

Current	Previous
CMP : Rs.359	
Rating : BUY	Rating : BUY
Target : Rs.575	Target : Rs.575

STOCK INFO

BSE	532796
NSE	LUMAXTECH
Bloomberg	LUAT.BO
Reuters	LMAX IN
Sector	Auto Ancillary
Face Value (Rs)	10
Equity Capital (Rs Mn)	136
Mkt Cap (Rs Mn)	4,894
52w H/L (Rs)	386/91
Avg Daily Vol (BSE+NSE)	29,239

SHAREHOLDING PATTERN

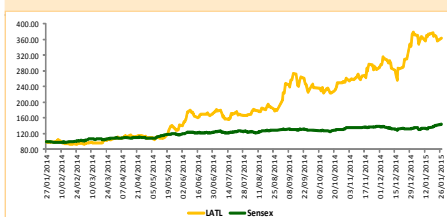
	%
(as on Sep. 2014)	
Institutions	14.28
Others, Incl Public	30.05
Promoters	55.67

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
LATL	17	45	263
SENSEX	9	11	43

Source: Capitaline, IndiaNivesh Research

LATL v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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- Lumax Auto technologies (LATL) reported Q3 FY15 numbers in line with our expectation. The company witnessed 9% YoY and 1% QoQ growth in the revenue to Rs 2.09 bn (in line with our expectation of Rs 2.04 bn) due to higher volume. On operational front, EBITDA margin expanded 101 bps YoY to 8.4 due to lower raw material expenses. Net profit increased by 30% YoY to Rs 83 mn, slightly lower than our expectation of Rs. 85 mn due to higher interest expenses.

Rs.mn	Q3FY15	Q2FY15	Q3FY14	Q-o-Q %	Y-o-Y %	INSPL Q3FY15e	Variance(%)
Revenue	2093	2197	1929	-5	9	2,045	2.36
EBITDA	177	186	144	-4	23	179	-0.98
PAT	83	91	64	-10	30	85	-2.86
Adjusted PAT	83	91	64	-10	30	85	-2.86

Source: Company Filings; IndiaNivesh Research

- We have seen a 11 percent rise in top-line in 9MFY15, Q3FY15 was little subdued compared to the first two quarters mainly because of the less number of working days as company undertakes annual maintenance shut down in December. However Q4FY15 should be much stronger growth compared to the initial quarters. So, we expect 14.5% growth in revenue for the whole year. With comfortable debt to equity of just 0.2x & strong ROE of ~22% we believe the company has potential to yield very high returns in next 2-3 years. The company has a consistent dividend track record with dividend payout of above 25%. At CMP of Rs 359, LATL is trading at 8.60x FY16e and 6.2x FY17e EPS. We find current valuation attractive and maintain BUY rating on LATL with target price of Rs. 575 (10x FY17E EPS).

Quick Fundamentals (Rs. Mn)	Q3FY15	Q2FY15	Q3FY14	QoQ %	YoY %	9MFY15	9MFY14	YoY%
Revenue	2,093	2,197	1,929	-5	9	6,258	5,615	11
Other Operating Income	22	21	18	3	21	62	48	30
Total Income	2,115	2,218	1,947	-5	9	6,320	5,663	12
Cost of Revenues	1,938	2,032	1,804	-5	7	5,798	5,241	11
Raw Materials	1,549	1,637	1,460	-5	6	4,655	4,278	9
Other Expenditure	214	218	185	-2	16	635	525	21
Employee Expenses	174	174	159	0	10	507	438	16
EBIDTA	177	186	144	-4	23	522	421	24
Depreciation	51	51	48	0	6	155	126	23
EBIT	126	134	95	-6	33	368	296	24
Interest Expense	13	12	9	10	51	39	21	82
Other income	8	10	5	-16	65	34	23	48
Exceptional item						214		
PBT	121	132	91	-8	32	577	298	94
Provision for taxation	39	41	28	-5	39	165	89	85
PAT	83	91	64	-10	30	413	209	98
Adjusted PAT	83	91	64	-10	30	199	209	-5
EPS (RS.)	6.07	6.72	4.68			14.64	15.34	-5
Margin %				Basis Points (BPS)			BPS	
EBITDA	8.4	8.4	7.4	2	101	8.3	7.4	83
EBIT	6.0	6.1	4.9	-9	108	5.8	5.2	60
PBT	5.7	6.0	4.7	-23	103	9.1	5.3	388
PAT	3.9	4.1	3.3	-22	63	6.5	3.7	285

Source: Company Filings; IndiaNivesh Research

- Raw material prices decreased 167 bps YoY (as a percentage of revenue) to 74% from 75.7% in Q3 FY14. Staff cost increased by 11 bps YoY to 8.3% (as a percentage of revenue) and other expenditure increased by 65 bps YoY to 10.2% (as a percentage of revenue).

