



Stock Update

Lumax Auto Technologies Ltd.

June 26, 2024



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 554	Buy in Rs 550-560 band and add on dips in Rs 480-490 band	Rs 615	Rs 648	2-3 quarters

HDFC Scrip Code	LUMLTDEQNR
BSE Code	532796
NSE Code	LUMAXTECH
Bloomberg	LMAX IN
CMP Jun 25, 2024	554.2
Equity Capital (Rs Cr)	13.6
Face Value (Rs)	2.0
Equity Share O/S (Cr)	6.8
Market Cap (Rs Cr)	3777
Book Value (Rs)	115.9
Avg. 52 Wk Volumes	261124
52 Week High	563.5
52 Week Low	332.4

Share holding Pattern % (Mar 2024)	
Promoters	56.0
Institutions	23.2
Non Institutions	20.8
Total	100.0



* 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 further expanded its product portfolio with the acquisition of IAC International Automotive (IAC). The share of EV products in the order book is rising which could drive margin expansion and reduce risks. Order book of the company remains strong with ~45% from higher margin products of IAC. New products will increase content per vehicle and drive the company's growth.

LATL has entered into JVs with industry leaders for promising products like Sensors, Telematics, Antennas, among others. The JV companies contribute to ~30% of the order book and are poised for higher growth. LATL has begun supplying components for Mahindra's new 3X0 model, and IAC has added Tata Motors as its new customer. Revenue proportion from passenger vehicles (PVs) has been rising, which is likely to enhance content per vehicle and profitability.

On Mar 18, 2024, we had released a Stock Update report ([Link](#)) with a recommendation to 'Buy in Rs 438-448 band & add on dips in Rs 390-398 band' for base case fair value of Rs 480 and bull case fair value of Rs 531 over next 2-3 quarters. Both the targets were achieved within the given time frame.

Valuation & Recommendation:

The management expects that a 13-14% EBITDA margin is sustainable with a room to reach to 15% on the back of healthy order book, strong performance in JVs and IAC and steady demand trend. Revenue share of PVs has risen at the cost of 2W; this trend could lead to better content per vehicle and profitability. We expect LATL's Revenue/EBITDA/PAT to grow at 16/17/30% CAGR over FY24-FY26E, led by increased demand from end user industries. We believe investors can buy the stock in Rs 550-560 band and add on dips in Rs 480-490 band (15x FY26E EPS) for base case fair value of Rs 615 (19x FY26E EPS) and bull case fair value of Rs 648 (20x FY26E EPS) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q4FY24	Q4FY23	YoY-%	Q3FY24	QoQ-%	FY23	FY24	FY25E	FY26E
Operating Income	757	493	53.5	732	3.4	1,847	2,822	3,316	3,796
EBITDA	92	48	92.0	106	-13.3	200	368	434	501
APAT	44	19	137.2	36	21.3	93	130	166	221
Diluted EPS (Rs)	6.5	2.7	137.2	5.3	21.3	13.6	19.1	24.4	32.4
RoE (%)						15.4	17.9	19.6	22.4
P/E (x)						40.7	29.0	22.7	17.1
EV/EBITDA (x)						20.3	11.2	9.1	7.5

Q4FY24 Result Update

LATL continued to report strong quarterly results with Revenue/EBITDA/PAT of ~Rs 757cr/Rs 92cr/Rs 44cr, reporting YoY growth of around 54%/92%/137% respectively in Q4FY24 aided by acquisition of IAC. The YoY EBITDA Margin improved by 243bps to 12.1%, mainly due to higher margin in IAC India and improvements in the standalone business (+37bps YoY to 9.0%).

Segmentally, for FY24, Integrated Plastic modules contributed 47% of overall revenue followed by aftermarket at 14%, gear shifter at 12%, fabrication at 8%, emission at 6%, lighting products at 5% and others at 8%. Passenger vehicles contributed 48% to overall revenue, 2 and 3 wheelers at 24%, aftermarket at 14%, CV at 9% and others at 5%. The net debt as on Mar'24 stood at Rs 91cr. The capex incurred during FY24 is Rs 111 cr.

