

23 Aug, 2023

PICK OF THE MONTH

VOL-9, NO-03

Industry: Auto Components & Equip.

Lumax Industries Limited

BUY

CMP: Rs.2147

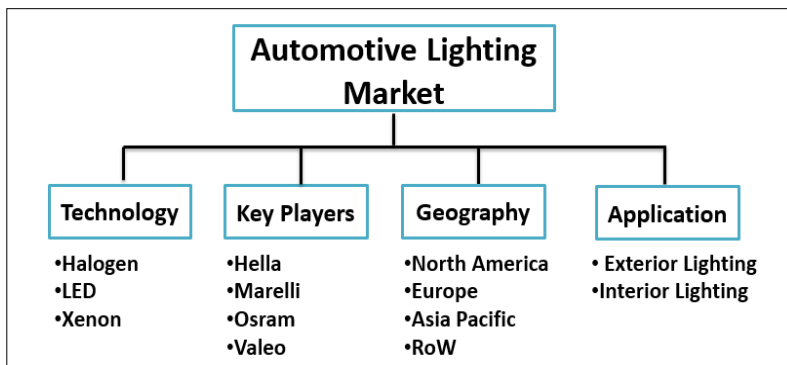
TARGET PRICE: Rs.2500

TIME : 12 months

Auto Lighting Industry Overview: The global automotive lighting market was valued at USD21.9bn in 2022 and is expected to reach USD28.5bn by 2027, at a CAGR of 5.3% (as per different market research reports). The domestic market was valued at USD2.9bn in 2021 and expected to be USD4.3bn by 2028. The automotive lighting market size is witnessing a steady growth with rising demand from automotive vehicles. Automotive vehicles including passenger cars and commercial vehicles need energy-efficient and cost-effective lighting systems. The increasing automobile production to address the increasing consumer demand is another factor which is witnessing exponential growth. Modern automobiles now source technically advanced systems like driving assistance and lighting control systems. The development and integration of LED and laser technology into modern vehicles is creating growth opportunities for the industry.

Key Growth Factors: (i) Increasing sales and production of automotive vehicles across the world is expected to drive the demand for automotive lighting, (ii) Rising disposable income and need for transportation services, coupled with improvement in overall lifestyle are the major factors that boosts the production of automotive vehicles, thereby propelling the growth of automotive lighting, (iii) Government regulation for automotive lighting along with rising concern for road safety and increased number of road accidents is the major cause to propel the demand for adaptive lighting system, (iv) Vehicles with advanced and adaptive lighting can detect objects on the road; that prevents any upcoming accident by alerting the driver in proper time to take the necessary action, (v) Requirement of efficient lighting systems that provides optimum illumination on the road

Exhibit 01: Automotive Lighting Market Categorization



Source: Market reports, Progressive Research

The estimated automotive LED market in India is ~USD4.15bn which is expected to grow at a CAGR of 5.9% by 2027 (as per the company's latest AR). The Indian automotive lighting industry offers a wide range of products, such as head lights, rear lights, accessory lights, LEDs, fog lights, emergency and warning lights, off-road lights, and signal lights. Along with safety measures, the automotive lighting system also enhances the aesthetics of both the interior and exterior of the vehicles. Based on the technology, the market is broadly segmented into Halogen, Xenon and LED. Halogen, being low cost and an easily available technology; was the most widely used lighting technology. However, the appearance alongwith other positives of low power consumption, longer life and compact size of LED lights would lead to increased demand going forward.

SNAPSHOT				
52 week H / L		Mcap (INR mn)		
2338/1300		20,067		
Face value: 10				
BSE Code		NSE CODE		
517206		LUMAXIND		
Annual Performance				
(Rs mn)	FY21	FY22	FY23	FY24E
Total Revenue	14,260	17,513	23,195	27,431
EBITDA	993	1,350	2,075	2,828
EBITDA (%)	7.0	7.7	8.9	10.3
Other Income	252	134	147	147
Interest	285	214	294	387
Depreciation	645	637	799	859
PBT	315	633	1,129	1,729
PAT	182	407	1,031	1,539
Equity (Rs mn)	93	93	93	93
EPS (INR)	19.4	43.6	110.3	164.6
Quarterly Performance				
Parameters (Rs mn)	Sept-22	Dec-22	Mar-23	Jun-23
Sales (Net)	6,201	5,794	6,081	6,184
EBITDA	596	556	489	513
EBITDA (%)	9.6	9.6	8.0	8.3
Other Income	39	13	45	28
Interest	69	78	87	98
Depreciation	201	198	212	213
PAT	322	284	251	231
Equity (Rs mn)	93	93	93	93
Ratio Analysis				
Parameters (Rs mn)	FY21	FY22	FY23	FY24E
EV/EBITDA (x)	23.2	17.4	11.5	8.6
EV/Net Sales (x)	1.6	1.3	1.0	0.9
M Cap/Sales (x)	1.4	1.1	0.9	0.7
M Cap/EBITDA (x)	20.2	14.9	9.7	7.1
Debt/Equity (x)	0.9	0.9	0.9	0.9
ROCE (%)	10.8	13.9	19.5	24.1
Price/Book Value (x)	4.4	4.1	3.4	2.8
P/E (x) (TTM)	123.3	27.5	22.7	18.1
Shareholding Pattern as on 30th June, 2023				
Parameters	No of Shares		%	
Promoters	7,010,798		75.0	
Institutions	201,194		2.1	
Public	2,135,740		22.8	
TOTAL	9,347,732		100.0	

