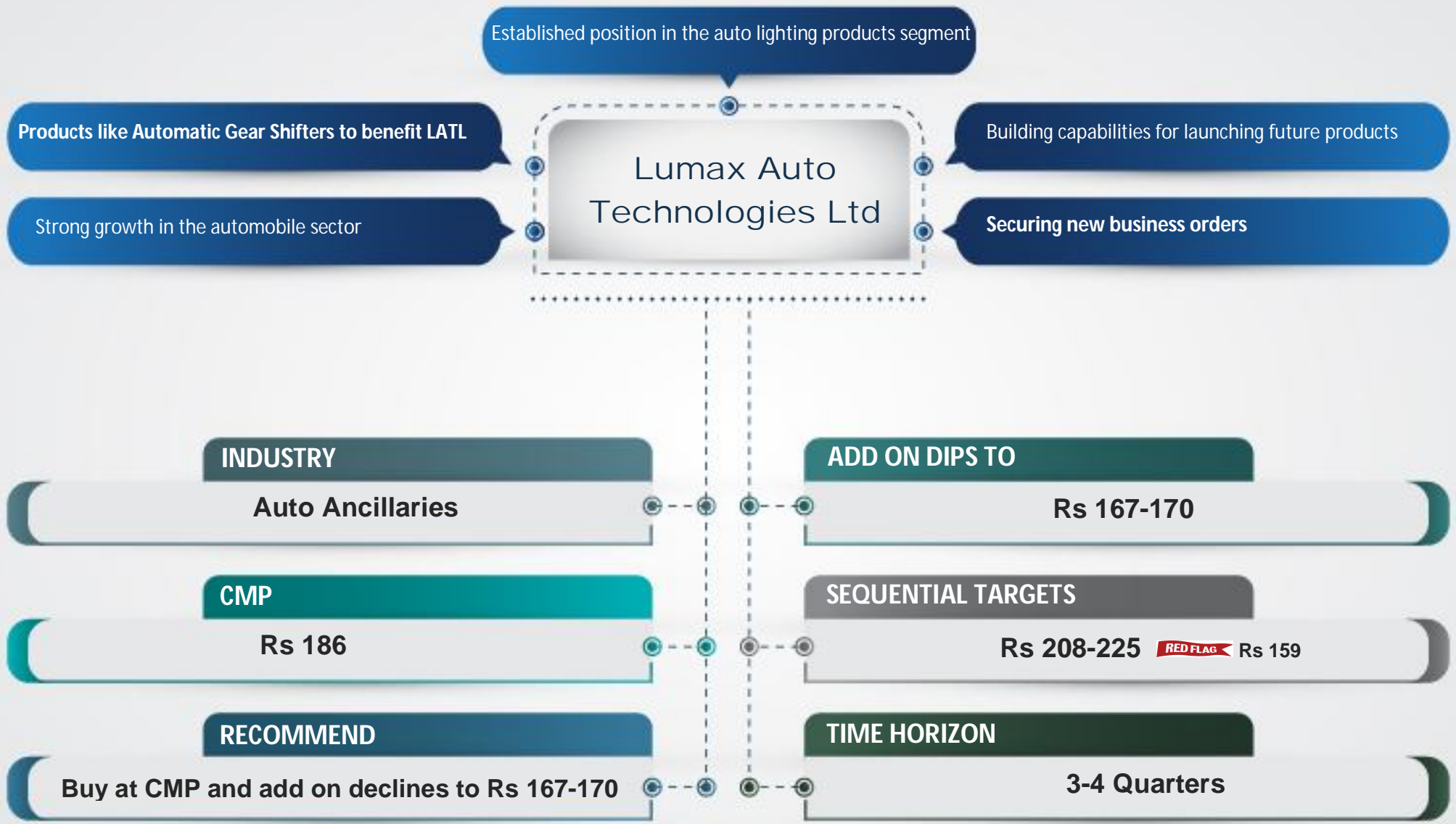


Equity
Research

Pick of the Week

Retail Research

DATE 24thSept 2018



Investors may sell 60-65% of their holdings on first target being achieved and later keep a stop loss of first target for the balance holdings, in case the second target takes time to be achieved. Investors may also maintain Rs 159 as **RED FLAG** level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	LUMLTDEQNR
BSE Code	532796
NSE Code	LUMAXTECH
Bloomberg	LMAX IN
CMP Sep 21, 2018	186.1
Equity Capital (cr)	13.6
Face Value (Rs)	2
Eq- Share O/S (cr)	6.8
Market Cap (Rs cr)	1268.4
Book Value (Rs)	68.9
Avg.52 Wk Volume	50,300
52 Week High	224.1
52 Week Low	98.9

