



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

16TH July 2018

LUMAX AUTO TECHNOLOGIES LIMITED

NSE : LUMAXTECH

Sector: AUTO COMPONENTS

BSE: 532796

View - BUY

CMP : Rs. 138

Target Price: Rs 225 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Lumax Auto Technologies Ltd (is a part of the D.K. Jain Group of companies) through its wholly owned subsidiary, LDK, is the market leader in Parking Brakes Gear Shifters, Intake Systems, Integrated Plastic modules, 2-wheeler Chassis & Lighting, Gear Shifters, Seat Structures & Mechanisms, LED Lighting, Aerospace & Defence Engineering Services within both TWs, PCs CV segments. Also LATL is a major supplier of chasis, exhaust systems and petrol tanks for two wheelers.

LATL has 27 manufacturing plants in India. Eight plants are located in Pune, 2 plants in Aurangabad, in Maharashtra, 7 in Manesar Gurgaon, in Haryana, 1 plant in Kala Amb in Himachal Pradesh, 2 in Gujarat, 1 in TN, 4 in Utrakhland and 2 in Narsapura, Karnataka

INVESTMENT HIGHLIGHTS

Strong Financial Performance for FY18 –

LATL reported a strong set of FY18 numbers with net sales at Rs 1111.47 crs as compared to a revenue of Rs 965.42 crs last year, with EBIDTA placed at Rs 101.57 crs from Rs 73.16 crs last year with the PAT placed at Rs 48.75 crs from Rs 34.49 crs up by 41% YoY. LATL has declared a dividend of 100% for FY18.

For LATL Q4FY18 was noteworthy with Sales up by 48% at Rs 332 crs with EBIDTA up by 89% at Rs 28 crs with PAT at Rs 15.54 crs up by 92%. EBIDTA margins in Q4Fy18 improved to 8.5% from 6.65% in Q4 last year.

LATL enjoys a strong clientele base –

Lumax Auto has large and reputed customers which include Bajaj Auto, Honda Motorcycle & Scooters India (HMSI), Piaggio, etc in the commuter segment.

Further, LATL is a market leader in Design, Testing and Manufacturing of Parking Brakes & Gear Shift levers in India since the past 10 years with an overall domestic market share of more than 60% with a strong presence in both passenger cars & commercial vehicle segments. Its major customers include Maruti Suzuki, Honda Cars, Toyota, Nissan, General Motors India, Daimler, Mahindra and Volvo-Eicher.

KEY DATA

FACE VALUE	Rs	2.00
DIVID YIELD %		1.44
52 WK HI/LOW		186/94
NSE CODE		LUMAXTECH
BSE CODE		LUMAXTECH
MARKET CAP		RS 942 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIIs	-	3%
FIIs	-	18%
PUBLIC	-	24%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	18	17	16
EBIDTA Gr%	23	18	16
PAT Gr%	42	21	20
EPS Gr%	42	21	20
EPS (Rs)	10.20	12.37	14.88
ROE %	14	15	16
ROCE %	15	16	17
P/E(x)		11	9

