

| Current                | Previous           |
|------------------------|--------------------|
| <b>CMP : Rs.280</b>    |                    |
| <b>Rating : BUY</b>    | <b>Rating : NR</b> |
| <b>Target : Rs.352</b> | <b>Target : NR</b> |

Note: CMP as of 20th Nov. 2014.

NR-Not Rated

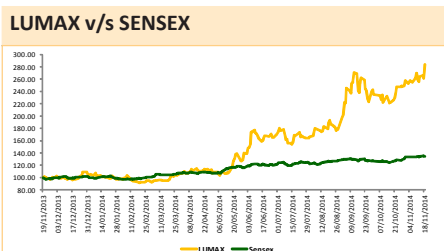
| STOCK INFO              |                 |
|-------------------------|-----------------|
| BSE                     | 532796          |
| NSE                     | LUMAXTECH       |
| Bloomberg               | LUAT.BO         |
| Reuters                 | LMAX IN         |
| Sector                  | Auto Ancilliary |
| Face Value (Rs)         | 10              |
| Equity Capital (Rs Mn)  | 136             |
| Mkt Cap (Rs Mn)         | 3,885           |
| 52w H/L (Rs)            | 302/91          |
| 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 |
|-----------------------|----|----|-----|
| LUMAX                 | 24 | 59 | 184 |
| SENSEX                | 5  | 6  | 34  |

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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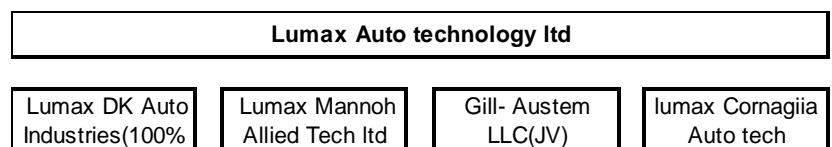
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*Lumax Auto Technologies (LATL) is a supplier of key components to the two-wheeler and the passenger car industries. Its key customers include Bajaj Auto, Piaggio, Honda Motorcycles and Scooters, Maruti Suzuki, Toyota and Tata Motors. Strong tie-ups with these OEMs will entail large business opportunities in the next few years. In spite of weak environment for auto OEMs, LATL's revenues stayed flattish in the past couple of years. However, EBIT margin weakened due to impact of higher depreciation and interest costs related to new plants. From here on we expect strong volume growth coupled with margin expansion in the next couple of years. With comfortable D/E of 0.2x and robust ROCE of 17%+, we find current valuations attractive, hence we recommend to BUY LATL with target price of Rs. 352 (10x FY16e EPS).*

### Structure of Lumax Auto Technology Ltd.

- 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 Design, Testing and Manufacturing of Parking Brakes & Gear Shift with a strong presence in both passenger cars & commercial vehicle segments.



Source: Company, IndiaNivesh Research

- However, in order to fully exploit the opportunity in exports market and speed to the Gear Shift lever business, Lumax Mannoh Allied Technologies Limited (LMAT) was incorporated on July 22, 2013, as a 100% subsidiary of LATL. The Gear Shifter division (including research and development facilities) of LDK has been demerged from the LDK and transferred to LMAT w.e.f. October 01, 2013. Recently the company has sold some stake of LMAT to Mannoh Industrial Co, Ltd, Japan.
- 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 Cornagiia Auto Tech (LCAT) is supplying Air Intake System (AIS) to leading automobile manufactures in India viz. TATA, FIAT, VOLKSWAGEN, SKODA & General Motors.

### 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. It satisfies major demands arising across the auto industry. 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 infrastructural lighting.

**Revenue Mix (Standalone)**

|  | FY13            | FY14            |
|--|-----------------|-----------------|
| <b>Products</b>                          |                 | <b>Rs Mn</b>    |
| Head Lamp                                | 1,334.85        | 1,148.45        |
| Tail Lamp                                | 301.38          | 281.65          |
| Frame Chassis                            | 742.94          | 759.56          |
| Adjustor Motor                           | 509.4           | 469.31          |
| Gear Shifter Assembly/ Parking Brake/nob | 3238.65         | 2490.9          |
| Air Intake Systems [AIS]                 | 225.08          | 253.36          |
| Other                                    | 1,310.8         | 2,224.4         |
| <b>Total</b>                             | <b>7,663.10</b> | <b>7,627.60</b> |

Source: Company, IndiaNivesh Research

- The company has ten modern manufacturing plants in India. Five plants are located in Pune, two plants in Aurangabad, in Maharashtra, one in Manesar Gurgaon, in Haryana, one plant in Kala Amb in Himachal Pradesh and one in Narsapura, Karnataka. All these facilities are strategically located in the automotive industrial belt.