Source: Annual Report, Progressive Research

Note: Data calculated as on 22nd Aug, 2023

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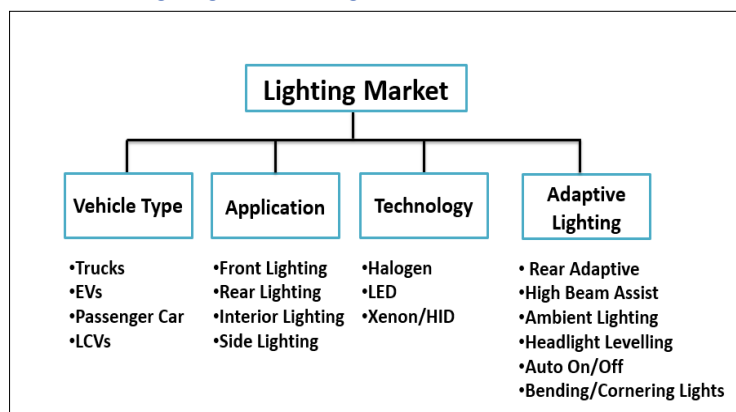
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Auto Lighting Industry Overview (contd.):

The competitiveness seen in the Indian markets is led by the desire to have a stylish look with increasing focus on precautionary measures. Lighting is one of the crucial consumer choices for best in class features. Vehicles have different lights to increase visibility and tackle bad weather conditions. The lighting system comprises of lighting and signalling devices, which are placed at different locations such as front, rear, side, and interiors. The aesthetic look and rising safety measures play a vital role in driving the Indian automotive lighting industry, that has gradually progressed from halogen to LED light to now OLED light. The transition from halogen headlights was because they utilized too much of energy and also caused excessive heating. On the other hand, the big benefit of LED headlights is that they utilize less power relative to the light they emit. They are approximately 80% more efficient than the traditional halogen bulbs, which lowers the strain on the car's electrical system which in turn improves the fuel economy. LED lights are energy efficient, provide higher visibility and are easier to install and maintain. **Usage of LED in automotive lighting is rapidly increasing and is likely to replace conventional halogen or xenon lighting systems.** OLED lights can be described as the surface lights whereas LED lights are point light sources. LED lights have a longer lifespan than OLED lights but the latter is ecological, sustainable, and recyclable. The edge of OLED over LED is that it is customizable which can be suited to the automakers requirements.

Exhibit 02: Lighting Market Categorization



Source: Market-Reports/automotive-lighting-market, Progressive Research

Exhibit 03: Automotive Lighting: Transformation to LED

Halogen Lamps	Xenon Lights	LED Lights	Laser Lights
<ul style="list-style-type: none"> •Cost effective, simple & easy to fit or replace •Working life of ~500-1000 hours •Different dimensions •Gradual heating up and higher energy consumption makes their lives shorter 	<ul style="list-style-type: none"> •Brighter light than its halogen counterpart •Longer range, hence better visibility •Visually appealing and are available in a variety of colours •Costlier than their halogen counterparts 	<ul style="list-style-type: none"> •More durable than their other counterparts •Expensive but durable nature guarantees savings •Very low energy consumption •Small size allows greater manipulation for various shapes 	<ul style="list-style-type: none"> •Usually it is 1000 times brighter than LED lights •Very energy efficient •They are more expensive than the counterparts •Not as precise as LEDs which are still used to supply lower beam light

Source: Market Reports, Progressive Research

Auto Segment Grows: The automotive lighting business growth is directly proportional to the growth across the automotive industry. So if the Auto sector has all its triggers intact; the lighting business companies are bound to deliver growth.

Auto Sector: We have witnessed the underperformance of the sector for almost 5 years with severe impact on volumes and margins for all the known reasons of semiconductor shortages, escalating input costs, inflationary pressures, emission norms, insurance costs, transition from BS4 to BS6, shifts to EV; and before one was sorted the next hurdle was ready for the sector. However, despite a challenging global environment in FY23, the Indian auto companies made the most of the first disruption-free year after the pandemic with domestic sales increase of 21% y-o-y in the 11 months of FY23 when compared to the same period in FY22. Further, the Indian auto industry is expected to register a sales volume growth of 7-9% in FY24, building on the robust momentum of FY23, (according to a report by CareEdge). Passenger Vehicle (PV) and Commercial Vehicle (CV) segments are both expected to drive growth in the next financial year, with the latter especially benefiting from the government's thrust on capital expenditure.

