vehicles (MHCVs), is expected to be backed by replacement demand because of improved utilisation and profitability of fleet operators, and government spending on infrastructure. PV volume, meanwhile, will be driven by easing of chip shortages, particularly in the second half, as capacity additions by chip manufacturers come on stream, helping clear the sizeable order backlog built over the past six months.

The PV industry is witnessing strong improvement in sales. According to the data released by the Federation of Automobile Dealers Associations (FADA), passenger vehicle retail sales increased by 40% in Oct'22, compared to the same period last year while CV segment witnessed 25% YoY growth. Two-wheelers sales recovered by 51% driven by the opening up of educational institutes and improved mobility.

Going forward, the Indian automotive component industry is expected to witness healthy growth owing to increasing domestic demand, rising exports, and the increasing flow of investments in the automotive components sector.

Chosen under PLI scheme

LATL and its JV subsidiaries, chosen for government sops under the Production Linked Incentives (PLI) scheme, is hopeful of investing a minimum of Rs 250cr during 2022-2027 even as the aim remains to generate three times in terms of revenues from the proposed production capabilities. The company has received approval for production of some cutting-edge auto component products such as AT, CVT, DCT gear shifters, urea tank assemblies, oxygen sensors, telematics, driver management system, ADAS and steering angle sensors under the PLI scheme which was opened for participation late last year.

For Lumax Auto, the inclusion of gear shifters -- AT, CVT, DCT -- under the PLI scheme couldn't have come at a better time when it is looking to enhance its revenues from the segment. The company launched the gear shifter for the new Baleno of Maruti Suzuki and the Nexon Model of Tata Motors under the passenger vehicle category in Q4FY22 and is the sole supplier for these high selling models.

Oxygen sensors could witness strong growth

A similar growth opportunity awaits Lumax Auto in the oxygen sensor business which is already witnessing an uptick in demand from Indian OEMs. In fact, the company during the investor call said it has received letters of Intent (LoI) from a couple of major OEMs for supplying oxygen sensors, the SOP for which is expected to take place in fiscal 2023. In terms of revenues, the company said LoIs can bring in around Rs 100cr annually to the company's coffers. The major reason for increased demand for oxygen sensors is due to regulatory mandates for two oxygen sensors in the two-wheelers from 2024, the preparation for which has already started across the two-wheeler industry.

Exports continue to be key focus area

LATL has been the leader for some of the products in the domestic market and is looking to expand geographically. Exports continues to be a key focus area in the long term strategy. Through most of the JV partners, company is looking to utilize India's production base for some of global plant requirements & derive some cost advantage. The company has successfully started export of Made in India, automatic gear shifter for a global platform during the current financial year. Going ahead, it is working closely with JV partner for a wider outreach globally. Case in focus would be Lumax Mannoh (which has leadership in domestic market). Some inroads made already through Cornaglia in Indonesia too.

Diversified product portfolio with strong growth potential

LATL caters to 2W, 4W as well as CV segments of the automobile industry. This diversification helps the company to overcome downturn/ cyclicality in any segment of automobile industry. For 2 wheelers the company makes lighting modules, oxygen sensors, plastic moulded parts; for 4 wheelers it produces Air intake system, automatic gear shifter, antennas and for CV it manufactures seat structures and urea tanks.

Product portfolio

- Lighting Module(incl. HL/TL/Indicators & Others)
- Chassis for 2-wheelers
- Fabricated parts for 3-wheelers
- Integrated Plastic Modules
- Oxygen Sensors
- Telematics Products and Services

- Gear Shift Lever
- Gear Shift Tower
- Control Housing
- Intake Systems
- Seat Structures
- Integrated Plastic Modules
- Telematics Products and Services
- Antenna
- Electronic devices & components

- Integrated Plastic Modules
- Gear Shift Lever
- Seat Structures
- Telematics Products and Services
- Urea Tank

(Source: Company, HDFC Sec)

Partnerships with global leaders

LATL has entered into JVs with global leaders to get technological advantage and launch better quality products.