Shareholding Pattern % (June 30, 2018)

Promoters	55.6
Institutions	22.0
Non Institutions	22.4
Total	100.0

FUNDAMENTAL ANALYST

Atul Karwa
atul.karwa@hdfcsec.com

Company Profile:

Founded in the year 1981, Lumax Auto Technologies Ltd (LATL) is a part of the D.K. Jain Group of companies and has carved its strong position in automotive parts like sheet metal parts, fabricated assemblies, tubular parts for two wheeler and three wheeler industry. With more than three decades of existence LATL is emerging as a preferred supplier to leading OEMs across two wheelers, three wheelers and four wheelers automotive segments. It has 13 state of the art manufacturing facilities spread across 5 states, a dedicated R&D centre and 7 international partnerships. It's partnerships and pan-India marketing presence makes the organisation the leading automotive component manufacturer in the country. With advanced technologies related to safety, sensors, telematics, fleet management, auto cruise, navigation, parking assistance, infotainment and anti-theft systems expected to drive growth in the coming years, Lumax Auto Technologies has strongly positioned itself to offer advanced solutions to its customers.

Investment rationale:

- Established position in the auto lighting products segment and strong relationships with key customers
- Products like Automatic Gear Shifters to benefit LATL significantly.
- Strong growth in the automobile sector
- Building capabilities for launching future products

Concerns:

- Customer concentration in revenue
- Vulnerability to volatile raw material prices
- Slowdown in the automobile industry
- Technology obsolescence

View and valuation:

Demonetization had a strong impact on the standalone business of the company. However, due to the wide range of products the company was able to weather the impact. With the demonetization impact wearing off and implementation of GST volumes have started to pick up in the automobile industry. Addition of new clients for lighting and seat frames indicates the quality of products manufactured. Foray into aerospace and defence logistics and air intake systems for CV should result strong growth for the company in the coming years.

LATL has invested in technologies for products which are likely to have strong demand going forward and the company would get early mover advantage. The company management is confident of improving EBIDTA margins in current year by 70 bps via operational efficiency and better product mix. **We feel investors could buy the stock at the CMP, and add on dips to the Rs 167-170 band (15x FY20E EPS) for sequential targets of Rs 208 (18.5x FY20E EPS) and Rs 225 (20.0x FY20E EPS). At the CMP of Rs 186, the stock trades at 16.5x FY20E EPS.**

Key Highlights

- ❖ *LATL, along with its subsidiary LDK, has an established position in the auto lighting products industry and strong relationships with key customers*
- ❖ *Early investment in development of automatic gear shifters to benefit LATL significantly. LATL expects that the AMT and automatic share to increase from 15% to 25%.*
- ❖ *Automobile sector showing strong volume growth trends in 2019 after a strong 2018, most OEM players across the PV and CV segment are expecting the momentum to continue*
- ❖ *JV with best-in-class international manufacturers for products like oxygen sensors, telematics, air-intake systems, seat frames, etc. to drive revenues going forward*

Financial Summary									
YE March (Rs cr)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	333.0	235.0	41.7	331.6	0.4	1012.3	1111.5	1281.6	1473.9
EBIT	33.4	20.2	65.6	28.2	18.5	70.5	101.6	120.5	145.9
APAT	18.1	9.2	97.9	13.2	37.1	36.4	48.7	62.8	76.8
Diluted EPS (Rs)	2.7	1.3		1.9		5.3	7.2	9.2	11.3
P/E (x)						34.9	26.0	20.2	16.5
EV / EBITDA (x)						17.9	12.2	10.1	8.4
RoE (%)						11.1	11.9	13.2	14.6

(Source: Company, HDFC sec)

Company profile:

Founded in the year 1981, Lumax Auto Technologies Ltd (LATL) is a part of the D.K. Jain Group of companies and has carved its strong position in automotive parts like sheet metal parts, fabricated assemblies, tubular parts for two wheeler and three wheeler industry. With more than three decades of existence LATL is emerging as a preferred supplier to leading OEMs across two wheelers, three wheelers and four wheelers automotive segments. It has 13 state of the art manufacturing facilities spread across 5 states, a dedicated R&D centre and 7 international partnerships.