**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, company is market leader in Design, Testing and Manufacturing of Parking Brakes & Gear Shift levers in India since 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.

**Supply to HMSI commenced last year**

The manufacturing facility at Narsapur, Hubli, Karnataka has commenced supplying plastic moulded parts to Honda Motorcycle & Scooters India (HMSI) last year which helped them to post flat growth in FY14 despite weak automotive sales during the year. With HMSI growing rapidly and capturing significant market share the growth of Lumax is likely to remain intact in the coming years.

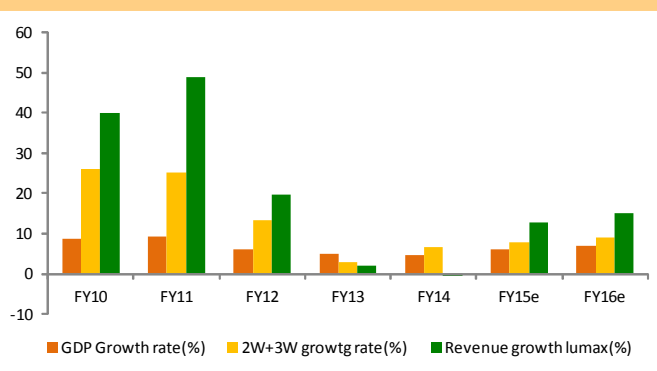
**Financial**

**Revenue is expected to grow by 13% in FY15e and 15% FY16e**

The company had shown poor growth in FY14 due to slowdown in Automotive Industry. We expect a strong revival in automotive industry on the back of 1) overall macro economic recovery, 2) cut in fuel prices and 3) peaking out of interest rates. The auto industry showed decent performance in YTD FY15 and expect it will continue in coming years on the back of revival in economy.

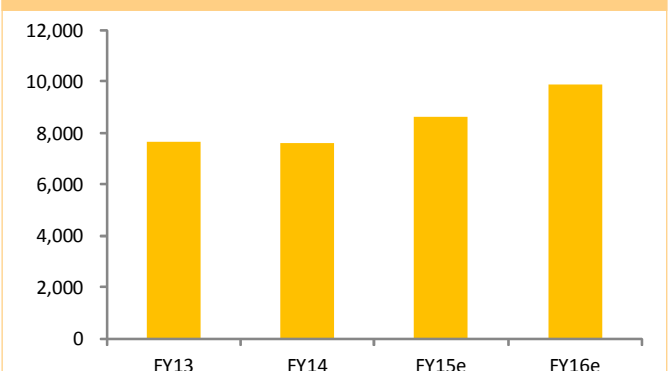
We believe top line to increase by 13% in FY15e and 15% in FY16e on the back of strong volume growth driven by new launches and favorable economic conditions.

**2W+3W industry growth & Revenue growth of Lumax**



Source: Company, IndiaNivesh Research

**Net sales (Rs Mn)**

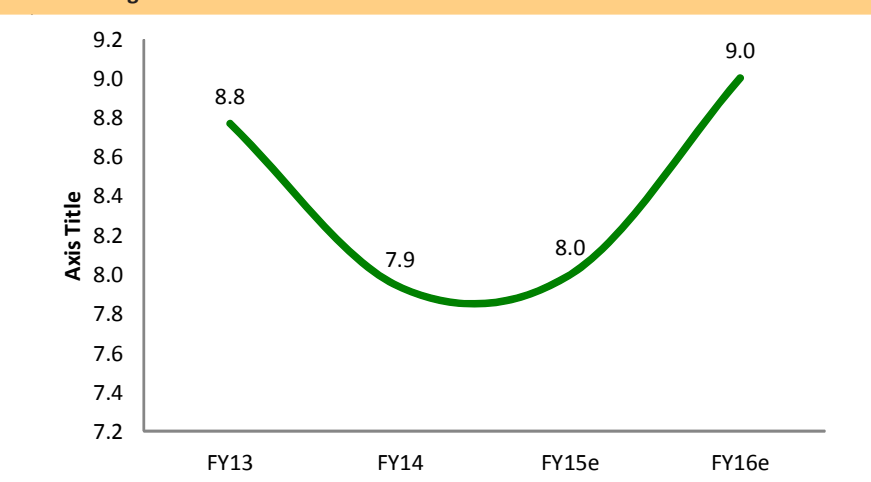


Source: Company, IndiaNivesh Research

### Margin to expand to 9% by FY16e

- 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. We expect margins to gradually improve to 9% by FY16E vs. 7.9% margin in FY14.
- Expansion in operating margin would lead to expansion in ROE by ~300 bps to 16.4%.