Exhibit 04: Annual Domestic Automobile Sales

Category	2018	2019	2020	2021	2022	2023
PVs	32,88,581	33,77,389	27,73,519	27,11,457	30,69,523	38,90,114
CVs	8,56,916	10,07,311	7,17,593	5,68,559	7,16,566	9,62,468
3Ws	6,35,698	7,01,005	6,37,065	2,19,446	2,61,385	4,88,768
2Ws	2,02,00,117	2,11,79,847	1,74,16,432	1,51,20,783	1,35,70,008	1,58,62,087
Quadricycle	0	627	942	(12)	124	725

Source: SIAM, Progressive Research

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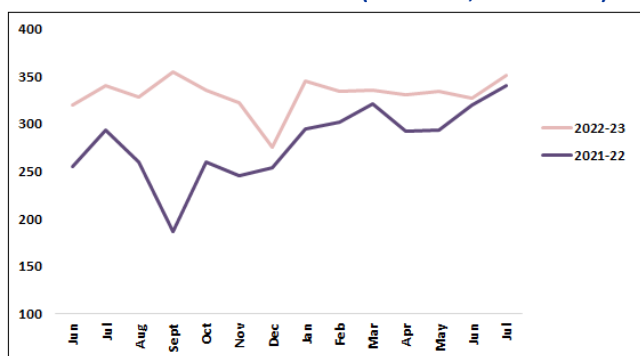
Outlook Of Different Segments:

- **PV:** Growth is expected to normalize for the segment after a CAGR growth of ~21% over FY21-23
- **CV:** Reasonable but sustainable growth is chalked for the segment, betting on the margin expansions. The scrappage policy would be a game changer going forward
- **2W:** There is gradual recovery seen in the demand due to the low base. The competitive landscape and increasing shift towards electrification remain the risk for the segment
- **Tractors:** There are structural changes in agriculture and high reservoir levels which lowers the risk of volume declines; but weak monsoons can be a risk to FY24 volumes
- As per ICRA, over the long term, opportunities in EV market, premiumisation of vehicles, focus on localisation, improved export potential and changes in regulatory norms will result in healthy growth for auto component suppliers

Passenger Vehicles Segment: Growth Ahead

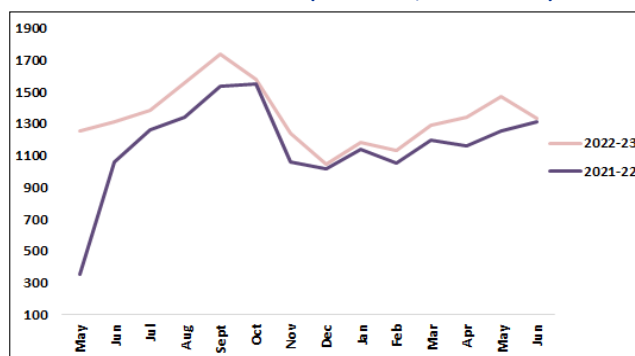
FY23 marked the highest ever volumes at 3.9 million units for the domestic PV industry. Volumes posted a 27% y-o-y growth led by strong demand and easing chip shortages. PVs growth is expected to normalize to 6.5% CAGR, after witnessing 21% CAGR over FY21-23.

Exhibit 05: Indian Car Sales Trend (OEM wise; Nos in 000's)



Source: Market Reports, Progressive Research

Exhibit 06: Indian 2W Trend (OEM wise; Nos in 000's)



Source: Market Reports, Progressive Research

About the Company:

The overall Lumax Group comprises of Lumax Industries Ltd, Lumax Auto Technologies Ltd., and other entities, where Lumax Industries contributes 50%, Lumax Auto Industries contributes 43% and others contribute about 7% to the overall Lumax Group revenues. Through other entities, the Group is present in other automotive segments such as gear shifters, moulded parts and sensors.

