

LUMAX AUTO TECHNOLOGIES LIMITED

AUTO PARTS & EQUIPMENT

BSE Scrip Code: 532796

CMP Rs.151.70¹

23 Feb 2012

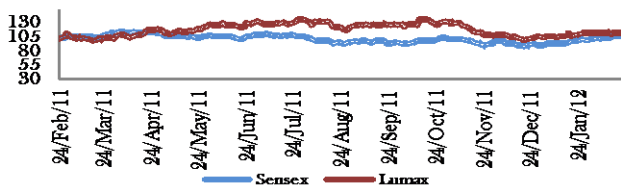
KEY EQUISTATS

Market Capitalisation	Rs. Crores	196
Enterprise Value	Rs. Crores	162
52 Week High / Low	Rs.	195/123
Diluted EPS (Consolidated, FY11)	Rs.	35.2
P/E (FY11)	times	4.3
Regression Beta	times	0.5
Average Daily Volumes *	Lakhs	0.1

* BSE + NSE for last 52 weeks

STOCK PERFORMANCE

Price Movement (rebased on 100)



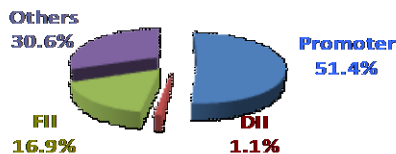
Returns	1M	3M	6M	1 Yr
Absolute	3%	3%	-8%	10%
Rel. to Sensex	-3%	-10%	-17%	7%

FINANCIAL STATISTICS

Rs. Crores	FY09	FY10	FY11
Net operating income	302	420	634
EBITDA	23	37	63
EBITDA margins	7.8%	8.9%	9.9%
PAT	11	23	46
PAT margins	3.8%	5.5%	7.2%
Gearing (times)	0.4	0.1	0.0
RoCE	21.5%	33.4%	45.0%
RoE	19.2%	31.8%	40.7%
P/E (times)			4.3
EV/EBITDA (times)			2.6

Financial Year: (April, 1 - March, 31)

SHARE HOLDING PATTERN



ANALYTICAL CONTACTS

Amod Khanorkar	General Manager	+91-22-6754 3520
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¹ CMP: Current Market Price

Wide product portfolio and large client base of Original Equipment Manufactures (OEMs)

Lumax Auto Technologies Limited (Lumax) is engaged in manufacture of sheet metal parts, fabricated assemblies, tubular parts for two-wheeler and three-wheeler industries. The product line for Lumax includes two-wheeler chassis, exhaust systems & mufflers, fork & handle bar assemblies, petrol tanks, adjustor motors, auto lightings amongst others. Lumax has a large client base across the automobile industry with clients such as Bajaj Auto, Maruti Suzuki, Ashok Leyland, Hero MotoCorp, Mahindra, Daimler, Eicher Motors and Tata Motors. Lumax has strong ties with key customers and has a strong network of dealers in the replacement market.

Healthy outlook for the Auto Component sector

CARE Research believes the outlook continues to be healthy for the auto component sector on the back of stable growth in the Indian Automobile sector. However, the increasing competition in the auto component market coupled with the limited bargaining power in the Original Equipment Market (OEM), replacement and the export segments for auto component manufactures pose a threat to the sector.

Key concerns

- Volatility in raw material prices
- Increasing competition from unorganized players in the OEM segment

Valuations

Lumax is currently trading at trailing P/E and EV/EBITDA multiples of 4.3x and 2.6x, respectively.



HISTORY AND BACKGROUND

Background

Lumax was founded in 1981 as Lumax Auto Electricals Pvt Ltd. It is a part of the D K Jain group of companies. The company is engaged in manufacturing of automotive parts like sheet metal parts, fabricated assemblies, and tubular parts for two- and three-wheeler industries and commercial vehicles. Its product line includes two-wheeler chassis, exhaust systems and mufflers, fork and handle bar assemblies, petrol tanks, adjustor motors and auto lightings. Lumax has a large client base across the automobile industry with clients such as Bajaj Auto, Maruti Suzuki, Ashok Leyland, Hero MotoCorp, Mahindra, Daimler, Eicher Motors and Tata Motors. In FY10 it started a new division for trading of adjustor levellor motors (ALM) at Manesar in Haryana. The company has a 100% subsidiary Lumax DK Auto Industries Limited (LDK) for manufacture of shift gears. Lumax has also set up a 50:50 JV, Lumax Cornaglia Auto Technologies Private Limited (LCAT) with Cornaglia Metallurgical Products India Private Limited to manufacture and supply air intake systems and exhaust systems to automobile companies.