The company has acquired remaining stake in Lumax Ancillary Limited, and LAL has become the wholly owned subsidiary of the company with effect from January 25, 2024. LATL is sitting on a healthy order book of around Rs 900cr, out of which ~Rs 400 is contributed by IAC. The EV contribution is approximately 40% of the total order book.

Key Triggers

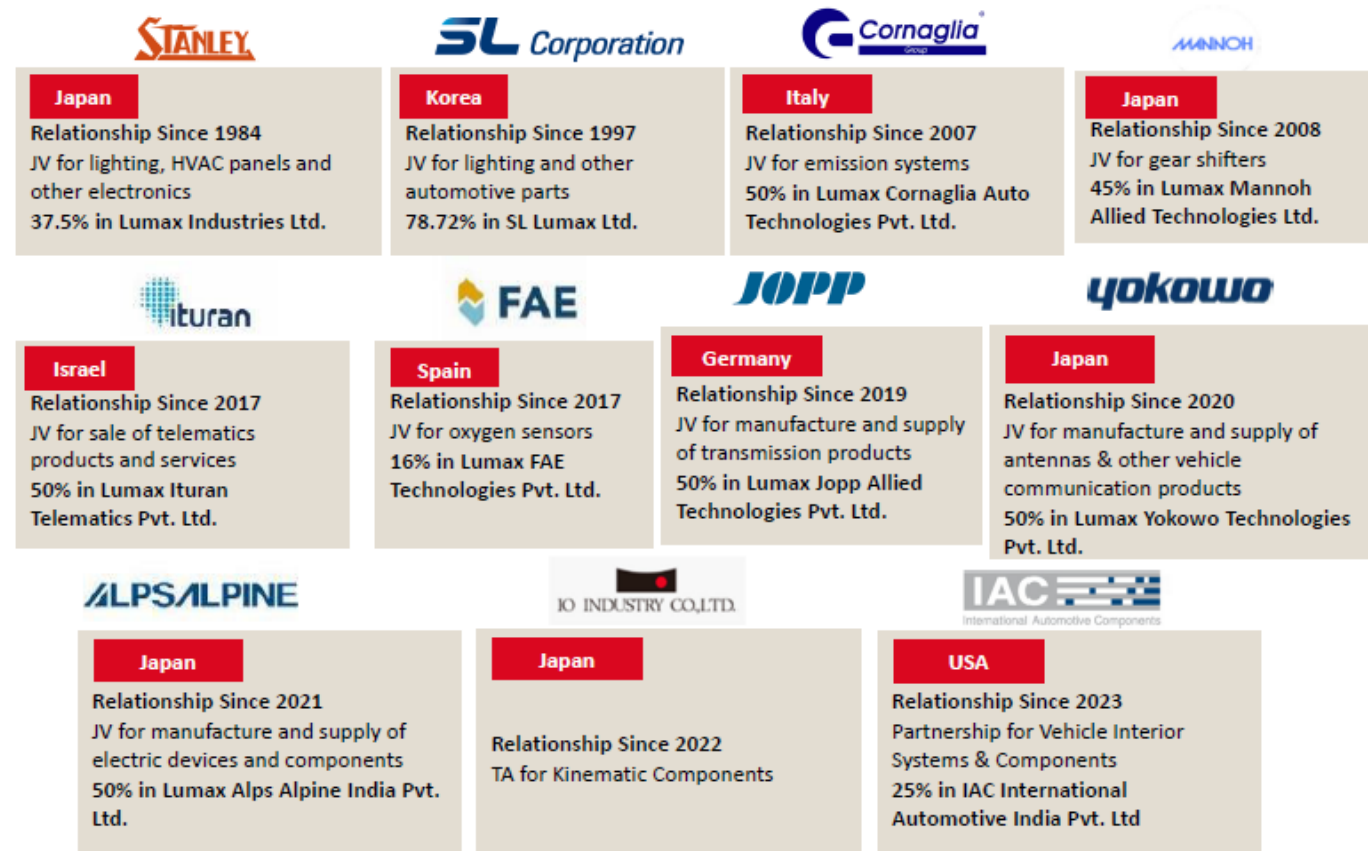
Healthy order book

LATL had a healthy order book of more than Rs 900cr at the end of FY24, out of which Rs 200cr is for stand-alone entity, mainly of plastics and metallic divisions, Rs 300cr for the joint ventures out of which Rs 200cr is for the new joint ventures and Rs 100cr is for the matured joint ventures and Rs 400cr for IAC India. Out of the total Rs 900cr, 90% is new business. 30% of the order book value will mature in FY25, 55% in FY26 and the remaining 15% in FY27. The EV contribution is approximately 40% of the total 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 150-175cr for FY25.

JVs to grow at faster rate

LATL alongwith its sister concern Lumax Industries has entered into JVs with global leaders to get technological advantage and launch better quality products. With a strong foothold in the Indian market, it has entered into strategic alliances with renowned global automotive industry leaders such as Stanley, Mannoh, Yokowo, AlpsAlpine, IO from Japan, SL Corporation from South Korea, Cornaglia from Italy, Ituran from Israel, FAE from Spain, Jopp from Germany, and IAC from USA. The management expects the combined JVs to grow at 20-25% in FY25.

Strategic alliance to drive consolidated growth



(Source: Company, HDFC Sec)

Inorganic acquisition could drive topline growth