JV Partner	LATL Holding	Product	FY22 Revenue (Rs cr)
Mannoh (Japan)	55%	Gear Shifter	201
Yokowo (Japan)	50%	Antennas & other Vehicle Communication Products.	NA
Jopp (Germany)	50%	Gear Shift Towers, AMT Kits & AGS.	4
Cornaglia (Italy)	50%	Air Intake System, Urea tank, Injection blow moulded parts	99
FAE (Spain)		Oxygen sensors	2
Ituran (Israel)	100%	Telematic products and services	2
Alps Alpine (Japan)	50%	Electric devices and components for automotive use	9

- Lumax Mannoh Allied Technologies has successfully started export of Made in India, automatic gear shifter for a global platform
- Lumax Cornaglia Auto Technologies has received business nomination for plastic fuel tank from one of the major OEM
- Lumax FAE Technologies as received LOI from two major OEMs for oxygen sensors, annual revenues could be more than Rs 100cr at peak volumes
- Lumax JOPP Allied Technologies is close to securing firm orders for E-actuators from a major OEM

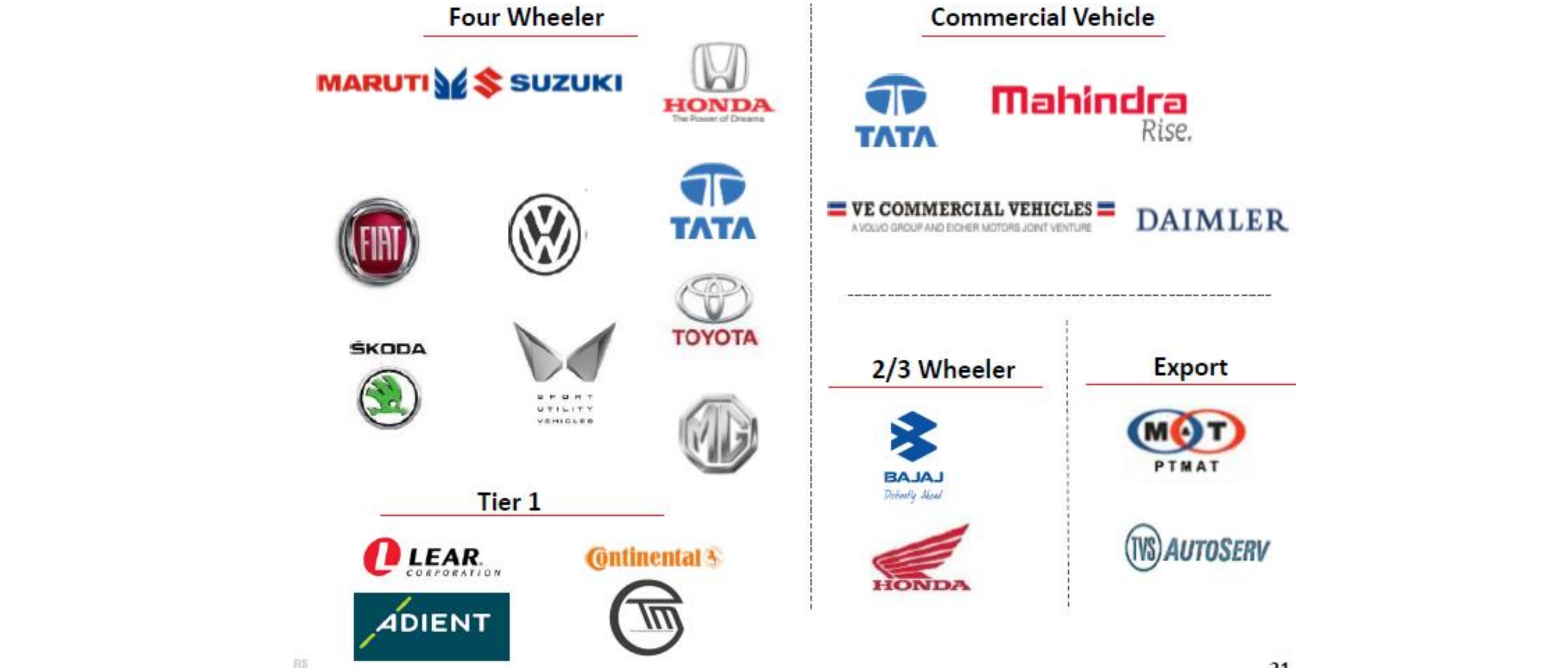
Healthy financial profile

Despite facing various challenges like Covid related curbs, supply chain and chip shortages, rising raw material prices which impacted automobile demand adversely, LATL posted highest ever revenue and profitability in FY22. As per data published by SIAM, overall industry production witnessed a growth of only 1%. LATL reported 36% topline growth and 47% growth in PAT. The company maintains a lean balance sheet with moderate capex requirement, funded largely through internal accruals. Hence minimal addition of debt, prudent working capital management and steady increase in networth will strengthen the credit metrics.

Strong and diversified client base

LATL is one of the largest players in the automobile component segment in India, with presence across OEMs and aftermarket. It has been gaining market share with existing customers indicating quality and reliable products. It has also added new customers in domestic as well as overseas markets.

Marquee OEM customer base



(Source: Company, HDFC Sec)

Risks & Concerns

Slowdown in the automobile industry

Since LATL manufactures products which are consumed by the automobile industry any slowdown in the industry will directly impact the revenues of the company.

Technology obsolescence

The industry in which is LATL is present is technology driven and hence it has to keep itself abreast to the latest technologies. If not, it could lose on its sales and market share.

High competitive intensity
LATL doesn't have dominant market share in its major revenue product line and hence margins could be under pressure in case of higher competitive intensity.

Raw material price volatility
Another cause of concern for LATL could be fluctuations in raw material prices, which could in turn impact the selling prices and realizations. The main raw material used is polypropylene (PP), which is a downstream petrochemical product. Hence, the price of PP is directly linked to crude oil rates, which are highly volatile. Also, steel prices have been volatile in the past 4-5 years.

Working capital deterioration
LATL currently has a cash conversion cycle of just around 25 days. In case there is pressure on receivables, we will see deterioration in Free Cash Flow generation that will alter our estimates.

Client concentration
Bajaj Auto is the biggest client for LATL accounting for ~30-35% of its standalone sales. Any slowdown in sales by Bajaj Auto or diversification of vendor base by it could impact sales of LATL. In lighting business, LATL has dependence on just one client – Bajaj Auto.