Starting as a trading company in 1945, Lumax today has evolved into a diverse, multi-location, multi-product, multi-partner organisation with a global footprint. Commencing with Cornaglia, Italy in 2007 for emission systems, LATL has forged joint ventures with best-in-class international manufacturers like Gill-Austem, Mannoh, Alpine, Ituran and FAE, thereby augmenting its knowledge base and leveraging the synergies of different Lumax Group entities. Its partnerships and pan-India marketing presence makes the organisation the leading automotive component manufacturer in the country.

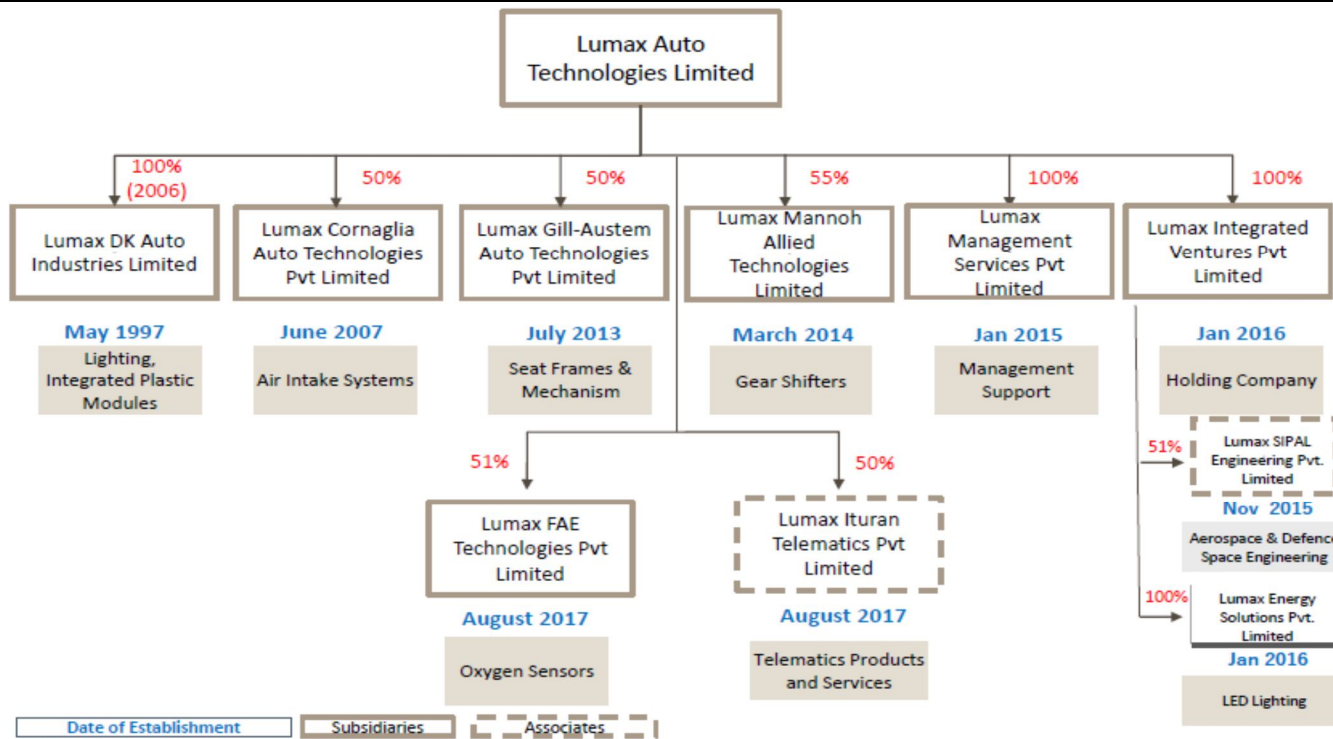
With advanced technologies related to safety, sensors, telematics, fleet management, auto cruise, navigation, parking assistance, infotainment and anti-theft systems expected to drive growth in the coming years, Lumax Auto Technologies has strongly positioned itself to offer advanced solutions to its customers.

LATL manufactures products for 2/3 wheelers, four wheelers as well as commercial vehicles and has long standing relationships with some of the market leaders in the industry.