Operations

The company has ten manufacturing facilities of which four are located in Pune, two in Aurangabad and one each in New Delhi, Gurgaon and Himachal Pradesh. Additionally, one more plant is under construction in Pune. Further, the company has an R&D centre in Pune. Its trading division is situated at Manesar, Gurgaon. The capacity utilization for FY11 is shown below:

Lumax: Capacity and utilisation

Sr No	Class of Goods	Installed Capacity Qty (Nos)	Production Qty (Nos)	Capacity Utilization (%)
1	Moulding	10,000,000	8,671,524	87
2	Headl Lamp Assembly	3,425,000	2,399,754	70
3	Gear Shifter Assembly	2,500,000	2,004,574	80
4	Tail Lamp Assembly	2,110,000	1,695,760	80
5	Frame/ Chassis	610,000	604,840	99
6	Parking Brake	700,000	441,342	63
7	Seat Frames	220,000	209,023	95
8	Air Intake System	150,000	104,876	70
9	Snorkel Assembly	50,000	42,957	86
10	Element Assembly	50,000	38,923	78
11	Clear Air Duct	25,000	8,830	35

Source: Capitaline and CARE Equity Research



Industry Segments

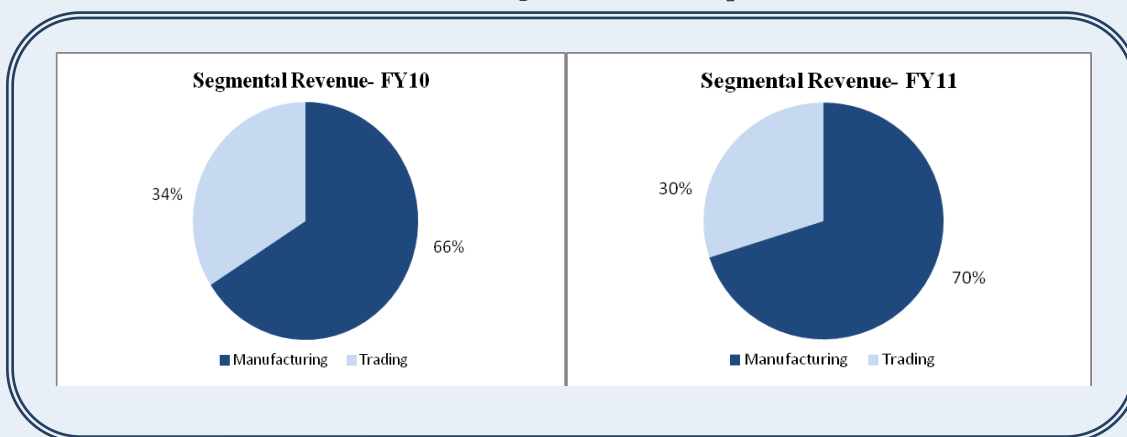
The company has considered the following to be the primary business segments. The products included in each of the reported business segments are as follows:

Manufacturing Activity: Includes Automotive Lights, Chassis, Seat Frames, Adjustor Motor and Plastic Mouldings.

Trading Activity: Includes Adjustor Motor, Automotive Lights and various automotive parts.

Segmental Revenues for FY11 and FY10 is given below:

Lumax: Segmental Break-up



Source: Capitaline and CARE Equity Research



Lumax: Peer comparison

(FY11)	Units	Lumax Auto Limited	Omax Auto Limited	Rico Auto Limited	Amtex Auto Limited
Net operating income	Rs. Crores	634	1,186	1,344	5,112
EBITDA	Rs. Crores	63	95	142	1,302
PAT	Rs. Crores	46	21	13	323
Growth in net operating income	%	50.8	35.9	33.3	38.5
EBITDA Margin	%	9.9	8.0	10.5	25.5
PAT Margin	%	7.2	1.8	1.0	6.3
RoCE	%	45.0	13.8	9.5	2.6
RoE	%	40.7	12.5	4.3	5.6
Price/Earnings (P/E) Ratio	times	4.3	4.4	11.5	11.6
Price/Book Value(P/BV)	times	1.4	0.5	0.5	0.5
Enterprise Value (EV)/EBITDA	times	2.6	2.4	4.7	6.6

Source: Capitaline and CARE Equity Research



CONSOLIDATED FINANCIAL PERFORMANCE AND ANALYSIS

Total income shows healthy growth in FY11

Top line increased by about 50% on y-o-y basis in FY11. Growth was largely on account of growth in the automobile industry which led to increased demand for auto components like chassis, exhaust system, petrol tanks, sheet metal, tabular welded parts and gear shift levers along with increased demand from the replacement market.