LATL continues to scout for future opportunities, which synergize with its core competencies and strength. The company is always evaluating anywhere between 2 to 3 opportunities. It either acquires majority stake or forms a JV and increases its stake later. LATL is exploring opportunities in new product lines, including mechatronics, sensors, switches, and EV-related products.

Strong growth in M&M, new customer addition to aid IAC

LATL had acquired 75% stake in IAC International Automotive India Private Limited (IAC) in Feb'23, from the International Automotive Components Group (IAC Group). The integration of IAC with the company has been completed. M&M continues to be the largest customer at ~70% contribution to the total pie of IAC India, followed by Maruti Suzuki and then Volvo. The company has started supplies to the newly launched Mahindra 3XO model, which is offering premium interiors and is in very high demand.

IAC for the first time, has added Tata Motors as a new customer for supply of console based on the long-term relationship between Lumax and Tata Motors. The SOP is expected to begin in Q4FY25. The management has guided for 15-20% topline growth for FY25 and a sustainable EBITDA margin of 15-16%. M&M has reported 25% increase in passenger vehicle sales in Apr-May'24.

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. 2W segment has recovered lately while CV segment has become sluggish.

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. LATL's aftermarket business has been facing slower growth in the past few quarters.

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. 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.

Client concentration

M&M and Bajaj Auto are the biggest client for LATL accounting for ~42% of its consolidated sales. Any slowdown in sales by Bajaj Auto or M&M or diversification of vendor base by customers could impact sales of LATL. In lighting business, LATL has dependence on just one client – Bajaj Auto.