Lumax Industries Limited (Lumax) founded in 1945 provides premium quality automotive lighting solutions for 4Ws, 2Ws and CVs to both the automobile companies from India as well as overseas markets. It is a leading player in automotive lighting and gear shifters. In 1955, the company had set up an automotive lighting equipment manufacturing unit that later diversified into manufacturing automotive filters and rear-view mirrors. The company went public in 1984 and entered into a technical collaboration with Stanley Electric Co. Ltd., Japan (SECL), that same year. In 2003, Lumax Industries Ltd de-merged from its mirror and filter division, thereby focusing on its core competency of producing stellar automotive lighting products. Lumax has key partnerships worth mentioning through which it has grown its reach and offerings, like the one with Stanley from Japan since 1984 for lighting, Heating Ventilation Air Conditioning panel (HVAC) and other electronics and another with SL Corporation for lighting and other automotive parts. The entire Lumax Group spreads across 37 plants in totality across 6 different States. Precisely about Lumax Industries, it has ten ultra-modern manufacturing plants in India. Of these, three are located in cities of Gurgaon, Dharuhera and Bawal in the State of Haryana, near New Delhi and two plants in Pune, near Mumbai in Maharashtra, two plants in Uttarakhand-Pantnagar, Haridwar, one in Sanand in the State of Gujarat, one in Karnataka in Bangalore and one is located in Bidadi in the state of Karnataka. The company has its R&D centres in Gurugram and Pune while the design centres are in Taiwan and Czech Republic and an electronics facility at Manesar. The company is one of the leading suppliers of automotive lightings to Maruti Suzuki India Limited (MSIL) and also enjoys a strong share of business with OEMs such as Honda Motors (HMSI) and Hero MotoCorp (HMCL). The company has been gradually increasing the share of LED lightings to the revenue pie over the last five years. The company is propelled by SECL Group and Indian Promoters (D. K. Jain who is the Chairman Emeritus, while Deepak Jain is the Chairman and Managing Director and Anmol Jain is the Jr. Managing Director).

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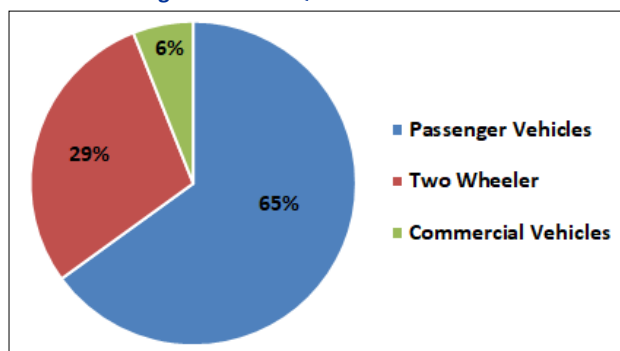
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Investment Rationale:

(A) Business Structure:

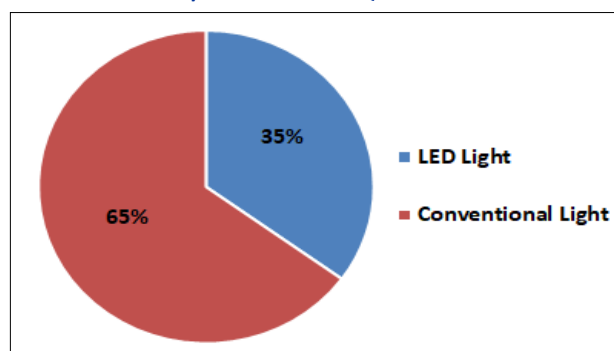
(a) Segmental Bifurcation: With regard to exposure to PV/CV or 2Ws, the commanding segment for Lumax is the PV which attributes almost 65% of the total revenues. 2Ws is the second important revenue contributing segment, with 29% of the total share. The CV segment contributes 7% to the revenues. For the EV space, 2W and 3W are the leading segments and although the hold of the company in them is not that substantial currently; with EV taking on the forefront; key customers like TVS, Honda will add to Lumax's share going forward. There are conscious efforts taken by the company to move from conventional lighting to LED for all the benefits listed earlier. Gradually, the share of LED is increasing for the company which would lead to higher revenues and better margins as well. OEM wise MSIL is its largest client contributing 26% of revenues followed by M&M (14%), HMTI (12%), HML (8%) and Tata Motors (8%) as per Q1FY24 bifurcation.