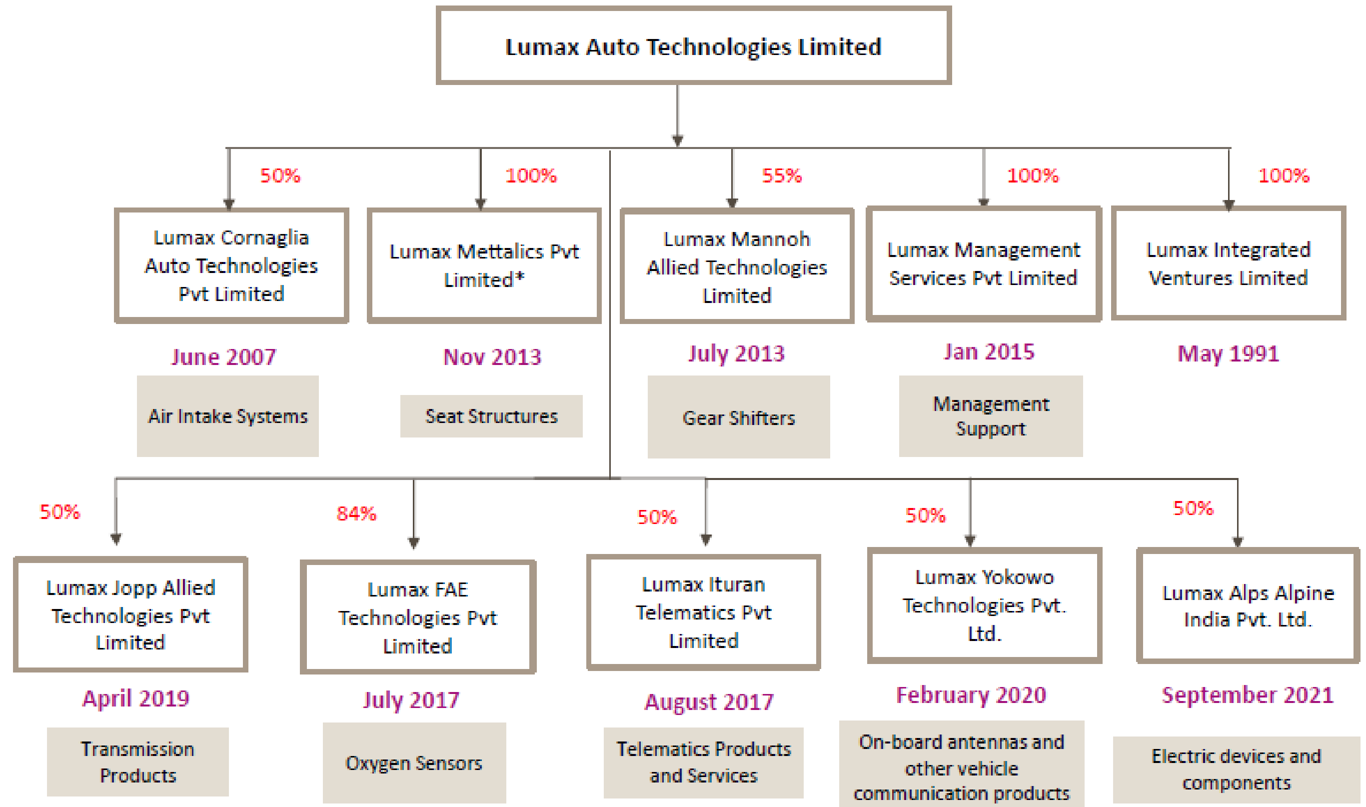
Traded goods
LATL has a large proportion of traded purchases (including from group companies) accounting for ~14-15% of sales. This could impact its margins.

Company Background:
Founded in the year 1981, Lumax Auto Technologies is a publicly listed company, which is part of the D.K Jain Group. The company commenced its operations with manufacture of two-wheeler lighting. Under the continuous leadership & vision of the group, Lumax Auto Technologies has carved a niche for itself in the automotive products like intake systems, integrated plastic modules, 2-wheeler chassis & lighting, gear shifters, seat structures and mechanisms, electrical and electronics components, etc. for two, three and four wheeler segments with an experience of over three decades.

Lumax Auto Technologies has 13 state-of-the-art manufacturing facilities located across the country. For providing world-class, products and services it has partnered with global automotive industry leaders such as Cornaglia, Gill-Austem, Mannoh, Alpine, Ituran and FAE. It's partnerships and pan-India marketing presence makes the organisation the leading automotive component manufacturer in the country.