EBITDA Margin %



Source: Company, IndiaNivesh Research

### H1FY15 Performance

Total sales for the H1FY15 rose by 13.18% to Rs. 4.2 bn from Rs. 3.7 bn in H1FY14. During H1FY15, the consolidated net profit jumped to Rs. 320 mn against Rs. 145 mn in the corresponding quarter of previous year, an increase of 121%. EBITDA for the H1FY15 was Rs. 345.47 mn as against Rs. 278 mn in H1FY14, growth of 24.24%. EPS of the company stood at Rs. 23.49 a share during the period, registering at 120.8% increase over previous year period. However, during H1FY15, there was an exceptional item of Rs. 213.61 mn in Q1FY15 as profit on sale of shares in Lumax Mannoh Allied Technologies Limited (LMAT) to Mannoh Industrial Co, Ltd, Japan in terms of Joint Venture and Share Purchase and Shareholders' agreement.

|                                     | Q2FY15        | Q1FY15        | Q2FY14        | QoQ % | YoY % | H1FY15          | H1FY14          | Chg % YoY |
|-------------------------------------|---------------|---------------|---------------|-------|-------|-----------------|-----------------|-----------|
| <b>Total Income</b>                 | <b>2217.7</b> | <b>1987.4</b> | 1836.5        | 11.6  | 20.8  | <b>4,205.20</b> | <b>3,715.58</b> | 13.2      |
| Operating expenses                  | 2032.18       | 1827.49       | 1704.19       | 11.2  | 19.2  | 3,859.73        | 3,437.52        | 12.3      |
| <b>EBITDA</b>                       | <b>185.52</b> | <b>159.91</b> | <b>132.31</b> | 16.0  | 40.2  | <b>345.47</b>   | <b>278.06</b>   | 24.2      |
| EBITDA Margin (%)                   | 8.37          | 8.05          | 7.20          | 4.0   | 16.1  | 8.22            | 7.48            |           |
| Depreciation                        | 51.22         | 52.51         | 43.71         | -2.5  | 17.2  | 103.74          | 77.577          | 33.7      |
| <b>EBIT</b>                         | <b>134.3</b>  | <b>107.4</b>  | <b>88.6</b>   | 25.0  | 51.6  | <b>241.73</b>   | <b>200.49</b>   | 20.6      |
| EBIT Margin (%)                     |               |               |               |       |       | 5.75            | 5.40            |           |
| Finance costs                       | 12.13         | 13.02         | 10.47         | -6.8  | 15.9  | 25.154          | 12.27           | 105.0     |
| Other Income                        | 9.89          | 16.26         | 9.99          | -39.2 | -1.0  | 26.151          | 18.303          | 42.9      |
| <b>PBT before Exceptional Items</b> | <b>132.06</b> | <b>110.64</b> | <b>88.12</b>  | 19.4  | 49.9  | <b>242.73</b>   | <b>206.52</b>   | 17.5      |
| Exceptional Items                   |               | 213.62        |               |       |       | 213.62          |                 | NA        |
| <b>PBT</b>                          | <b>132.06</b> | <b>324.26</b> | <b>88.12</b>  | -59.3 | 49.9  | <b>456.35</b>   | <b>206.52</b>   | 121.0     |
| <b>PAT after minority interest</b>  | <b>86.22</b>  | <b>233.9</b>  | <b>64.8</b>   | -63.1 | 33.1  | <b>320.20</b>   | <b>145.04</b>   | 120.8     |
| <b>Adjusted PAT</b>                 | <b>86.22</b>  | <b>83.9</b>   | <b>64.8</b>   | 2.8   | 33.1  | <b>170.20</b>   | <b>145.04</b>   | 17.3      |
| PAT Margin (%)                      | 3.89          | 4.22          | 3.53          |       |       | 4.05            | 3.90            |           |
| <b>EPS</b>                          | <b>6.33</b>   | <b>6.16</b>   | <b>4.75</b>   | 2.8   | 33.1  | 12.49           | 10.64           | 17.3      |

Source: Company, IndiaNivesh Research

### Valuation

At CMP of Rs 280 the LATL trading at 8x of its FY16 expected EPS of Rs 36. With comfortable D/E of 0.2x and robust ROCE of 17%+, we find current valuations attractive, hence we recommend to BUY LATL with target price of Rs. 352 (10x FY16e EPS).