Exhibit 07: Segmental Mix-Q1FY24



Source: Company, Progressive Research

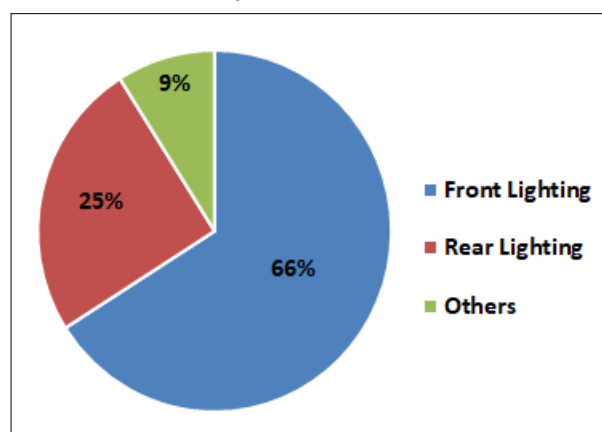
Exhibit 08: LED v/s Conventional-Q1FY24



Source: Company, Progressive Research

(b) Product Range and Clientele Base: Lumax offers a wide array of complete automobile lighting systems and solutions, which include, stellar quality head lamps and tail lamps, sundry and auxiliary lamps and other related products and accessories for 4Ws, 2Ws, trucks, buses, earth-movers, tractors and a variety of diverse applications. The range is across end-to-end automotive lighting solutions, HVAC panels and other electronic components, integrated plastic modules, 2W chassis, 2/3W lighting, gear shifters, emission systems, transmission products, seat frames, aftermarket, telematics products and services, oxygen sensors, on-board antennas, manufacture and supply of electric devices and components including software related to automotive industry. Backed by innovation and R&D, Lumax launches new products, focusing on the industry trends; and thereby expanding the company's addressable market size. It is the leading supplier of lighting solutions for the PV segment and the third largest in the 2W segment (after FIEM Industries and Minda Industries). While the group's primary business remains in the area of exterior vehicle lighting solutions with clientele including Maruti Suzuki, Honda Cars India, Tata Motors, TVS and Honda Motorcycle & Scooter India among others, Lumax has also forayed into the manufacturing of parts that include gear shifters, telematics, and antennae through its arm Lumax Auto Technologies.

Exhibit 09: Product Split-Q1FY24



Source: Company, Progressive Research

Exhibit 10: Client Categorization

4Ws	2Ws	CVs	Tractor/FES	Exports
Maruti Suzuki	Hero	Piaggio	Mahindra	Trucklite
Toyota	Bajaj	Tata Motors	TAFE	TVS Autoserv
Hyundai	Honda	Mahindra	John Deere	Nissan
Honda	Yamaha	VE-CV	Sonalika Int.	Volkswagen
Renault Nissan	Royal Enfield	Force Motors	Escorts	Case New Holland
Skoda	Mahindra	Ashok Leyland	CNH Industrial	John Deere
Tata	Piaggio	Daimler		Maruti Suzuki
Volkswagen	Maruti Suzuki	SML Isuzu		Audi
Kia	TVS Motors	Volvo		M&T PTMAT
	Lear Corp.			
	Continental AG			
	Adient			
	TM Automotive			

Source: Company PPT, Progressive Research

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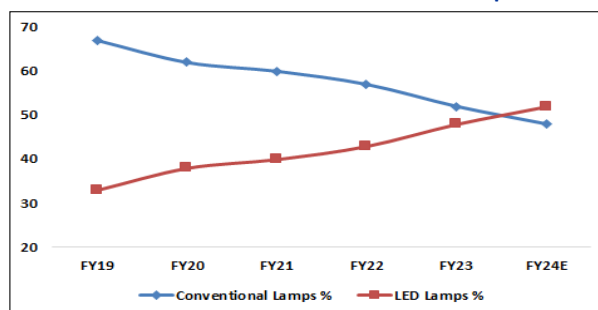
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Investment Rationale (contd.)

(B) Shift Towards LED: As indicated earlier, LED lamps are easy to install, with low maintenance requirements and have higher visibility. Installation of LED requires minimum tools and simple instructions. These lights emit less heat and come in a solid state and lasts long with the same capability as halogen or xenon lights. They provide brighter and purer quality lighting and are energy efficient. The high lumen output of the LED lights provides a much longer range of visibility and thereby improves the safety level for a driver too. There has been increasing penetration of the LED segment with significant uptick in the usage across automotive lighting. Better visibility, superior design, and higher energy efficiency have been key drivers for it. Lumax has gauged the structural demand shift in the industry, and so has started focusing on expanding its LED offerings since last few years. There are lot of changes expected in new models to comply to different norms, more towards energy efficient technologies and hence LED will be the likely replacement for conventional halogen or xenon lighting systems. LED lightings which previously were used only in premium and luxury cars, now are found in compact and midsize cars as well in the domestic market. The LED segment contributes around 65% of the total revenue mix of the company and is expected to increase going forward.

Exhibit 11: Shift From Conventional to LED Lamps



Source: Market Reports, Progressive Research

(C) Strong Partnerships: Lumax accounts for over 60% of the market share in the Indian automobile lighting business, catalysed by its strong technical and financial collaborations. It has two partnered joint ventures with **Stanley Electric Co. Japan**; a world leader in vehicle lighting and illumination products and **SL Corporation Korea** for developing other automotive components, channelizing to produce the best-in-class products for its consumers and providing an advantage over the global competitors.