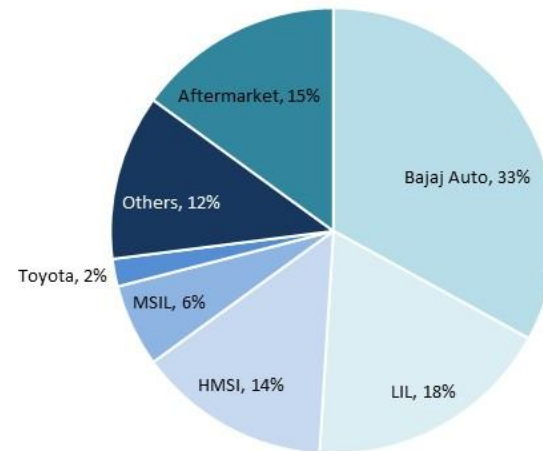
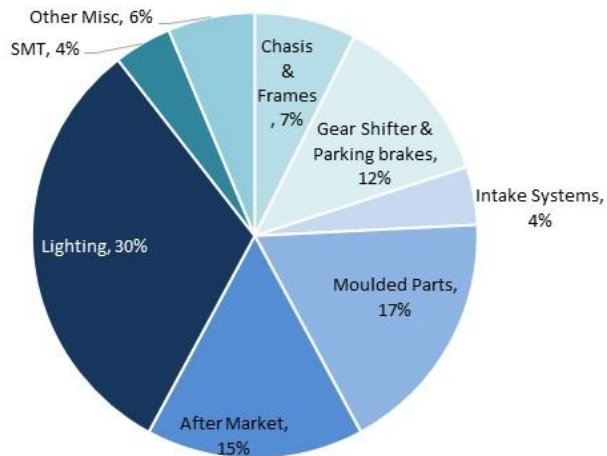
Product Portfolio

2-3 Wheeler	4 Wheeler	Commercial Vehicle
<ul style="list-style-type: none"> ➤ Lighting module (incl. HT/TL/ Indicators & others) ➤ Chassis for 2-wheelers ➤ Integrated plastic modules ➤ Oxygen sensors ➤ Telematics Products & Services 	<ul style="list-style-type: none"> ➤ Gear shift lever ➤ Intake systems ➤ Seat Frames & Mechanism ➤ Integrated plastic modules ➤ Telematics Products & Services 	<ul style="list-style-type: none"> ➤ Integrated plastic modules ➤ Gear shift lever ➤ Seat Frames & Mechanism ➤ Telematics Products & Services

Company Structure



Product-wise and Client-wise Revenue Mix



Investment Rationale

Established position in the auto lighting products segment and strong relationships with key customers

LATL, along with its subsidiary LDK, has an established position in the auto lighting products industry and strong relationships with key customers, Bajaj Auto Ltd (BAL) and Lumax Industries Ltd (LIL). The LATL group mainly supplies two-wheeler and three-wheeler lighting products and two-wheeler chassis to BAL, and four-wheeler gear shift assemblies to Maruti Suzuki India Ltd, Toyota Motor Corporation, Honda Motor Company, Renault-Nissan etc. In an effort to further diversify its product offerings, the group has commenced supplies of Swing arms for two-wheelers and Trailing arms for three-wheelers. The group has a network of over 400 distributors across India for aftermarket sales. It continues to pursue JVs to augment product profile and expand geographically, which should benefit growth prospects over the medium term.

Products like Automatic Gear Shifters & Chassis segment to benefit LATL significantly

Looking at the shifting trend towards automatic vehicles on the back of rising traffic in Indian cities and ease of driving automatic vehicles, LATL had invested early in its development of automatic gear shifters. About three years ago, automatic was roughly at about 5% to 7% and almost close to more than 90% was manual. At present the manual systems would be close to about 85% and the balance 15% would be a mix of automatic as well as AMT, majority of which would be automatic. Going ahead LATL expects that the AMT and automatic share would further increase to about 75:25 ratio. The per vehicle content of a manual shifter on an average is anywhere between Rs 350 and Rs 500 depending on the vehicle platform and on an automatic it goes up by almost 4x.

Even in the manual transmission, more vehicles are predicted to shift to fuel efficient six and seven speed transmissions over the next few years. Lumax Mannoh Allied Technologies remains the leading Indian manufacturer of gear levers for 6MT transmissions, leveraging its unique Lift and Shift technology solution thus maintaining the leadership position in new technologies.

Building capabilities for launching future products

In future, lighter vehicles with lower emissions will be the preferred norm. Urea tanks, which will be mandatory for all diesel vehicles, post 2020, have been identified as a new product line with the potential to contribute significantly to the revenue and profitability targets identified. Swing arm and Trailing arm supplies are initiated from the Aurangabad plant. As OEMs move to lighter thermoplastics, improved variants of charge air cooler ducts and plastic fuel filler pipes are being readied for supply. LATL has investing significantly in moving up the value chain in the plastic moulding business.