Traded goods

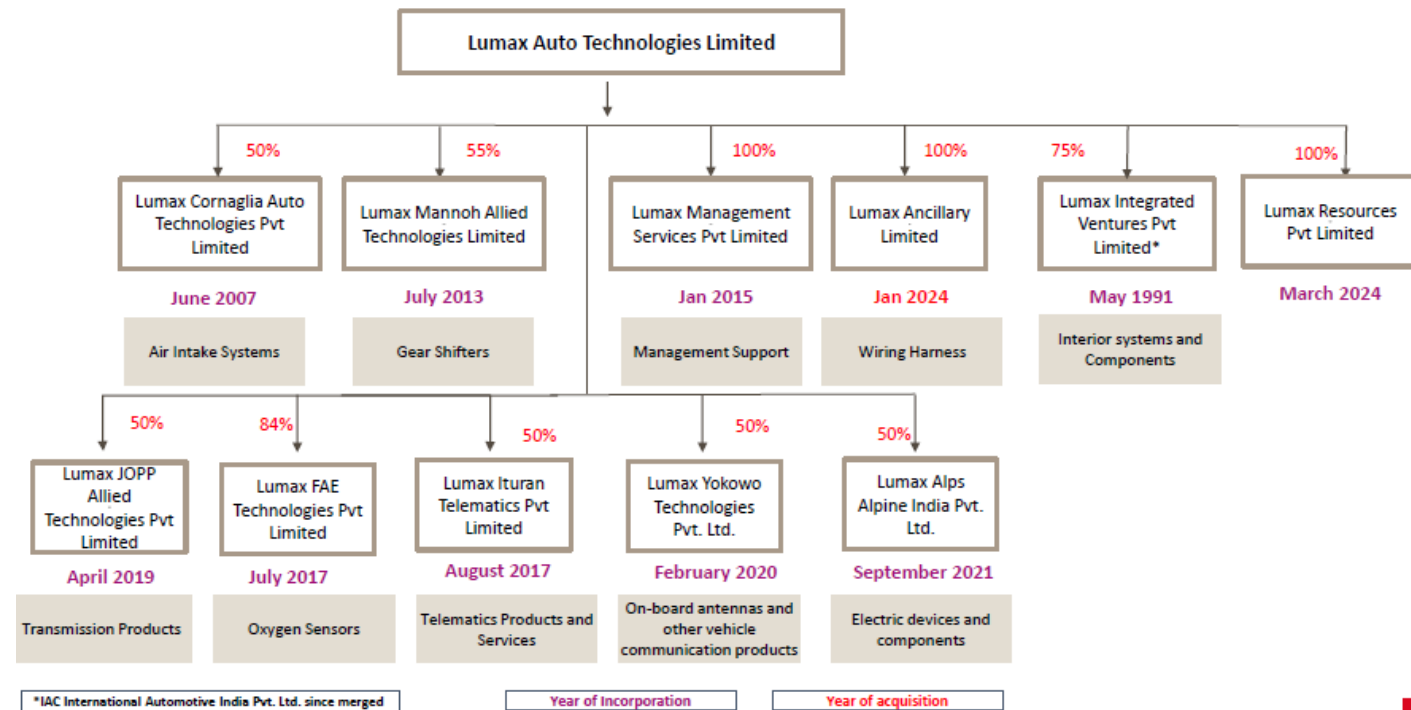
LATL has a large proportion of traded purchases (incl. from group companies) accounting for ~10% of sales. This could depress its overall margins.

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 Integrated Plastic modules, 2-wheeler Chassis, 2/3-wheeler Lighting, Gear Shifters, Transmission Products, Emission Systems, Seat Structures, Telematics Products & Services, Oxygen Sensors, On-board Antennas, Electric Devices & Components, and Aftermarket Solutions. This extensive portfolio further encompasses Vehicle Interior Systems and Components.

The products cater to the needs of 2-wheelers & 3-wheelers, Passenger and Commercial Vehicles, and the Farm Equipment Sector. The Company's position is further strengthened by a robust presence in the aftermarket business, which includes a wide array of components such as Mirrors, Horns, Cables, Filters, Lubricants, Coolants, and Wipers.