(i) Collaboration with Stanley Electric Company Ltd: Lumax has a four decade old (since 1984) partnership with Stanley, Japan, the only global auto lighting company to manufacture LED worldwide, having presence in Japan, America, China, Asia Pacific and Europe. As a world leader in vehicle lighting and illumination products and being the one to develop the first LED high-mount stop lamp for the automotive sector; Stanley manufactures automotive lamps, LEDs (ultraviolet, visible, infrared), and other electronics, with manufacturing at its core. It holds around 37.5% in Lumax Industries Ltd. The JV is for lighting, HVAC panels and other electronics. Stanley's technical assistance helps the company not only maintain superior quality of products (which in turn helps retain customers) but also leads to innovation in the automotive lighting industry. Lumax has leveraged the technical capabilities of Stanley for manufacturing the Printed Circuit Board (PCB), the core component of LED automotive lighting system. Further, the company has extended its JV to widen its product line in HVAC panels and would make investments to ensure that they are able to localize the product line. Lumax is manufacturing PCBs at its electronics plant at Bawal. The addition of PCB vertical and localization of HVAC panels gradually is aiding the company's operating margins by reducing the inherent costs. This strong partnership will help Lumax meet the future need for electronic components and electronic software in automobiles alongwith enhancement of the PCB segment. Lumax is working on producing cutting-edge electronic components and software that are also EV-agnostic which will help in the future when EVs would witness high demand in India.

(ii) JV with SL Corporation-Korea: Lumax also has a JV for lighting and other automotive parts with SL Corporation since 1997. It has around 78.72% holding in SL Lumax Ltd. **SL Lumax Limited:** It is an associate company with 21.28% holding. It is in partnership with SL Corporation, Korea, a multinational automotive. It has a plant in Sriperumbudur near Chennai. The product portfolio includes range of lamps (Head Lamp, Rear Combination Lamp, Fog Lamp), Chassis, Trim & Mirrors Shift Lever, Parking Brakes etc. The company manufactures auto components (lamps, chassis parts and gear shift, mirror parts) for Hyundai Motor India Limited (HMIL); who is the key customer. Further, the strong partnership with SL Corporation, Korea, specifically for Korean OEMs in India, has given Lumax a strong competitive advantage. The company is also expanding its product line to include HVAC panels and electronic cables in collaboration with SECL, which would aid in diversification of product portfolio over the medium term. The collaboration with Stanley Electric, Japan, is also progressing well.

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Investment Rationale (contd.):

(D) Technologically Evolving:

(i) **The Rear Lamp Technology Evolution:** In the initial years, the company succeeded in penetration of LED's into tail lamps with introduction of added features. Almost all the new models launched were having presence of LED for either of the functions or for signature lighting. This further graduated to moving from just LED tail to full LED rear lamp applications allowing compact functionality and a product that meets 'life of vehicle' durability. It provided appearance with signature effects that are not possible using conventional bulb technology. It has also worked on animated functionality including gliding/progressive turn indicator for improved safety, and welcome/goodbye sequences that provided a unique customer experience when locking and unlocking vehicles. Now the focus is on diffractive optics that provide an innovative 3D effect, or ultra-homogeneous appearance with high efficiency by utilizing precision micro-optics. The most recent is the OLED (Organic LED) with ultra thin and homogenously lit optical elements that is pixelized, allowing personalization, animation and communication.

(ii) **Head Lamp Technology Evolution:** The company had started off with the introduction of projector lamps with halogen bulbs for new vehicles launched in India as a standard feature. In 2015, head lamps were introduced with LED's for DRL (Daytime Running Light) feature with usage of HID (High Intensity Discharge) bulbs for projector; and the OEMs shifted focus to LED. Headlamps with signature DRL's or lighting became a styling feature and were introduced in 2016. There was also the introduction of LED projector head lamps coupled with transition to manufacturing of localized LED head lamps with signature DRL. LED offers a scalable performance with high colour temperature, and significantly lower power consumption compared to halogen. LED will continue to replace halogen, with some vehicle lines completely removing the halogen option. Advanced functionality will become increasingly present, including AFS (Adaptive Front Lighting) functionality that allows the beam to swivel based on steering wheel angle and other sensors on the vehicle. Going forward, ADB (Adaptive Driving Beam) or matrix headlamps are expected to appear in the Indian market. This technology makes use of on-board cameras to detect oncoming or following traffic to adapt the beam allowing the driver to use high beams without glaring other drivers.

(iii) **The EV Scope:** India is expecting to have ~30% penetration of Electric Vehicles by 2030 for PV, 70% for CV and 80% for 2/3Ws (as per the company's latest AR). The government is trying to improve the infrastructure for EV manufacturing within the country with its initiative 'Faster Adoption and Manufacturing of Hybrid and Electric (FAME) Vehicle Scheme.' It has also planned for 22,000 EV charging stations to be set up by OMCs across the country. The growth of the EV industry {23% growth clocked by the Indian EV market (third largest globally) in 2022} was led by the sustainable policy structure, which has provided incentives, consistent guidelines. Under FAME II the govt. has allocated USD1.4bn for electric vehicle adoption and infrastructure development over the next three years. India's EV ambitions are gaining strong momentum with robust growth in demand and on-ground traction. The government's efforts towards increasing