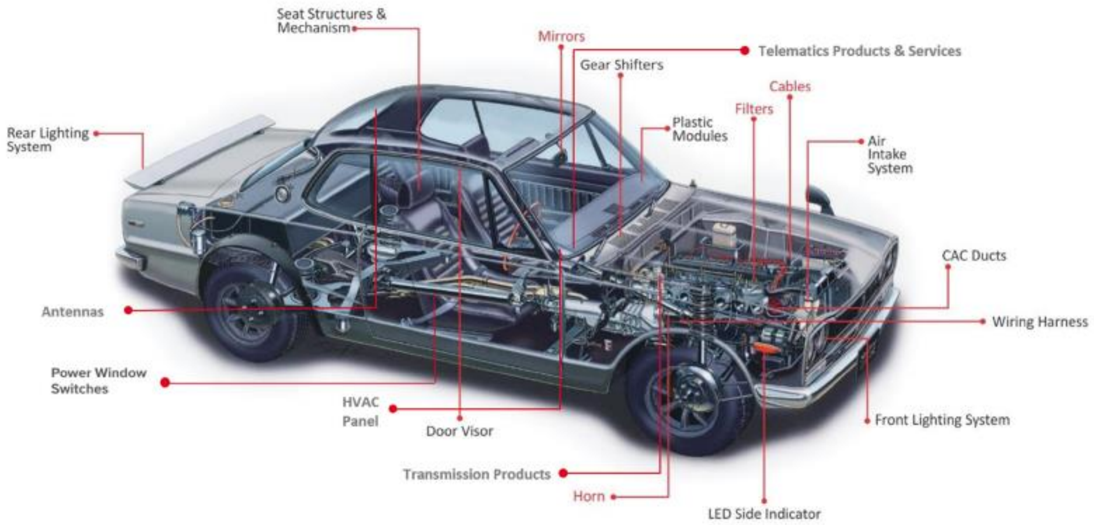
The company is amongst the few integrated players in India, possessing the combination of robust R&D capabilities, technological competence, ability to design, and manufacture products. It is the only one in the country having the competencies to manufacture and supply gear lever for electric cars. The company has also received several awards and recognitions, both domestic and international.