With the likelihood of electric cars gaining popularity in the future, LATL has put together a cross-functional team; Mechatronix for the conceptualisation and testing of advanced gear shift levers and engineers are being put through rigorous training to manage the transition from mechanical to electronics. In order to stay ahead of the curve, Lumax has invested in establishing dedicated engineering and testing labs, where products and solutions will be made Future Ready ensuring a faster turnaround time for customers. The Company continues to increase the production of PCBs used in LED lamps.

Strong growth in the automobile sector

LATL is in a sweet spot as growth across the 2W, PCs, CVs & Tractor segments looks strong. With the Automobile sector showing strong volume growth trends in 2019 after a strong 2018, most OEM players across the PV and CV segment are expecting the momentum to continue. Tractor players are also riding high on strong rural demand with tractor sales also expected to grow at a healthy pace in 2019. Additionally the Two Wheeler segment which saw a lacklustre performance last year has seen a strong pickup in sales volumes from the all the 3 frontline manufacturers like Bajaj Auto, Hero Motor and TVS Motors. LATL is a large supplier to Bajaj Auto, Hero Motor, TVS Motor, Piaggio, Honda, Yamaha and Suzuki. Similarly within PV LATL is a key vendor for Maruti while in the CV/Tractor segments its customers include Tata Motors, ALL, Mahindra, VE Commercial, SML Isuzu, Daimler.

JV with Spanish (oxygen sensors) and Israeli (telematics) companies

LATL has signed a joint venture (51:49) with a company Francisco Alberio S.A.U, Spain to manufacture and supply oxygen sensors to the Indian automotive industry, which become a mandatory regulation on two wheelers starting in 2019-2020. Two wheelers are the largest selling vehicle category in India and this JV should give a strong boost to the topline.

In another JV (50:50) signed with Ituran Location and Control, Israel, LATL will tap into a large low penetrated advanced telematics technology market. The company will sell Ituran's telematics products and services, adapted to the Indian automotive industry. The Telematics market in India is estimated to touch around US \$300mn by the year 2020-2021 and will help address the need to curb the growing vehicle test, manage increasing organized capped service providers, driving fleet, road accidents and also increasing consumer awareness.

Strong growth estimated in air-intake system

LATL has a 50:50 JV with Cornaglia, Italy for manufacturing air intake systems. Volkswagen, Tata Motors, Fiat and General Motors are its major customers and it commands 100% share of business with Volkswagen and Tata Motors. Its market share in the passenger car segment as of now is ~10%. It is now focusing on foraying into the commercial vehicle segment and is actively engaged with Tata Motors being the largest CV maker in India. This JV witnessed a top line growth of 28% to Rs 48.8cr in FY18 as carmakers adopted higher emission standards followed by the deadline for implementation of the BS-IV emission standards.

Considering the emission regulations becoming more and more stringent and the migration from BS-IV to BS-VI in the year 2020, this joint venture is strategically entering into new product line like Urea Tank, Plastic Fuel Filler Pipe and Plastic Oil Sump that has high significance from emissions perspective and overall durability and weight reduction. Cornaglia already possesses the relevant capabilities and technologies to support the JV for developing such products for the Indian OEMs.

Addition of new customer for seat frames

Lumax Gill Austem Technologies (LGAT) a 50:50 joint venture between LATL and Gill-Austem LLC and was formed in the year 2013. This JV manufactures seat frame and seat mechanism and is a Tier 2 Supplier through Lear and Adient formerly Johnson Control. This joint venture also has added new customer that is Taco Magna and Fiat in FY18 and is in discussion with other companies like Magna, MSKH and CVG for future expansions of these product lines. It started its commercial production from Oct-2016 and achieved a turnover of Rs 62.8cr in FY18.

Revenues started flowing in aerospace & defence logistics

LATL has a joint venture with Sipal for integrated logistic support for aerospace and defence engineering. Lumax Sipal JV is operational now and has started to generate revenue. Lumax Sipal is working on technical publications in aerospace domain and FE analysis in the automotive domain. Although the revenues from this segment is insignificant currently, the opportunity is immense. The company is trying to trying hard to enter these customers and once it has certain relationship it will be a sizable growth in the next couple of years.

Securing new business orders

The Company has secured many new orders in FY18 like supplying LED Head lamp to Bajaj Auto (Discover & Avenger), PCB for Tail lamp & Stop lamp to Maruti (Swift), PCB for Tail lamp to Hero (Passion pro), sheet metal CT100 (ES model), swing arm for Avenger and Pulsar, Automatic Gear Shifter for Toyota (Yaris) and Trailing Arm for Bajaj Auto's 3W. These new businesses will add significant incremental revenue in FY19.