Well defined corporate structure

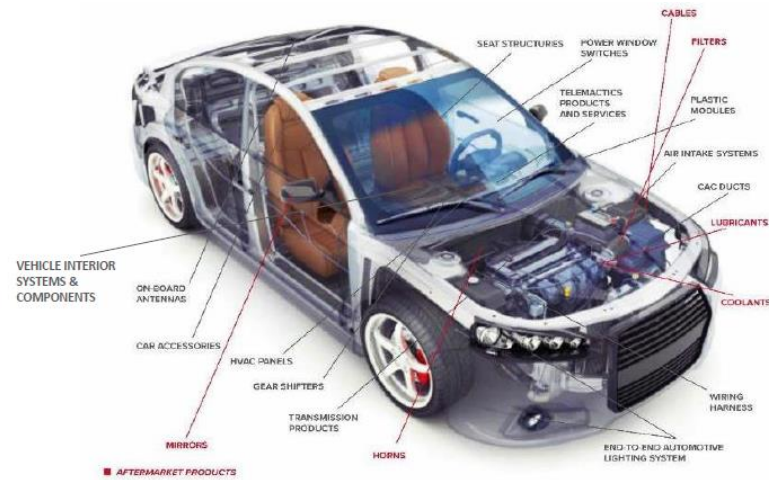


(Source: Company, HDFC Sec)

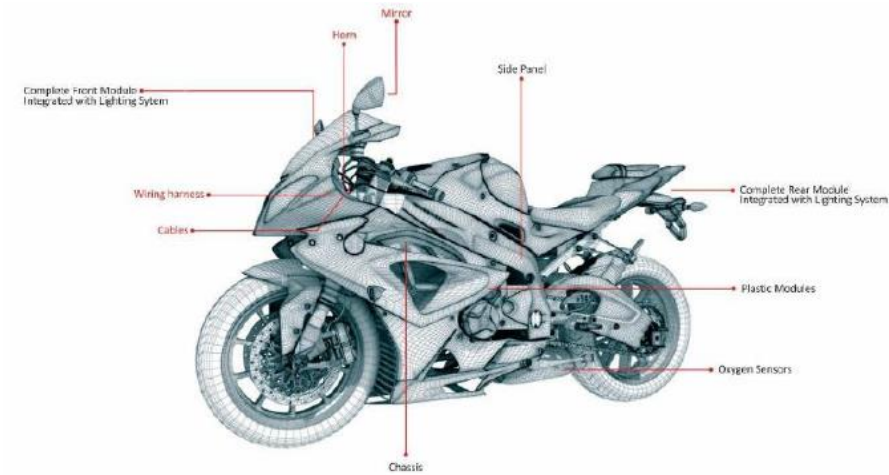
The Company has cultivated a robust portfolio with a precise product mix, through 26 state-of-the-art manufacturing facilities in 6 states. LATL's standing is further strengthened by its 9 international partnerships, which enrich its portfolio and global influence.

Product Range

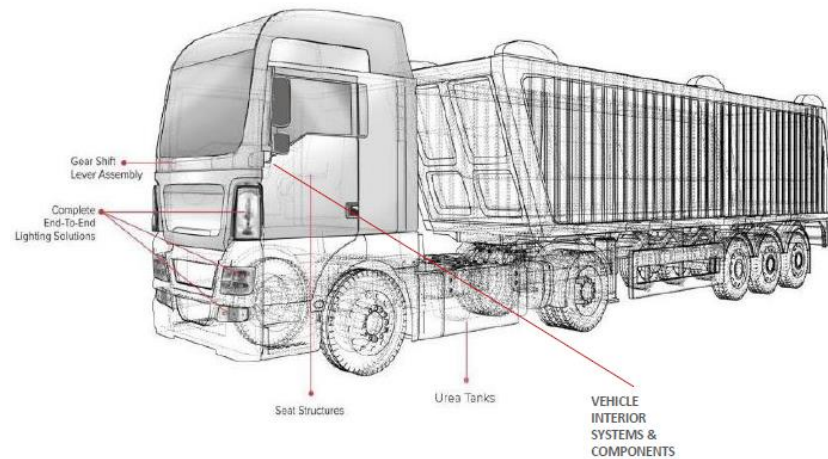
4-wheeler



2-wheeler



Commercial Vehicles



Farm Equipment



(Source: Company, HDFC Sec)