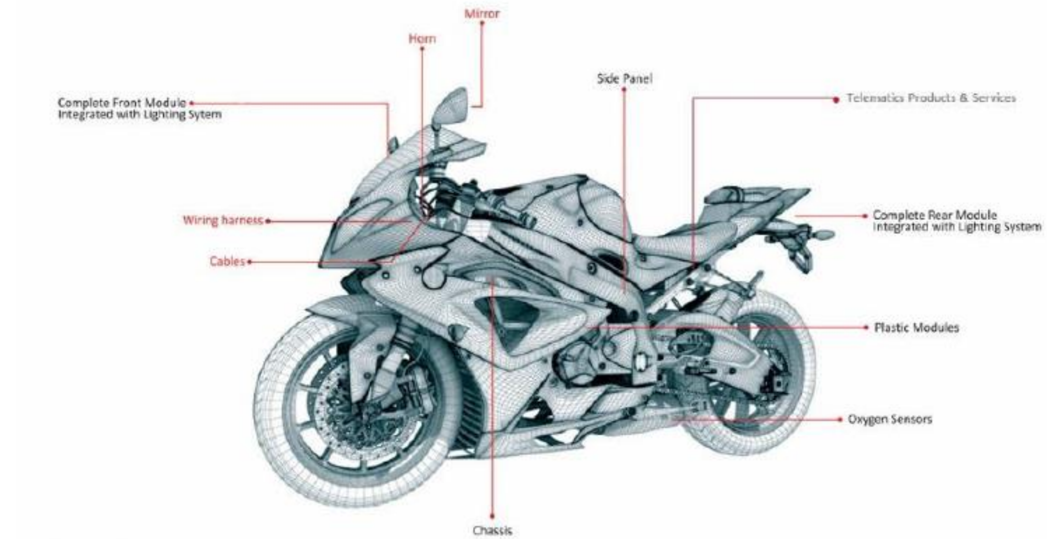
Well defined corporate structure



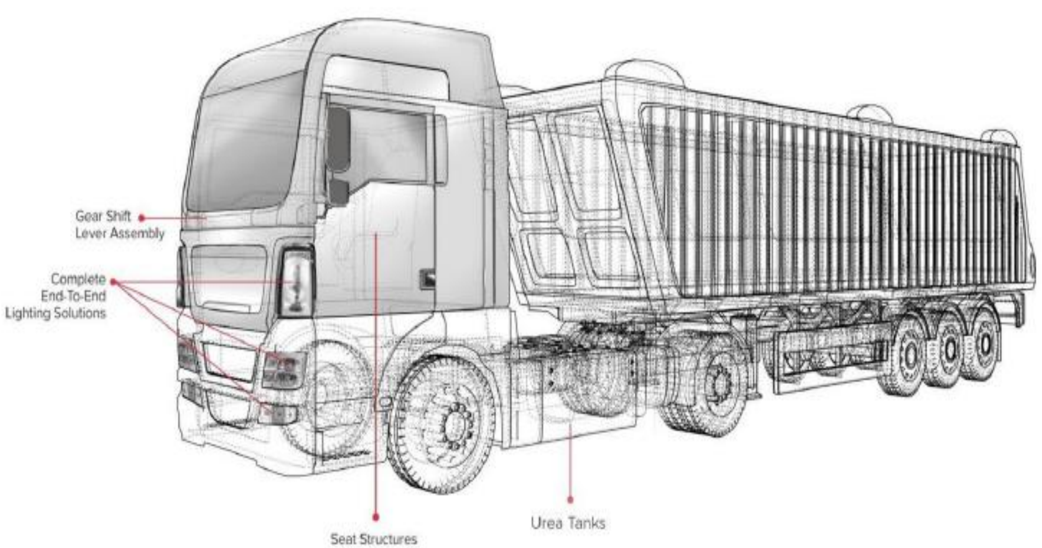
(Source: Company, HDFC Sec)

Product Range *4-wheeler* *2-wheeler*





Commercial Vehicles



Farm Equipment

(Source: Company, HDFC Sec)

Financials (Consolidated)

Income Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**1141**	**1108**	**1508**	**1908**	**2184**
Growth (%)	***-3.9***	***-2.9***	***36.1***	***26.5***	***14.5***
Operating Expenses	1050	1010	1357	1705	1948
EBITDA	**91**	**98**	**151**	**202**	**236**
Growth (%)	***-17.4***	***7.8***	***54.3***	***33.7***	***16.7***
EBITDA Margin (%)	***8.0***	***8.8***	***10.0***	***10.6***	***10.8***
Depreciation	35	34	40	48	54
Other Income	18	18	13	15	17
EBIT	**75**	**82**	**125**	**169**	**199**
Interest expenses	10	10	9	13	15
PBT	**65**	**72**	**113**	**156**	**184**
Tax	14	20	31	41	48
PAT	**51**	**51**	**82**	**115**	**136**
Share of Asso./Minority Int.	-2	-4	-13	-14	-15
Adj. PAT	**58**	**47**	**69**	**101**	**121**
Growth (%)	***-11.9***	***-18.8***	***47.3***	***45.7***	***20.0***