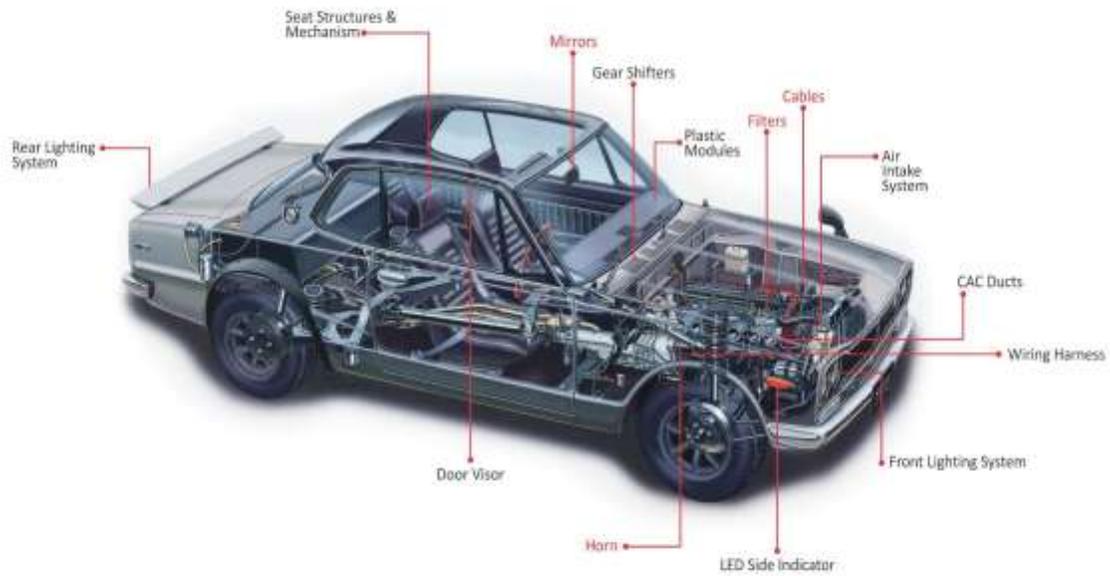


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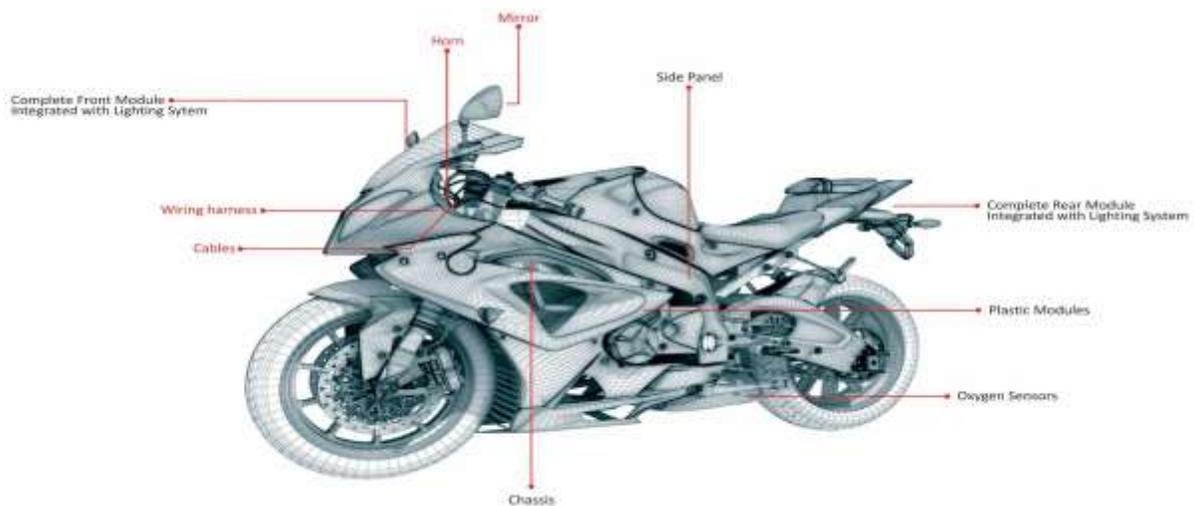
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LATL enjoys a diversified Product Range in PCs & CVs



Also LATL enjoys a diversified product basket in the TW Segment –





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LED Lighting Business for LATL has great potential ahead –

LATL has diversified in to LED Lighting Business both for the Automotive and Infrastructure segments. The LED market is growing rapidly due to stronger govt focus and push and benefits of this new technology. Also Govt has encouraged the use of LEDs in public places including railways stations which is bound to push demand demand. Also Hospitality, retail sectors, street lighting applications within factories, IT Parks are likely to be key demand drivers for LED Lighting ahead.

LATL has a wide range of product portfolio and strategic location –

Lumax has a wide range of product portfolio to cater large number of customers in the automotive industry. Company makes Head lamp, Tail lamp, Frame Chassis, Adjustor Motor, Handle bar, Mufflers, Gear shift lever, Parking breaks and other small parts.

LATL, primarily, was in the business of automotive lighting systems which now accounts only 30% of its standalone revenues and 19% of consolidated revenues. The company has diversified into new product lines wherein it is now a market leader in manufacturing of parking brakes and gear shift levers with a 60% share. Also the company is a major supplier of chasis, exhaust systems and petrol tanks for two wheelers. Further, LATL has now diversified into non-automotive segments such as LED lighting.

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

LATL has added new products like the manual and automatic gear shifters which will be big road drivers for them. One is the automatic shift gears, when we see that all smaller vehicles now or even Celerio is coming in automatic version and going ahead looking at the popularity of automatic gear cars, one is going to need this kind of a product.

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.

LATL is in a sweet spot as growth across the Twos, PCs, CVs & Tractor segments looks strong –

With the Automobile sector showing strong volume growth trends in 2019 after a strong 2018 we believe that most OEM players across the Passenger Car and Commercial Vehicle segments are confident of a continued double digit growth. Also Tractor players are 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 the Passenger Car segment LATL is a key vendor catering to Maruti's 75% requirements while in the CV & Tractor segments its customers include Tata Motors, ALL, Mahindra, VE Commercial, SML Isuzu, Daimler.



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LATL's subsidiaries are also likely to add big value going ahead –

In order to strengthen its foothold in the seat frame business, the Company has entered into a Joint Venture Agreement with Gill-Austem LLC as new JV Company - Lumax Gill-Austem Auto Technologies Private Limited (LGAT) was incorporated during the year.

Another JV, Lumax Cornaglia Auto Tech (LCAT) is supplying Air Intake System (AIS) to leading automobile manufactures in India viz. TATA, FIAT, VOLKSWAGEN, SKODA & General Motors

Lumax Ituran Telematics Pvt Ltd a 50:50 company which will be making Telematic products is also likely to be a big money spinner ahead.

According to the management the company is presently in presentation modes to almost all the fleet owners, and going ahead it expects good traction coming in. From a medium term to long term basis the company expects revenues close to Rs 100 crs in about two years from now.