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
- Wiring Harness

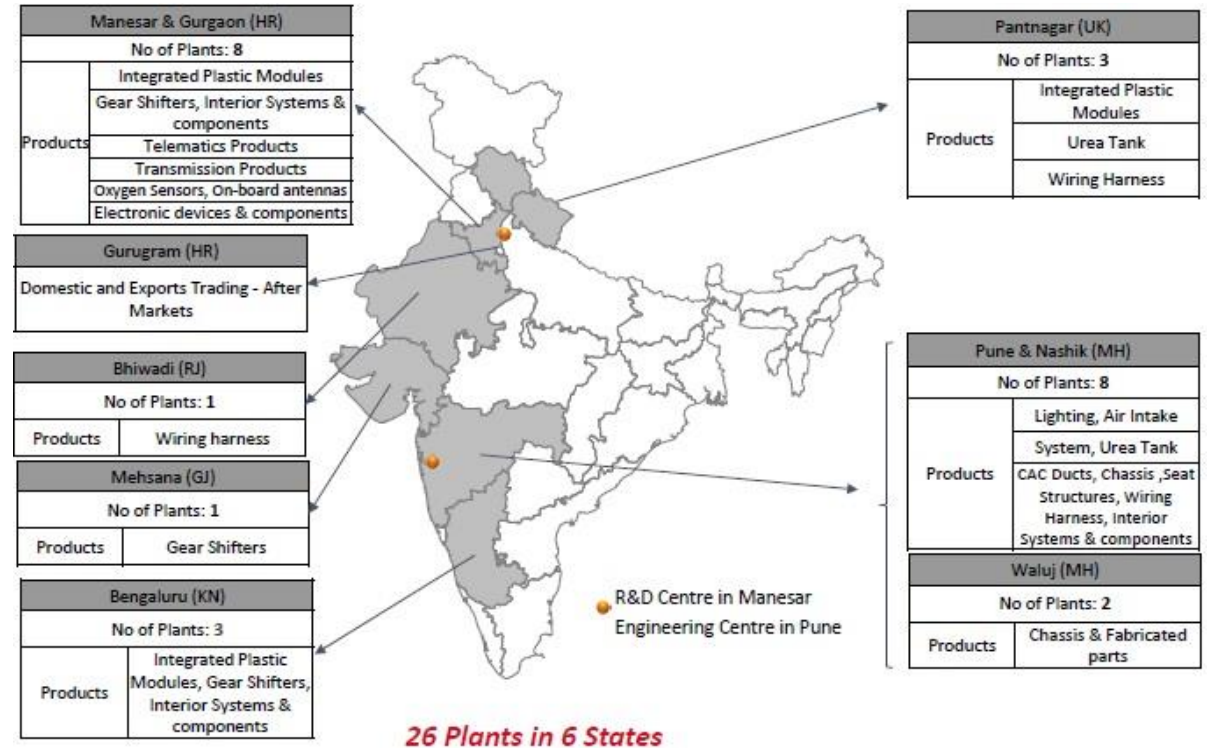


- Gear Shift Lever
- Gear Shift Tower, Control Housing
- Intake Systems
- Seat Structures
- Integrated Plastic Modules
- Telematics Products and Services
- Antenna
- Electronic devices & components
- Vehicle Interiors Components & Systems
- Wiring Harness