Concerns

Customer concentration in revenue

BAL, MSIL, and LIL collectively account for around 55% of the LATL group's sales. Despite strong customer relationships, revenue and margin will be affected if a major client changes business plans. As a strategic volume partner to BAL, the LATL group faces demand fluctuation risk on an ongoing basis, which leads to volatility in revenue and margin, especially when capacity is underutilised.

Vulnerability to volatile raw material prices

Main raw material used for making plastic powder is polypropylene (PP), which is a downstream petrochemical product. Hence, PP price is directly linked to crude oil price, which is highly volatile. Also, steel prices were volatile in the past 4-5 years. Given that most customers are OEMs, the group does not have the cushion to fully pass on price increase as price revision happens annually.

Slowdown in the automobile industry

Although the growth in automobile sector has been strong on YTD basis, the month of August witnessed some slow down. Rainfall, which had been normal in the first two months has turned deficient in some areas. Also there has been floods in certain parts affecting the near term demand for automobiles. 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.

Large proportion of traded goods

LATL has a large proportion of traded purchases (including from group companies). This could impact its margins.

View and valuation

Demonetization had a strong impact on the standalone business of the company. However, due to the wide range of products the company was able to weather the impact. With the demonetization impact wearing off and implementation of GST volumes have started to pick up in the automobile industry. Addition of new clients for lighting and seat frames indicates the quality of products manufactured. Foray into aerospace and defence logistics and air intake systems for CV should result strong growth for the company in the coming years.

LATL has invested in technologies for products which are likely to have strong demand going forward and the company would get early mover advantage. The company management is confident of improving EBIDTA margins in current year by 70 bps via operational efficiency and better product mix. **We feel investors could buy the stock at the CMP, and add on dips to the Rs 167-170 band (15x FY20E EPS) for sequential targets of Rs 208 (18.5x FY20E EPS) and Rs 225 (20.0x FY20E EPS). At the CMP of Rs 186, the stock trades at 16.5x FY20E EPS.**

Q1FY19 Result Review

Lumax Autotech (LATL) posted strong set of numbers in 1Q. Revenue jumped 42% YoY to Rs 333cr led by strong growth in lighting, Plastic molded, SMT and aftermarket business. EBITDA rose by 66% YoY at Rs 33.4cr with strong margin 10% (+145bps YoY) led by richer product mix. APAT stood at Rs 18.1cr (+97% YoY). Accelerating 2W/3W volume of Bajaj Auto and pick up in aftermarket sales will continue to boost profitability of the LATL in medium term to long term.

Quarterly Financials

Particulars (Rscr)	Q1FY19	Q1FY18	YoY-%	Q4FY18	QoQ-%
Operating Income	333.0	235.0	41.7	331.6	0.4
Material consumed	228.4	162.8	40.3	235.0	-2.8
Employee expenses	34.2	25.9	32.2	29.5	16.1
Other expenses	36.9	26.2	41.1	38.9	-5.1
Total expenses	299.6	214.9	39.4	303.4	-1.3
EBITDA	33.4	20.2	65.6	28.2	18.5
Depreciation	6.6	6.1	8.7	6.7	-1.7
Other Income	3.3	2.8	14.9	6.6	-50.8
Interest	0.8	0.8	-2.1	0.9	-10.7
PBT	29.3	16.2	81.3	25.0	17.3
Tax expenses	9.8	5.6	72.7	8.2	18.9
PAT	19.6	10.5	86.0	16.8	16.5
Minority Interest	0.0	2.5	-100.0	2.3	-100.0
Reported PAT	18.1	9.2	97.9	13.2	37.1
EPS	2.7	6.7	-60.4	9.7	-72.6
EBITDA (%)	10.0%	8.6%	145 bps	8.5%	153 bps
PAT (%)	5.4%	3.9%	155 bps	4.0%	146 bps