Some improvement in profitability

The EBITDA and PAT margins for the company increased by about 100 bps and 170 bps respectively in FY11 over FY10 due to better cost management by the company. Increased contribution from the new trading unit at Manesar, where the company started new trading activity of ALM also led to improvement in margins.

EPS rises in line with PAT growth adjusted for issuance of fresh shares

Net profit for the company increased by about 97% in FY11 over FY10. EPS increased by about 76% in FY11 over FY10. In FY11, the company issued 20,00,000 equity shares of Rs.10/- each on preferential basis at a premium of Rs.109.10 per share.

Lumax: Financial Performance (FY07-11) (Rs. Crores)

	FY07	FY08	FY09	FY10	FY11
Net operating income	220	294	302	420	634
EBITDA	13	25	23	37	63
PAT	6	12	11	23	46
Fully Diluted EPS* (Rs.)	5.3	10.2	9.8	19.9	35.2
EBITDA margins	6.0%	8.4%	7.8%	8.9%	9.9%
PAT margins	2.8%	4.1%	3.8%	5.5%	7.2%

Source: Capitaline and CARE Equity Research



EXPANSIONS, NEW INITIATIVES AND CONCERNS

Expansion plans and initiatives

- The company has set up a new plant at Kaleamb in Himachal Pradesh for production of various auto bulbs and related applications. This unit has been set up in the Special Industrial Area and is entitled for benefits of direct and indirect taxes as per the Industrial policy of the Government.
- The company has also diversified into Non-Auto Segment business of LED-based Lightings and other Infrastructural Lightings.
- The company also plans to make use of Natural Gas energy in the D.G.Set in place of Diesel, which is expected to reduce 40% energy cost and reduction in air pollution.
- In order to increase the export contribution to the total revenue, the company has been appointing new dealers in international markets.

Key concerns

- Volatility in raw material prices such as copper, steel, iron, etc. The auto component manufactures typically have low bargaining power and find it difficult to pass on price increases to the price-sensitive market.
- High competition in the sheet metal component business in view of large number of competitors, on account of low barriers to entry and limited value addition needed to develop the end product.
- Free trade agreements (FTAs) signed by India in FY11 have also made it difficult for local component makers. Trade agreements signed with countries like Thailand and China, which already offer a number of incentives to their domestic players, are perceived to be a huge threat to India. Indian auto component manufactures face tough competition from aggressive Chinese suppliers.



SECTOR OUTLOOK

Indian Auto Component Industry is transforming itself from a low-volume, highly fragmented one into a competitive industry backed by strengths like technology, efficiency and evolving value chain. The sector can be traced back to pre 1980s where sector was a protected market with import tariffs and the market was primarily oriented towards the supply of components to domestic manufacturers. Post 1980, one major policy initiative was taken, which was called phased manufacturing program (PMP). Under this program efforts were taken by the OEMs, auto component manufacturers with a due support from the government for modernisation in product and manufacturing technology, improvisation in quality and set up standard for manufacturing practices. Post 1991 (liberalization phase) many global OEM and Tier 1 suppliers started operations in India. This paved the way for a large number of JVs in the component industry. After the end of the PMP in 1991, government introduced MOU system that continued emphasis on the aspect of localization of components. With support from this policy, the component industry developed further capability to manufacture new breed of auto components required for the new-generation vehicles.

The industry mainly caters to two segments

1. OEMs
2. Replacement market (Aftermarket)

OEM dominates the auto component market contributing around 75 per cent of the market while the replacement market shares around 25 per cent. Unorganized players mainly dominated the replacement market, which were mostly Tier 3/4 component manufacturers. The Indian auto component industry is highly fragmented and valued at around Rs.1,368 billion (US\$ 30 billion) in 2010-11. The industry manufacturer approximating 20,000 components types used in automobile and related industries. The industry has fast transformed itself from labour-intensive less-technological products to value-added technologically-intensive products over a period of the last one decade.

In terms of sales (Revenue) Bosch is the leading market player followed by battery maker Exide Industries and then Bharat Forge. Today, India is one the major outsourcing hub for the auto components industry in the world. Developing technologically-intensive products and good distribution network are some of the key success factors for the industry.