Exhibit 12: EV Sales in India

Types	FY22	FY23
2Ws	252,539	720,733
3Ws	188,447	399,540
PVs	17,760	39,562
Total	458,746	1,159,835

Source: autocarpro.in/, Progressive Research

EV adoption by setting up an EV financing ecosystem and charging infrastructure is aiding India's EV market prospects. All these factors are contributing to make the EV market mature faster in India, which in a way is supporting overall India's auto component market. In terms of technology, EV is a quick-mover, and the company has indicated of a shift from conventional to LEDs and increasing its penetration through the range of existing customers that are also gradually foraying into the EV space. Lumax has set up a state of art electronics plant in Bawal, Haryana, where the company will manufacture cutting-edge electronic components and technology software focusing on developing EV components through the same plant. On the positive note, **Lumax manufactures lighting components that are EV-agnostic** and is fairly insulated from any electric vehicle disruption as it has no exposure to engine and related parts in its product portfolio.

(E) **Aspiring Intend of Localization:** The company has been undertaking gradual brownfield as well as greenfield expansion plans with the prime intend of localization of lighting and auto electronics product portfolio. The new electronics PCB assembly facility in Bawal or the greenfield plant built during the pandemic, currently caters to the company's growing product line. The new plant enables the company to localise products right from inception itself. Where earlier, it used to start product supplies with imported content, and then localise gradually; now, it is localising all the new product lines right from the SOP levels. The company has further indicated that it will also tap the expertise of its design centre in Europe to cater to the growing penchant of Indian customers towards vehicles bearing European design. It will aim to incubate and upscale new technologies including Japanese and European for its Indian customers. There are plans to aggravate the localizing of products which are currently being fully imported. Therefore, the company is adopting a two-pronged strategy to enhance localisation, which has already improved to 30-35% with the commissioning of the Bawal unit. **The Management has set an ambitious target to reach ~50% localisation of the products within the next 2-3 years.**

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Financials:

Q1FY24 Performance: Q1 is generally a seasonally weak quarter for the company, yet the results have been decent for the quarter. The revenues grew by 21% y-o-y with PAT growth of 17%, highlighting the commanding position of the company in the automotive lighting segment. There have been various new launches during the quarter.

Order Book: As per Q1FY24, the **order book** stands at Rs22,000mn with 60-65% from PVs, 35% from 2W and the remaining from agro space. Further, almost 25% of the order book is EV models. Also, 65-70% is new business orders while 30-35% is replacement business. The share of LED is ~85% in the total order book. 40-50% of the order book would come in FY24, 80% in FY25E and balance in FY26E. This is expected to give asset turnover of 2.5-2.6x. The company expects 10-15% of this order book contribution to come in FY24 while the remaining in FY25.

Capex Plan: The company has incurred around Rs1,360mn of **capital expenditure** in FY23 and is expected to spend around Rs3,000mn for FY24 (Q1FY24 was Rs100mn) as well. Generally, the company has a maintenance capex in the range of Rs700-800mn. Lumax has chalked a **new greenfield project in Chakan, Pune** with a capital outlay of Rs1,750mn for phase 1 with approximate capacity of 5 lakhs units to cater to the new orders for advanced lighting solutions from OEMs; this project is likely to be commissioned in Q2FY24. The incremental revenues are expected to be in the range of Rs1,900-2,000mn in FY24, Rs5,000mn by FY25E; ~Rs6,000mn in FY26E (FY25 should be breakeven for the plant). The phase 2 is expected to start in FY26E. Mahindra and Tata Motors are the key customers to be catered from this expansion.

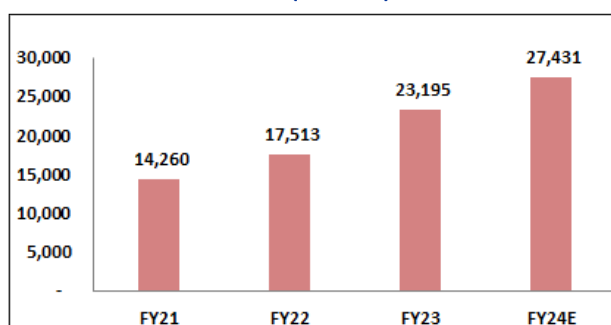
PLI Scheme: The Group's new PCB assembly facility which currently manufactures 25,000 PCBs over three shifts every day, will play a key role in the successful implementation of the group's envisaged plans for claiming benefits under the government's PLI scheme. The PLI was awarded to a total of 75 companies, including Lumax Auto Technologies, to make fresh investments in the indigenous supply of advanced automotive technology components in the country. The company is now at the planning stage of converting the scheme into reality by virtue of new as well as certain existing product lines, which would also qualify for the PLI scheme.