Financials:Income Statement

Particulars, Rs in Cr	FY16	FY17	FY18	FY19E	FY20E
Income from operations	905.1	1012.3	1111.5	1281.6	1473.9
Material Cost	658.3	733.8	778.1	894.6	1024.3
Employee Cost	78.2	95.2	111.0	128.2	145.9
Other expenses	100.3	112.9	120.7	138.4	157.7
Total expenses	836.8	941.8	1009.9	1161.1	1327.9
EBITDA	68.4	70.5	101.6	120.5	145.9
Depreciation	20.9	23.9	25.3	28.1	30.8
EBIT	47.5	46.6	76.3	92.4	115.1
Other Income	6.9	15.6	15.2	16.7	18.4
Interest	4.7	4.0	2.8	2.0	1.5
PBT	49.6	55.0	86.5	107.0	132.0
Tax Expenses	15.5	16.6	28.7	34.2	42.2
PAT	31.8	36.4	48.7	62.8	76.8
EPS	4.7	5.3	7.2	9.2	11.3
Income from operations	905.1	1012.3	1111.5	1281.6	1473.9
Material Cost	658.3	733.8	778.1	894.6	1024.3
Employee Cost	78.2	95.2	111.0	128.2	145.9
Other expenses	100.3	112.9	120.7	138.4	157.7
Total expenses	836.8	941.8	1009.9	1161.1	1327.9
EBITDA	68.4	70.5	101.6	120.5	145.9

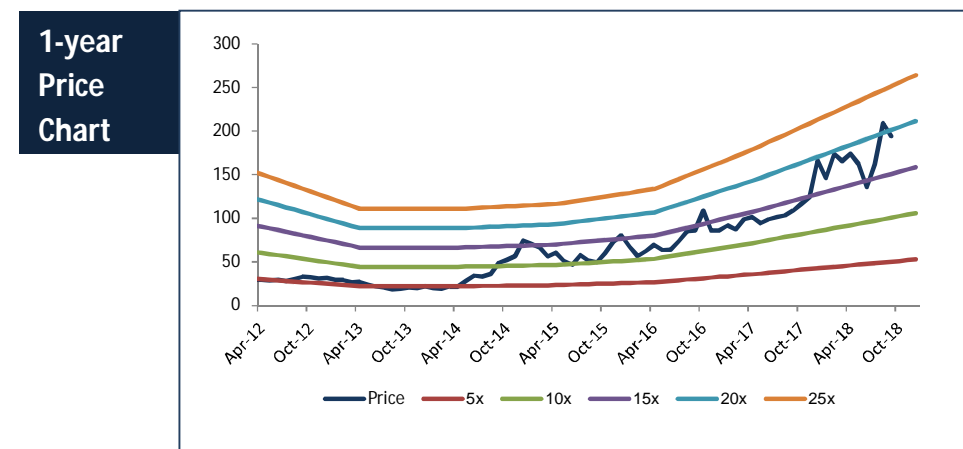
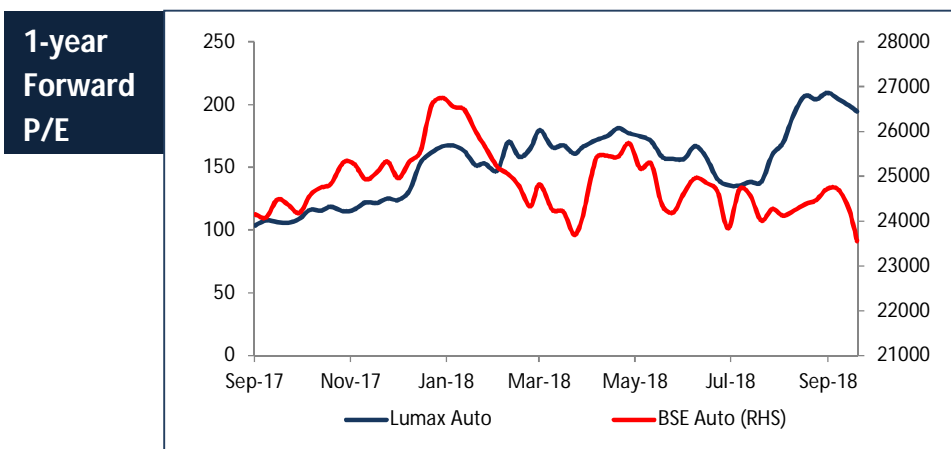
Cash Flow