Cost Analysis (% of Revenue)	Q3FY15	Q2FY15	Q3FY14	bps QoQ	bps YoY	9MFY15	9MFY14	Change in bps
Raw Materials (Adj.)	74.0%	74.5%	75.7%	-52	-167	74.4%	76.2%	-181
Employee Expenses	8.3%	7.9%	8.2%	39	11	8.1%	7.8%	30
Other Expenses	10.2%	9.9%	9.6%	32	65	10.1%	9.3%	80

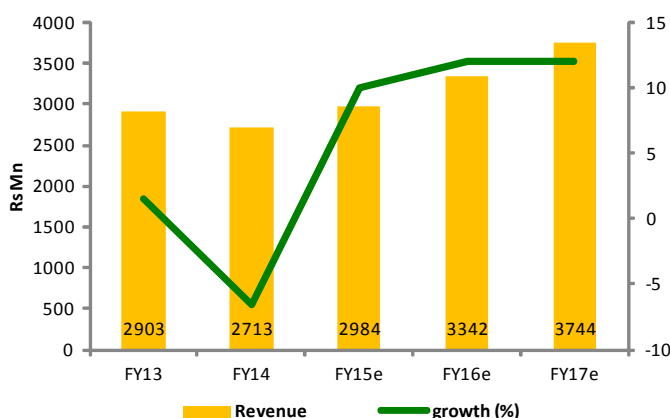
Source: Company Filings; IndiaNivesh Research

Investment rationale

Lighting business, technology up gradation and innovation are the key factor of growth

- On consolidated basis ~36% of revenue of LATL comes from lighting products, which have become an integral part of vehicle. Styling & design of lamp is being upgraded continuously to enhance the appeal of the vehicle. Further, OEMs now demand lower wattage & higher luminosity lamps to save energy which has made these products more technologically advanced.
- The company has been beefing up its in-house product development capability to be self reliant & at par with evolving global light technologies. LATL has also been strengthening its design & development team to handle the increasing demand of OEMs for new products in the shortest lead time. We believe the company's competitive strength & proven track record will help LATL in garnering large part of business share from OEM in their (OEMs) new launches & maintain its dominant position. Lumax Industries, Autolite and Phoenix Lamps are the other key player in the lighting business. We expect revenue from lighting business to grow at CAGR of 12.3% from FY14-FY17e.
- Further, Lumax Auto-technology has diversified into LED (Automotive and infrastructure both) lighting businesses, which we believe will be the new growth driver. LED lighting would have much higher realization than traditional lightings; this will lead to strong growth in top line.

Lighting business revenue and Growth



Source: Company Filings; IndiaNivesh Research

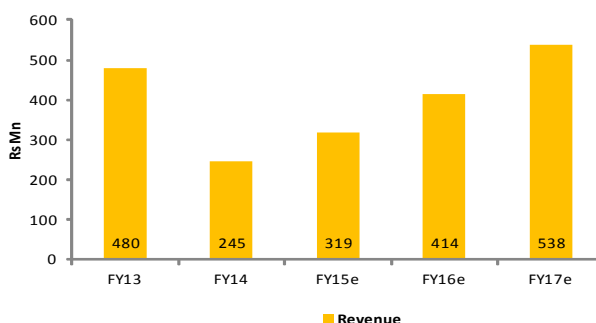
Automatic gears shifter game changer for the company

- Lumax produces manual automated gear shift (AGS) for different clients, however the company has started to produce automatic gear shifter. Automatic transmission cars are slowly catching the imagination of masses. At present they account for less than 5% of the total vehicles and is expected to increase at an alarming rate in the near future. An example would be phenomenal success of Maruti Suzuki's Celerio. Maruti has two models having auto gear shift variants & also launched Alto K10, the country's cheapest small car with automated gear shift (AGS) technology. Tata Motors might

soon come out with automatic variants of its upcoming hatchback Bolt and compact sedan Zest.

- In order to speed the Automatic Gear Shift lever business, LATL has signed a joint venture(55:45) agreement with Japan's Mannoh Industrial Co Ltd to design and manufacture complete gear shift lever systems for manual, automatic, AMT & CVT transmissions in India. Recently the company has sold 45% stake of LMAT to Mannoh Industrial Co, Ltd, Japan. Mannoh, a technology leader in automatic, AMT, CVT and MT type gear shift lever assemblies, will provide complete local designing & testing capability in India through its R&D centre located at Manesar, Gurgaon. Key clients of Japan's Mannoh Industrial Co Ltd are Toyota Motor Co., Ltd., Hino Motors Ltd., Daihatsu Motor Co., Ltd., Honda Motor Co., Ltd., Mitsubishi Motors Corp., Isuzu Motors Ltd., Mazda Motor Corporation, Fuji Heavy Industries Co., Ltd. LATL is in agreement to supply for Automatic Gear Shift . We expect revenue from Gears shifter business to grow at CAGR of 30% from FY14-FY17e on the back of entry in automatic gear product.