EPS	8.5	6.9	10.2	14.8	17.8

Balance Sheet

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	14	14	14	14	14
Reserves	433	517	530	597	676
Shareholders' Funds	**446**	**531**	**544**	**610**	**689**
Minority Interest	42	40	61	74	90
Total Debt	88	72	125	133	105
Net Deferred Taxes	13	14	14	14	14
Other Non-curr. Liab.	21	19	33	42	48
Total Sources of Funds	**611**	**676**	**776**	**874**	**946**
APPLICATION OF FUNDS					
Net Block & Goodwill	337	363	396	424	448
CWIP	21	9	12	6	3
Investments	80	148	135	195	230
Other Non-Curr. Assets	27	22	35	44	50
Total Non Current Assets	**465**	**543**	**578**	**669**	**732**
Inventories	64	84	112	131	159
Debtors	193	223	266	348	408
Cash & Equivalents	104	98	138	136	137
Other Current Assets	34	42	44	62	72
Total Current Assets	**395**	**446**	**561**	**677**	**776**
Creditors	157	205	231	303	362
Other Current Liab & Provisions	92	109	131	169	199
Total Current Liabilities	**250**	**313**	**362**	**472**	**561**
Net Current Assets	146	133	198	205	215
Total Application of Funds	**611**	**676**	**776**	**874**	**946**

Lumax Auto Technologies Ltd.