Particulars, Rs in Cr	FY16	FY17	FY18	FY19E	FY20E
Profit Before Tax	49.6	55.0	85.9	107.0	132.0
Depreciation	20.9	23.9	25.3	28.1	30.8
Others	3.6	3.4	-1.0	-4.4	2.8
Change in working capital	-11.0	1.5	7.6	0.9	-42.2
Tax expenses	-13.9	-16.4	-22.4	-34.2	-42.2
Cash flow from Operating activities	49.1	67.5	95.3	97.3	81.2
Net Capex	-32.0	-41.4	-48.9	-45.0	-45.0
Other investing activities	-1.6	-17.3	-10.2	-15.0	-15.0
Cash flow from Investing activities	-31.7	-56.5	-57.2	-60.0	-60.0
Proceeds from Eq Cap	0.0	0.0	0.0	0.0	0.0
Borrowings / (Repayments)	-5.4	3.8	-24.4	-4.0	-3.8
Dividends paid	-12.9	-0.2	-9.6	-16.4	-18.0
Interest paid	-4.6	-4.0	-2.8	-2.0	-1.5
Cash flow from Financing activities	-22.6	-0.3	-36.9	-22.4	-23.3
Net Cash Flow	-5.2	10.7	1.3	15.0	-2.1

Balance Sheet

Particulars, Rs in Cr	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Share Capital	13.6	13.6	13.6	13.6	13.6
Reserves and Surplus	268.9	357.9	437.6	484.0	542.7
Shareholders' Funds	282.5	371.5	451.2	497.6	556.4
Long-term borrowings	6.6	21.9	30.3	40.3	53.3
Deferred tax liabilities (Net)	28.1	15.2	10.8	6.8	3.0
Other long-term liabilities	17.2	16.8	19.8	19.8	19.8
Long-term provisions	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	3.2	7.1	7.2	7.2	7.2
Trade payables	164.7	141.3	270.3	260.7	279.9
Other current liabilities	29.3	44.4	60.8	48.7	48.0
Short-term provisions	2.7	6.1	7.3	10.1	12.7
Current liabilities	196.8	191.8	338.4	319.6	340.6
Total	534.4	624.3	857.7	891.3	980.3
ASSETS					
Net Block	229.4	248.2	273.3	290.2	304.4
Capital work-in-progress	5.0	14.0	12.0	12.0	12.0
Non current Investments	22.4	84.9	127.3	127.3	127.3
Long-Term Loans and Advances	18.3	11.6	17.0	20.0	20.8
Other Non-current Assets	7.2	0.0	0.1	3.4	1.4
Non-current Assets	47.9	96.5	144.3	150.8	149.5
Current Investments	0.0	0.0	14.8	29.8	44.8
Inventories	57.9	55.4	78.0	83.4	99.9
Trade Receivables	169.9	155.5	280.6	253.6	297.2
Cash and Bank Balances	12.6	40.3	38.7	53.7	51.6
Short-Term Loans and Advances	11.3	12.5	13.6	15.8	18.1
Other Current Assets	0.4	2.1	2.4	2.0	2.8
Current Assets	252.0	265.6	428.0	438.3	514.4
TOTAL	534.4	624.3	857.7	891.2	980.3

Financial Ratios	Particulars	FY16	FY17	FY18E	FY19E	FY20E
	EPS (Rs)	4.7	5.3	7.2	9.2	11.3
	Cash EPS (Rs)	7.7	8.9	10.9	13.3	15.8
	BVPS (Rs)	41.5	54.5	66.2	73.0	81.6
	P/E (x)	39.9	34.9	26.0	20.2	16.5
	P/BV (x)	4.5	3.4	2.8	2.5	2.3
	Mcap/Sales (x)	1.4	1.3	1.1	1.0	0.9
	EV/EBITDA	18.9	17.9	12.2	10.1	8.4
	EBITDAM (%)	7.6	7.0	9.1	9.4	9.9
	EBITM (%)	5.2	4.6	6.9	7.2	7.8
	PATM (%)	3.5	3.6	4.4	4.9	5.2
	ROCE (%)	17.5	17.1	21.1	22.6	25.1
	RONW (%)	11.7	11.1	11.9	13.2	14.6
	Current Ratio (x)	1.3	1.4	1.3	1.4	1.5
	Quick Ratio (x)	1.0	1.1	1.0	1.1	1.2
	Debt-Equity (x)	0.1	0.1	0.0	0.0	0.0
	Debtor days	61	59	72	76	68
	Inventory days	29	28	31	33	33
	Creditor days	81	76	97	108	96



Fundamental Research Analyst: Atul Karwa (atul.karwa@hdfcsec.com)

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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | AMFI Reg No. ARN -13549, PFRDA Reg. No - POP 04102015, IRDA Corporate Agent Licence No.-HDF2806925/HDF C000222657, Research Analyst Reg. No. INH000002475, CIN-U67120MH2000PLC152193.

Disclosure:

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Any holding in stock – No

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