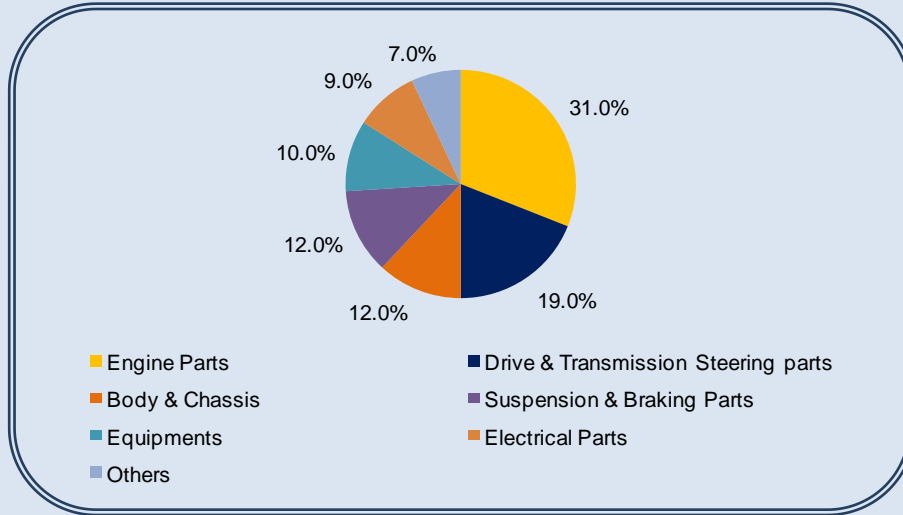
Steel, Aluminum and Cast iron are the major raw materials used in manufacturing of auto components. Any change in the prices of these materials has a direct bearing on the profitability of auto component manufacturers. Critical components like engine parts, drive transmission, steering, etc are technologically-intensive products. Manufacturers have to constantly upgrade their product technology suiting ever-changing requirements of OEMs. For example, with the rising emphasis of emission norms and increasing awareness of the buyers, OEMs are required to continuously upgrade their products and auto component manufacturers have to keep pace with the changes in technology.

The Indian auto component industry is highly fragmented and valued at around Rs.1,368 billion (US\$ 30 billion) in 2010-



11. The industry has the resources to manufacture the entire range of components required for vehicle manufacturing, approximating 20,000 components. The industry is transforming and entry of new players in last few years have led to surge in the auto component industry. The domestic market is valued approximately Rs.1,140 billion (US\$ 25 billion) while the remaining Rs.228 billion (US\$ 5 billion) worth auto components were exported in 2010-11. The OEM market is valued Rs.855 billion (US\$ 18.8 billion) whereas the replacement market is estimated approximately at Rs.285 billion (US \$ 6.25 billion).

Component-wise market segmentation FY11



Source: ACMA and CARE Research

CARE Research estimates the industry to grow in the range of 13-14 per cent during 2010-11 to 2015-16 period on a CAGR basis. Healthy automobile growth coupled with continued rise in replacement demand would lead this growth. CARE Research foresees with more expansion projects in the pipeline from both new as well as established automobile players would also continue to boost auto component demand. Furthermore, low-cost destination advantage and availability of skilled labour makes India an attractive manufacturing destination for many global giants for meeting their overseas requirement. CARE Research believes, India would continue to have the upper hand in auto component sourcing and exports are estimated to grow in a range of 21-22 per cent from Rs.228 billion in 2010-11 to around Rs.618 billion in 2015-16.

CARE Research believes, concerns over rise in interest rates and fuel prices would slow down the automobile industry growth in the current fiscal, consequently hampering growth for the auto component industry as well. However, these concerns are expected to fade off in medium to long-term period providing a healthy growth scenario for the auto component industry.

Supply and Competition



There is no distinction between the two-wheeler and four-wheeler auto component manufacturer in the Indian auto component industry. The major organized player caters to all segments of the automobile industry (i.e. two-wheeler, passenger vehicles, commercial vehicles and tractor). However, since commercial vehicle and tractor components are specialized in load bearing, they differ to some extent in terms of material used and production techniques.

The global key automakers have brought along the international component suppliers into India. Major international auto component manufacturers like Lear Corporation, Delphi, Visteon, Mando, ZF Steering, Bosch, Motherson Sumi, Denso etc have established their presence in India. The entry of these players led to introduction of new technologies, new products, improved quality and better efficiencies, which in turn acted as a catalyst to the development of the local component industry.