Revenue from Gear shifter business

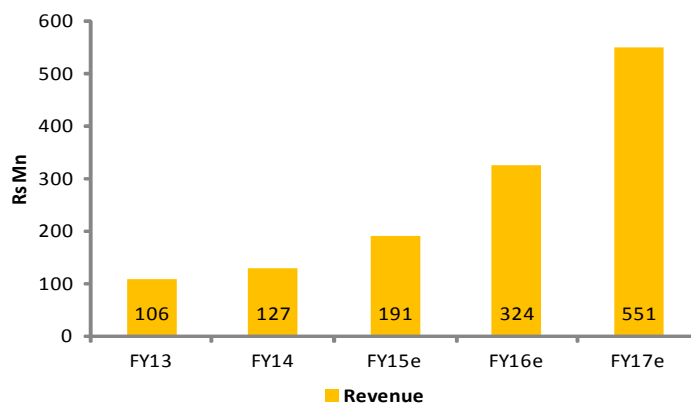


Source: Company Filings; IndiaNivesh Research

Air intake system is a growing business- In 2-3 years business will be sizeable

Another JV in equal proportion with Italy based Cornagila christened Lumax Cornagiia Auto Tech (LCAT) is supplying Air Intake System (AIS) to leading automobile manufactures in India like TATA, FIAT, VOLKSWAGEN, SKODA & General Motors. The air intake ensures the optimal filling of the engine cylinders with a suitable mass of comburent consisting of fresh air and recirculated exhaust gases. The intake manifold also carries out the function of integrating other engine supply control functions: fuel supply, fuel anti-evaporation system control, and engine operation point control. Hence, the air intake manifold can also carry out the function of engine supply mechatronic module, with the following advantages: compact size, cost, and assembly on the engine. We expect revenue from Air Intake business to grow at CAGR of 63% from FY14-FY17e.

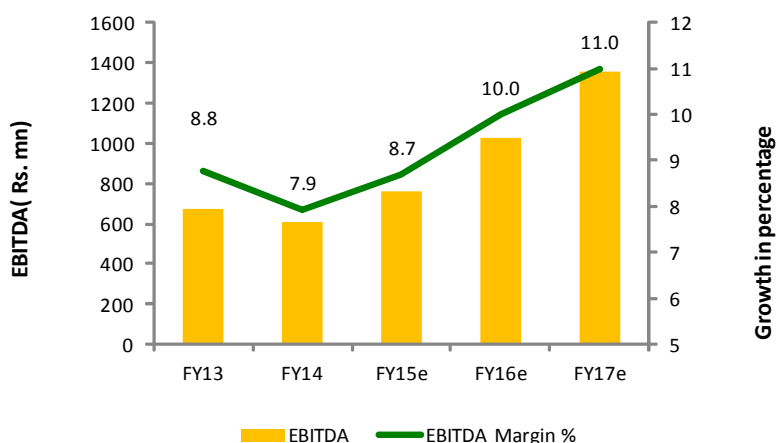
Revenue from Air Intake System



Source: Company Filings; IndiaNivesh Research

Margin to expand to 11% by FY17e on the back of high operating leverage and value added products

With strong volume growth expectations in automotive industry the next couple of years, we expect robust margin expansion. We expect LATL margins to gradually improve in coming quarters led by high operating leverage and value added products.



Source: Company Filings; IndiaNivesh Research

The company's manufacturing facility is presently operating in two shifts and capacity utilization stand at 60 to 70 percent. From here on we expect capacity utilization to increase to 80- 85 percent by FY16E. Thus higher operating leverage would help in expansion of margin. We expect margins to gradually improve to 11% by FY17E vs. 7.9% margin in FY14.

Valuation

We expect company to witness strong volume growth coupled with margin expansion in the next couple of years on the back of revival in automotive demand and value added products. With comfortable debt to equity of just 0.2x & strong ROE of ~22% we believe the company has potential to yield very high returns in next 2-3 years. The company has a consistent dividend track record with dividend payout of above 25%. At CMP of Rs 359, LATL is trading at 8.60x FY16e and 6.2x FY17e EPS. We find current valuation attractive and maintain BUY rating on LATL with target price of Rs. 575 (10x FY17E EPS).