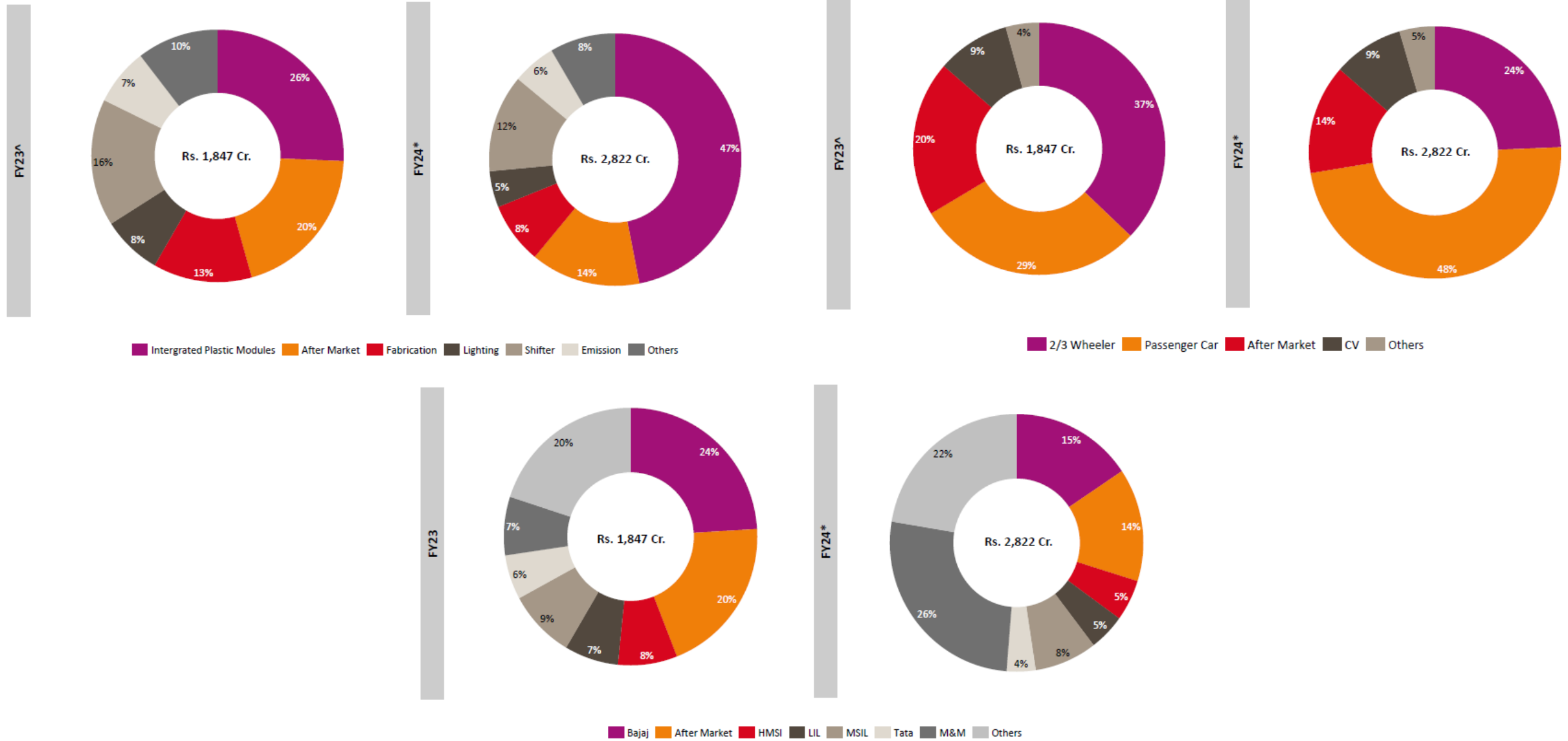
- Integrated Plastic Modules
- Gear Shift Lever
- Seat Structures
- Telematics Products and Services
- Urea Tank
- Vehicle Interiors Components & Systems

Plant Locations



(Source: Company, HDFC Sec)

Revenue breakup



(Source: Company, HDFC Sec)

Financials

Income Statement

(Rs cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	1508	1847	2822	3316	3796
Growth (%)	36.1	22.5	52.7	17.5	14.5
Operating Expenses	1357	1647	2454	2881	3295
EBITDA	151	200	368	434	501
Growth (%)	54.3	32.4	83.8	18.0	15.4
EBITDA Margin (%)	10.0	10.8	13.0	13.1	13.2
Depreciation	40	52	118	124	128
Other Income	13	24	45	41	47
EBIT	125	172	295	352	421
Interest expenses	9	16	68	71	60
PBT	113	147	227	281	361
Tax	31	35	60	75	96
PAT	82	111	167	207	265
Share of Asso./Minority Int.	-13	-19	-37	-40	-45
Adj. PAT	69	93	130	166	221
Growth (%)	47.3	33.8	40.2	27.8	32.6
EPS	10.2	13.6	19.1	24.4	32.4