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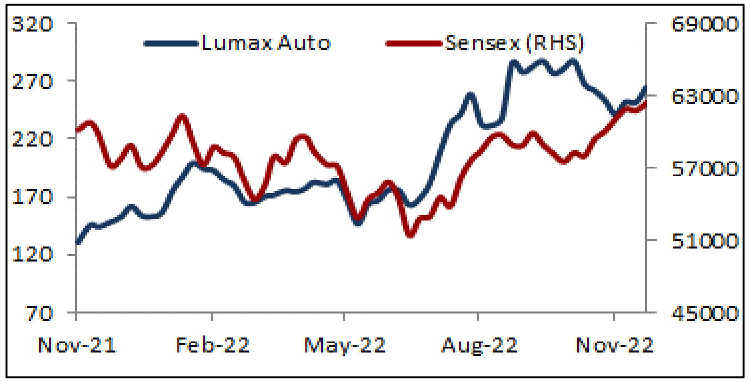
Cash Flow Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	74	72	113	156	184
Non-operating & EO items	-4	-9	-6	0	0
Interest Expenses	5	6	5	13	15
Depreciation	35	34	40	48	54
Working Capital Change	-14	10	-32	-9	-9
Tax Paid	-20	-15	-33	-41	-48
OPERATING CASH FLOW (a)	**76**	**98**	**87**	**167**	**196**
Capex	-13	-42	-47	-70	-75
Free Cash Flow	63	56	41	97	121
Investments	6	-27	-27	-60	-35
Non-operating income	-25	-6	8	0	0
INVESTING CASH FLOW (b)	**-32**	**-76**	**-65**	**-130**	**-110**
Debt Issuance / (Repaid)	22	-23	52	9	-28
Interest Expenses	-9	-10	-9	-13	-15
FCFE	57	-10	65	32	43
Share Capital Issuance	0	0	0	0	0
Dividend	-46	-8	-23	-35	-42
Others	0	-3	-10	0	0
FINANCING CASH FLOW (c)	**-33**	**-40**	**20**	**-39**	**-85**
NET CASH FLOW (a+b+c)	**11**	**-18**	**42**	**-2**	**1**

Price chart



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	8.0	8.8	10.0	10.6	10.8
EBIT Margin	6.5	7.4	8.3	8.9	9.1
APAT Margin	5.1	4.3	4.6	5.3	5.6
RoE	12.5	9.6	12.9	17.5	18.7
RoCE	13.8	14.4	19.6	24.0	25.9
Solvency Ratio (x)					
Net Debt/EBITDA	-0.2	-0.3	-0.1	0.0	-0.1
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	8.5	6.9	10.2	14.8	17.8
CEPS	13.6	11.9	16.0	21.9	25.7
BV	65.5	77.9	79.8	89.6	101.2
Dividend	3.0	3.0	3.5	5.1	6.2
Turnover Ratios (days)					
Debtor days	75	68	59	59	63
Inventory days	20	24	24	23	24
Creditors days	63	60	53	51	56
VALUATION					
P/E	31.0	38.2	26.0	17.8	14.8
P/BV	4.0	3.4	3.3	3.0	2.6
EV/EBITDA	19.5	17.7	11.4	8.3	6.8
EV / Revenues	1.6	1.6	1.1	0.9	0.7
Dividend Yield (%)	1.1	1.1	1.3	1.9	2.3
Dividend Payout (%)	35.2	43.4	34.4	34.4	34.8

(Source: Company, HDFC sec)

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RETAILRESEARCH

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Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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