## Consolidated Financials

### Income Statement

| Y E March (Rs m)             | FY13       | FY14       | FY15e      | FY16e      |
|------------------------------|------------|------------|------------|------------|
| Net sales                    | 7,663      | 7,628      | 8,619      | 9,912      |
| Y/Y Ch %                     | 2.1        | -0.5       | 13.0       | 15.0       |
| COGS                         | 6,688      | 6,679      | 7,240      | 8,227      |
| SG&A                         | 304        | 344        | 690        | 793        |
| <b>EBITDA</b>                | <b>672</b> | <b>605</b> | <b>690</b> | <b>892</b> |
| Y/Y Ch %                     | 4.2        | -9.9       | 13.9       | 29.4       |
| EBITDA Margin %              | 8.8        | 7.9        | 8.0        | 9.0        |
| Depreciation                 | 108        | 176        | 196        | 214        |
| <b>EBIT</b>                  | <b>564</b> | <b>429</b> | <b>493</b> | <b>678</b> |
| EBIT Margin %                | 7.4        | 5.6        | 5.7        | 6.8        |
| Interest                     | 6          | 38         | 38         | 38         |
| Other Income (Inc Forex)     | 37         | 38         | 41         | 46         |
| Extra Ordinary Exps/(Income) | -          | -          | -          | -          |
| <b>PBT</b>                   | <b>594</b> | <b>429</b> | <b>497</b> | <b>686</b> |
| Tax                          | 183        | 127        | 149        | 206        |
| Effective tax rate %         | 30.9       | 29.6       | 30.0       | 30.0       |
| <b>Reported PAT</b>          | <b>411</b> | <b>302</b> | <b>348</b> | <b>480</b> |
| Y/Y Ch %                     | -19.0      | -26.4      | 15.1       | 38.0       |
| Minority & Exceptional       | -          | -          | -          | -          |
| <b>Adj. PAT (APAT)</b>       | <b>411</b> | <b>302</b> | <b>348</b> | <b>480</b> |
| RPAT Margin %                | 5.4        | 4.0        | 4.0        | 4.8        |
| Y/Y Ch %                     | -19.0      | -26.4      | 15.1       | 38.0       |

Source: Company filings; IndiaNivesh Research

### Balance Sheet

| Y E March (Rs m)           | FY13         | FY14         | FY15e        | FY16e        |
|----------------------------|--------------|--------------|--------------|--------------|
| Share Capital              | 136          | 136          | 136          | 136          |
| Reserves & Surplus         | 1,977        | 2,123        | 2,389        | 2,787        |
| <b>Net Worth</b>           | <b>2,113</b> | <b>2,260</b> | <b>2,526</b> | <b>2,924</b> |
| Minority                   | 0            | 0            | 0            | 0            |
| Long-term + ST loans       | 274          | 524          | 524          | 524          |
| Others                     | 49           | 54           | 54           | 54           |
| <b>Total Liabilities</b>   | <b>2,436</b> | <b>2,837</b> | <b>3,103</b> | <b>3,501</b> |
| Gross Block                | 3,841        | 4,362        | 4,762        | 5,162        |
| Less Depreciation          | 1,835        | 2,011        | 2,207        | 2,422        |
| <b>Net Block</b>           | <b>2,006</b> | <b>2,351</b> | <b>2,555</b> | <b>2,741</b> |
| Intangible                 | 348          | 240          | 240          | 240          |
| Investments                | 194          | 194          | 194          | 194          |
| Deferred tax (net)         | -101         | -144         | -144         | -144         |
| <b>Current Assets</b>      | <b>1,781</b> | <b>1,949</b> | <b>2,147</b> | <b>2,662</b> |
| Sundry Debtors             | 1,286        | 1,321        | 1,435        | 1,661        |
| Cash & Bank Balance        | 98           | 139          | 275          | 454          |
| Loans & advances           | 108          | 143          | 121          | 155          |
| Inventories                | 288          | 346          | 316          | 392          |
| <b>Current Liabilities</b> | <b>1,607</b> | <b>1,514</b> | <b>1,658</b> | <b>1,966</b> |
| Provisions                 | 184          | 239          | 232          | 226          |
| <b>Net Current Assets</b>  | <b>(10)</b>  | <b>195</b>   | <b>258</b>   | <b>471</b>   |
| <b>Total assets</b>        | <b>2,436</b> | <b>2,837</b> | <b>3,103</b> | <b>3,502</b> |