Consolidated Financials

Income Statement

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Net sales	7,663	7,628	8,732	10,285	12,298
Y/Y Ch %	2.1	-0.5	14.5	17.8	19.6
COGS	6,688	6,679	7,606	8,845	10,453
SG&A	304	344	367	411	492
EBITDA	672	605	760	1,028	1,353
Y/Y Ch %	4.2	-9.9	25.5	35.4	31.5
EBITDA Margin %	8.8	7.9	8.7	10.0	11.0
Depreciation	108	176	196	205	214
EBIT	564	429	563	823	1,138
EBIT Margin %	7.4	5.6	6.5	8.0	9.3
Interest	6	38	44	48	53
Other Income (Inc Forex)	37	38	41	46	50
Extra Ordinary Exps/(Income)	-	-	-	-	-
PBT	594	429	561	820	1,135
Tax	183	127	168	254	352
Effective tax rate %	30.9	29.6	30.0	31.0	31.0
Reported PAT	411	302	393	566	783
Y/Y Ch %	-19.0	-26.4	29.9	44.2	38.4
Minority & Exceptional	-	-	-	-	-
Adj. PAT (APAT)	411	302	393	566	783
RPAT Margin %	5.4	4.0	4.5	5.5	6.4
Y/Y Ch %	-19.0	-26.4	29.9	44.2	38.4

Balance Sheet

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Share Capital	136	136	136	136	136
Reserves & Surplus	1,977	2,123	2,429	2,871	3,482
Net Worth	2,113	2,260	2,566	3,007	3,618
Minority	0	0	0	0	0
Long-term + ST loans	274	524	554	504	454
Others	49	54	54	54	54
Total Liabilities	2,436	2,837	3,173	3,565	4,126
Gross Block	3,841	4,362	4,562	4,762	4,962
Less Depreciation	1,835	2,011	2,207	2,413	2,627
Net Block	2,006	2,351	2,355	2,350	2,335
Intangible	348	240	240	240	240
Investments	194	194	194	194	194
Defered tax (net)	-101	-144	-144	-144	-144
Current Assets	1,781	1,949	2,442	3,180	4,157
Sundry Debtors	1,286	1,321	1,454	1,724	2,022
Cash & Bank Balance	98	139	470	846	1432
Loans & advances	108	143	123	144	148
Inventories	288	346	395	465	556
Current Liabilities	1,607	1,514	1,680	1,972	2,325
Provisions	184	239	235	282	332
Net Current Assets	-10	195	528	925	1,500
Total assets	2,436	2,837	3,173	3,565	4,126

Cash Flow

Y E March (Rs m)	FY13	FY14	FY15e	FY16e	FY17e
Operating Profit	564	429	563	823	1,138
Depreciation	108	176	196	205	214
Interest Exp	-6	-38	-44	-48	-53
Changes in Working Capital	208	-79	40	25	14
Cash Flow After Chang in WCapital	874	488	756	1,005	1,314
Tax	-183	-127	-168	-254	-352
Others	0	0	0	0	0
Cash flow from operations	691	361	588	751	962
Capital expenditure (net)	-1,111	-414	-200	-200	-200
Free Cash Flow	-420	-53	388	551	762
Cash flow from investments	-1,111	-414	-200	-200	-200
Long-Term Debt (Decrease) Increase	257	249	30	-50	-50
Dividend paid (incl tax)	-82	-82	-86	-125	-126
Share Issue / Repurchase & Others	-44	-74	0	0	0
Cash flow from Financing	132	94	-56	-175	-176
Net change in cash	-288	41	332	376	585
Cash at the beginning of the year	386	98	139	470	846
Cash at the end of the year	98	139	470	846	1,432

Key Ratios

Y E March	FY13	FY14	FY15e	FY16e	FY17e
Adj. EPS (Rs)	30.1	22.2	28.8	41.5	57.5
Cash EPS (Rs)	38.1	35.1	43.2	56.6	73.2
DPS (Rs)	6.0	6.0	6.0	6.0	6.0
BVPS	155.0	165.8	188.2	220.6	265.5
ROCE %	23.9	16.8	19.5	24.8	29.3
ROE %	19.4	13.4	15.3	18.8	21.7
ROIC %	13.5	7.8	9.7	12.4	15.9
EBITDA Margin %	8.8	7.9	8.7	10.0	11.0
PER (x)	11.9x	16.2x	12.5x	8.6x	6.2x
P/BV (x)	2.3x	2.2x	1.9x	1.6x	1.4x
P/CEPS (x)	9.4x	10.2x	8.3x	6.3x	4.9x
EV/EBITDA (x)	4.0x	4.2x	6.6x	4.4x	2.9x
Dividend payout %	19.9	27.1	20.8	14.4	10.4
m cap/sales (x)	0.3x	0.3x	0.6x	0.5x	0.4x
net debt/equity (x)	0.1x	0.2x	0.0x	-0.1x	-0.3x
net debt/ebitda (x)	0.3x	0.6x	0.1x	-0.3x	-0.7x
Debtors (Days)	60	62	61	61	60
Creditors (Days)	75	71	70	70	69
Inventory (Days)	14	17	17	17	17
Cash Conversion Cycle (Days)	-1	7	7	8	8

Source: Company Filings; IndiaNivesh Research