Factors of production

Steel, Aluminum and Cast iron are the major raw materials used in manufacturing of auto components. Any change in the prices of these materials has a direct bearing on the profitability of auto component manufacturers. Critical components like engine parts, drive transmission, steering, etc are technologically-intensive products. Manufacturers have to constantly upgrade their product technology suiting ever-changing requirements of OEMs. With great importance given to emission norms by the government and its increasing awareness of the buyers, OEMs are required to continuously upgrade their products and auto component manufacturers have to keep pace with the changes in technology. Furthermore, the unorganised nature of the auto components industry makes it difficult to bargain from OEMs in case of sharp rise in input prices and in turn have to bear hit on their margins. The auto component manufacturing is a capital-intensive business requiring high capital cost for setting up a manufacturing unit.

Government Policies and Regulations

The auto component is not rigidly regulated by the Government. There are around 625 players in the organized segment which contribute approximate 30-35 per cent of the domestic sales while the unorganized segment has a presence of more than 6,000 units.

The auto component industry may not seem important to the economy in terms of its direct contribution to the GDP (2-3 per cent) or to the exchequer (approximately 3 per cent) or to the foreign exchange earnings (2 per cent of India's exports in value). However, this industry is indirectly very important, as it employs close to 10-11 million people directly and indirectly, which makes it significant amongst the Small and Medium Enterprise (SME) sector.

Government allows 100 per cent foreign direct investment in the sector. This may bring in additional competition, but creating dealer network and brand name remains a challenge for the new entrant.



CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
Income Statement					
Net operating income	220.5	294.1	301.8	420.3	634.0
EBITDA	13.2	24.8	23.5	37.3	62.7
Depreciation and amortisation	2.4	4.1	4.3	6.1	7.0
EBIT	10.8	20.7	19.1	31.3	55.7
Interest	1.3	2.7	2.8	2.2	0.9
PBT	9.5	18.1	16.4	29.1	54.8
Ordinary PAT (After minority interest)	6.1	11.9	11.4	23.2	45.5
PAT (After minority interest)	6.1	11.9	11.4	23.2	45.5
Fully Diluted Earnings Per Share* (Rs.)	5.3	10.2	9.8	19.9	35.2
Dividend, including tax	1.7	1.7	1.7	4.7	8.2
* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share					
Balance sheet					
Net worth (incl. Minority Interest)	45.2	54.6	63.9	81.9	141.5
Debt	21.5	25.8	22.6	7.0	3.4
Deferred Liabilities / (Assets)	3.5	5.4	5.8	6.2	7.3
Capital Employed	70.3	85.7	92.3	95.2	152.3
Net Fixed Assets (incl. Capital WIP)	64.4	74.0	73.2	79.9	92.8
Investments	-	1.4	2.7	-	19.4
Loans and Advances	6.6	11.5	14.2	21.4	27.9
Inventory	12.4	18.8	19.6	15.9	22.1
Receivables	37.9	43.4	46.7	73.3	98.4
Cash and Cash Equivalents	5.8	6.2	3.1	10.5	37.0
Current Assets, Loans and Advances	62.6	79.8	83.6	121.1	185.4
Less: Current Liabilities and Provisions	57.2	69.8	67.3	105.8	145.3
Total Assets	70.3	85.7	92.3	95.2	152.3
Ratios					
Growth in Operating Income		33.4%	2.6%	39.3%	50.8%
Growth in EBITDA		87.9%	-5.3%	59.1%	68.0%
Growth in PAT		94.0%	-4.3%	103.2%	96.4%
Growth in EPS		94.0%	-4.3%	103.2%	76.8%
EBITDA Margin		8.4%	7.8%	8.9%	9.9%
PAT Margin		4.1%	3.8%	5.5%	7.2%
RoCE		26.6%	21.5%	33.4%	45.0%
RoE		23.9%	19.2%	31.8%	40.7%
Debt-Equity (times)		0.5	0.4	0.1	0.0
Interest Coverage (times)		7.8	6.9	14.2	59.3
Current Ratio (times)		1.1	1.2	1.1	1.3
Inventory Days		23	24	14	13
Receivable Days		54	57	64	57
Price / Earnings (P/E) Ratio					4.3
Price / Book Value(P/BV) Ratio					1.4
Enterprise Value (EV)/EBITDA					2.6

Source: Capitaline, CARE Equity Research



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Published on behalf of The Stock Exchange Investors' Protection Fund

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