Source: Company filings; IndiaNivesh Research

### Cash Flow

| Y E March (Rs m)                          | FY13          | FY14        | FY15e       | FY16e       |
|---|---------------|-------------|-------------|-------------|
| Operating Profit                          | 564           | 429         | 493         | 678         |
| Depreciation                              | 108           | 176         | 196         | 214         |
| Interest Exp                              | -6            | -38         | -38         | -38         |
| Changes in Working Capital                | 208           | -79         | 73          | 12          |
| <b>Cash Flow After Change in WCapital</b> | <b>874</b>    | <b>488</b>  | <b>725</b>  | <b>866</b>  |
| Tax                                       | -183          | -127        | -149        | -206        |
| Others                                    | 0             | 0           | 0           | 0           |
| <b>Cash flow from operations</b>          | <b>691</b>    | <b>361</b>  | <b>576</b>  | <b>661</b>  |
| Capital expenditure (net)                 | -1,111        | -414        | -400        | -400        |
| <b>Free Cash Flow</b>                     | <b>-420</b>   | <b>-53</b>  | <b>176</b>  | <b>261</b>  |
| Other income                              | 0             | 0           | 0           | 0           |
| Investments                               | 0             | 0           | 0           | 0           |
| <b>Cash flow from investments</b>         | <b>-1,111</b> | <b>-414</b> | <b>-400</b> | <b>-400</b> |
| Long-Term Debt (Decrease) Increase        | 257           | 249         | 0           | 0           |
| Dividend paid (incl tax)                  | -82           | -82         | -82         | -82         |
| Share Issue / Repurchase & Others         | -44           | -74         | 42          | 0           |
| <b>Cash flow from Financing</b>           | <b>132</b>    | <b>94</b>   | <b>-40</b>  | <b>-82</b>  |
| <b>Net change in cash</b>                 | <b>-288</b>   | <b>41</b>   | <b>136</b>  | <b>179</b>  |
| <b>Cash at the beginning of the year</b>  | <b>386</b>    | <b>98</b>   | <b>139</b>  | <b>275</b>  |
| <b>Cash at the end of the year</b>        | <b>98</b>     | <b>139</b>  | <b>275</b>  | <b>454</b>  |

Source: Company filings; IndiaNivesh Research

### Key Ratios

| Y E March                    | FY13  | FY14  | FY15e | FY16e |
|------------------------------|-------|-------|-------|-------|
| Adj. EPS (Rs)                | 30.1  | 22.2  | 25.5  | 35.2  |
| Cash EPS (Rs)                | 38.1  | 35.1  | 39.9  | 50.9  |
| DPS (Rs)                     | 6.0   | 6.0   | 6.0   | 6.0   |
| BVPS                         | 155.0 | 165.8 | 185.3 | 214.5 |
| ROCE %                       | 23.9  | 16.8  | 17.4  | 20.8  |
| ROE %                        | 19.4  | 13.4  | 13.8  | 16.4  |
| ROIC %                       | 13.5  | 7.8   | 8.6   | 11.4  |
| EBITDA Margin %              | 8.8   | 7.9   | 8.0   | 9.0   |
| PER (x)                      | 9.3x  | 12.6x | 10.9x | 7.9x  |
| P/BV (x)                     | 1.8x  | 1.7x  | 1.5x  | 1.3x  |
| P/CEPS (x)                   | 7.3x  | 8.0x  | 7.0x  | 5.5x  |
| EV/EBITDA (x)                | 4.0x  | 4.2x  | 5.9x  | 4.3x  |
| Dividend Yield %             | 2.2   | 2.2   | 2.2   | 2.2   |
| m cap/sales (x)              | 0.3x  | 0.3x  | 0.4x  | 0.4x  |
| net debt/equity (x)          | 0.1x  | 0.2x  | 0.1x  | 0.0x  |
| net debt/ebitda (x)          | 0.3x  | 0.6x  | 0.4x  | 0.1x  |
| Debtors (Days)               | 60    | 62    | 61    | 61    |
| Creditors (Days)             | 75    | 71    | 70    | 72    |
| Inventory (Days)             | 14    | 17    | 13    | 14    |
| Cash Conversion Cycle (Days) | -1    | 7     | 4     | 3     |

Source: Company filings; IndiaNivesh Research

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

| Disclosure of Interest Statement                        |     |
|---|-----|
| 1. Analyst ownership of the stock                       | No  |
| 2. Clients/Company Associates ownership of the stock    | Yes |
| 3. Broking relationship with company covered            | No  |
| 4. Investment Banking relationship with company covered | No  |

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