Balance Sheet

As at March (Rs cr)	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	14	14	14	14	14
Reserves & Surplus	530	648	776	893	1047
Shareholders' Funds	544	662	790	906	1061
Minority Interest	61	187	224	264	309
Total Debt	125	552	680	605	505
Net Deferred Taxes	14	74	25	25	25
Other Non-curr. Liab.	33	95	111	130	149
Total Sources of Funds	776	1569	1830	1931	2049
APPLICATION OF FUNDS					
Net Block & Goodwill	396	1016	991	1010	1004
CWIP	12	13	36	43	52
Investments	135	213	429	479	529
Other Non-Curr. Assets	35	48	73	86	98
Total Non Current Assets	578	1290	1529	1618	1682
Inventories	112	161	249	276	327
Debtors	266	461	585	700	846
Cash & Equivalents	138	157	75	120	151
Other Current Assets	44	110	158	148	159
Total Current Assets	561	889	1068	1244	1483
Creditors	231	384	486	589	706
Other Current Liab & Provisions	131	226	281	341	411
Total Current Liabilities	362	610	767	931	1117
Net Current Assets	198	279	301	313	367
Total Application of Funds	776	1569	1830	1931	2049

Cash Flow Statement

(Rs cr)	FY22	FY23	FY24	FY25E	FY26E
PBT	113	147	227	281	361
Non-operating & EO items	-6	-19	-29	7	6
Interest Expenses	5	10	68	71	60
Depreciation	40	52	118	124	128
Working Capital Change	-32	-15	-55	32	-22
Tax Paid	-33	-38	-64	-75	-96
OPERATING CASH FLOW (a)	87	137	265	440	438
Capex	-47	-77	-99	-150	-130
Free Cash Flow	41	60	167	290	308
Investments	-27	-24	-131	-50	-50
Non-operating income	8	-375	-19	0	0
INVESTING CASH FLOW (b)	-65	-476	-249	-200	-180
Debt Issuance / (Repaid)	52	415	101	-75	-100
Interest Expenses	-9	-14	-70	-71	-60
FCFE	65	63	48	94	98
Share Capital Issuance	0	0	0	0	0
Dividend	-23	-27	-54	-50	-66
Others	-10	-9	-18	0	0
FINANCING CASH FLOW (c)	20	374	-22	-195	-226
NET CASH FLOW (a+b+c)	42	36	-6	45	31

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	10.0	10.8	13.0	13.1	13.2
EBIT Margin	8.3	9.3	10.5	10.6	11.1
APAT Margin	4.6	5.0	4.6	5.0	5.8
RoE	12.9	15.4	17.9	19.6	22.4
RoCE	19.6	18.3	22.0	23.6	27.3
Solvency Ratio (x)					
Net Debt/EBITDA	-0.1	2.0	1.6	1.1	0.7
Net D/E	0.0	0.6	0.8	0.5	0.3
PER SHARE DATA (Rs)					
EPS	10.2	13.6	19.1	24.4	32.4
CEPS	16.0	21.3	36.4	42.6	51.1
BV	79.8	97.1	115.9	133.0	155.7
Dividend	3.5	4.5	5.5	7.3	9.7
Turnover Ratios (days)					
Inventory days	59	72	68	71	74
Debtor days	24	27	27	29	29
Creditors days	53	61	56	59	62
VALUATION (x)					
P/E	54.4	40.7	29.0	22.7	17.1
P/BV	6.9	5.7	4.8	4.2	3.6
EV/EBITDA	24.4	20.3	11.2	9.1	7.5
EV/Revenues	2.4	2.2	1.5	1.2	1.0
Dividend Yield (%)	0.6	0.8	1.0	1.3	1.8
Dividend Payout (%)	34.4	33.0	28.8	29.9	30.0

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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 cyclicity 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.

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