Lumax Cornaglia (Italy) Auto Technologies Pvt Ltd a 50:50 joint venture will manufacture Urea Tanks used for emission control in CVs and which was incorporated in 2007 is also expected to see business take off in the next 2 years from now. The company management that in FY2019 its expects to get a confirmed business of urea tanks, which would get into production in FY2020 with a full impact seen in Fy21 and in terms of the numbers, would be valued anywhere between Rs.2500 and Rs.3000 per vehicle contribution depending on the size of the commercial vehicle industry.

LATL is looking at close to a 10% to 15% market share and going forward again as this becomes mandatory and as the commercial vehicle volumes grow it is confident that urea tanks would add to a sizable part of the revenue from the Lumax Cornaglia joint venture.

Lumax FAE Technologies Pvt Ltd is a 51:49 JV with FAE of Spain incorporated in 2017 which will make Oxygen sensors. Initially for the Oxygen Sensors JV the customers would be predominantly the two-wheeler OEMs. The company is already in dialogue and discussions with a few of the leading OEMs in the country.

The overall expectation is that the market size in FY2021 is envisaged to be roughly around Rs 600 to 700 crs and LATL via its subsidiary expects to capture about 10% of that market and by FY2020 would be starting commercial production. In FY2019, which is current year, the company expects to get confirmed letter of intent from certain OEMs. The investment in the in phase is expected to cost anywhere between Rs 10 -15 crs which should fetch a revenue of close to around 50 crs in the subsequent years

LATL is a virtually debt free company –

LATL is a virtually debt free company since FY18 with total debts of Rs 7.90 crs and company generating Rs 55.59 crs of operating cash flows during the year. More importantly the company has been deploying its internal accruals largely in creating new assets which enhances its earnings potential going ahead.



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LATL enjoys a strong balance sheet with huge scalability potential going ahead –

LATL runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

LATL has virtually no debt on the balance sheet and as on FY18 as compared to a tangible networth of Rs 481.47 crs. LATL has group company investments to the tune of Rs 23 crs as on the same period.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 23-25% and with capex funded largely from internal cash flows. Hence going ahead we expect both the ROCE and ROE to improve to 16% and 15.25% by FY20 from 14.5% and 11.47% in FY18.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 1311 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 69.50 crs in FY19E. Thus on a conservative basis, LATL should record a EPS of Rs 10.20 for FY19E. For FY20E and FY21E our expectation is that earnings traction for LATL would continue to be strong wherein we expect a EPS of Rs 12.37 and Rs 14.88 respectively.

Also another attractive point for LATL is that EPS growth over the next three years between FY18 to FY21 is expected to average 25% plus YoY but valuation multiples look quite low at 11x on FY20E.

To add to this at the current market cap of LATL at Rs 942 crs, the LATL stock trades a market cap to sales multiple of just 0.71x on FY19E whereas the potential revenue over the next 2 years is over Rs 1535 crs with a dividend payout at 28% in FY18. Also with the balance sheet size of Rs 859 crs as on F18, the current valuation looks undervalued.

The company management is confident of improving EBIDTA margins in current year by 70 bps via operational efficiency and better product mix.

Also with LATL practically debt free with total debts at Rs 7.90 crs is bound to improve its ROE to around 15.25% by FY20. Looking at LATL's steady financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

The key growth drivers in FY2019 would be basically the chassis and the swing arm business of Bajaj Auto where LATL has made key investments in the last year also from the aftermarket and the SMT business.

Also the LATL management has cleverly positioned its new subsidiaries with new products which could become blockbusters in the next 2-3 years once the market for these develops in a big opportunity. Hence the present earnings don't take in to account the earnings upside expected here and could offer a incremental value upside in the longer term. We believe that investments which are being incubated in JVs via subsidiaries can scale up business significantly for LATL in the years ahead.

Hence we believe that the LATL stock should be purchased at the current price for a price target of around Rs 225 over the next 18 months.



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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	965.42	1111.47	1311.53	1534.49	1780.01
EBIDTA	73.16	101.57	124.60	147.31	170.88
EBIDTA %	7.58	9.14	9.50	9.60	9.60
Interest	3.83	2.81	1.81	1.50	1.30
Depreciation	23.62	25.25	28.5	31.5	34.00
Non Operational Other Income	10.5	15.24	10.00	10.00	10.00
Profit Before Tax	55.94	85.86	104.29	124.31	145.58
Profit After Tax	34.49	48.75	69.5	84.3	101.40
Diluted EPS (Rs)	5.06	7.15	10.20	12.37	14.88
Equity Capital	13.63	13.63	13.63	13.63	13.63
Reserves	371.48	451.18	505.01	573.64	659.37
Borrowings	21.41	7.90	6.00	5.00	5.00
GrossBlock	256.12	263.89	313.89	368.89	423.89
Investments	22.39	25.00	27.00	27.00	28.00

Source Company our Estimates

KEY CONCERNS

Any sharp down turn in the Automobile Industry can impact LATLs financials adversely.

Also any negative development in the new product launches of OEMs could also impact LATLs financials negatively

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