Exhibit 13: Launches During Q1FY24

Category	Customer Name	Model	Product
PVs	MSIL	Jimny	Rear lamp, High mount stop lamp & Side turn signal lamp
2Ws	HMSI	Shine 100cc	Tail lamp & Winker
	Hero	Super Splendor	Head lamp
CVs	John Deere	Augusta	Head lamp
	M&M	M Star	Roof lamp

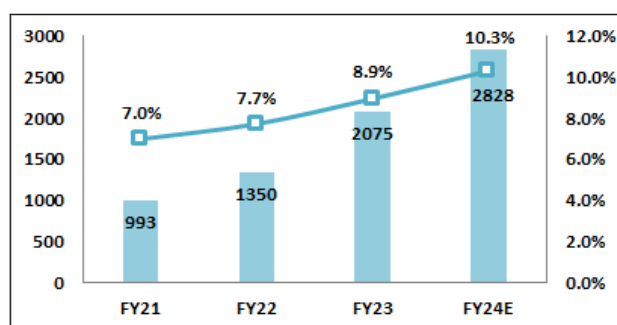
Source: Company, Progressive Research

Exhibit 14: Revenue Trend (Rs in mn)



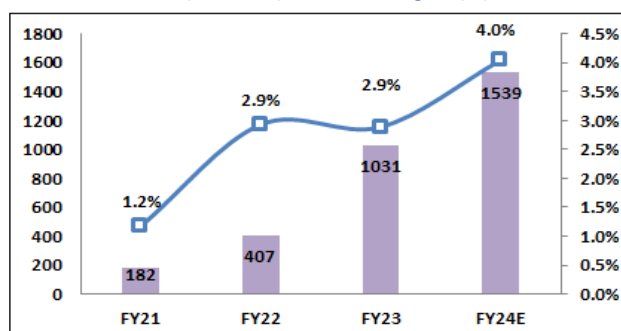
Source: Annual Reports, Progressive Research

Exhibit 15: Ebitda (Rs in mn) v/s Ebitda Margins



Source: Annual Reports, Progressive Research

Exhibit 16: PAT (Rs in mn) v/s PAT Margins (%)



Source: Annual Reports, Progressive Research

23 Aug, 2023

PICK OF THE MONTH

VOL-9, NO-03

Industry: Auto Components & Equip.

Lumax Industries Limited

BUY

CMP: Rs.2147

TARGET PRICE: Rs.2500

TIME : 12 months

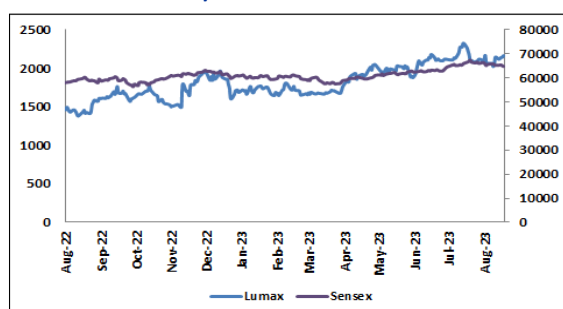
Risks and Concerns:

- **Macro-economic Uncertainties:** could affect the performance of the auto sector and in turn the auto ancillaries like auto lighting business
- **Raw Material Cost Fluctuations:** affects the ability of the company to sustain margins
- **Technological Risk:** and rapid advancements can make the existing offerings obsolete and hence the company needs to constantly upgrade
- **Increasing Competition:** entry of new players or addition of new product offerings in the existing players pose a risk to the company
- **Customer Concentration:** as the company is dependent on 3/4 customers for major share of its revenues, any delay in orders from these dedicated customers can adversely effect the overall growth of Lumax

Outlook and Recommendations:

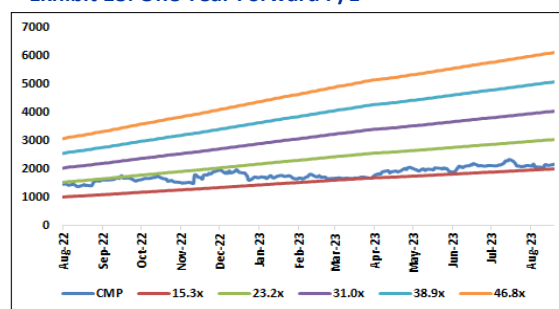
The auto industry has shown signs of recovery, improvement and gradual growth. The sector's outlook has experienced a strong boost as demand has resurged in the 2W (although sustained recovery in demand and sentiments is yet to be seen) and CV segments (performance is linked to the economic growth), accompanied by evolving consumer preferences progressively shifting to utility focused vehicles in the PV segment. FY23 ended with a decent performance across various segments driven by volume growth, increased mobility and reduced margin pressures led by favourable commodity prices. So holistically, the sector seems to be decently placed to benefit from the improving growth scenario. As mentioned earlier, growth of the ancillaries depends on the growth of the auto sector. Building a perspective on the same, the lighting industry is our line of interest and we see benefit for Lumax too. Healthy demand of the PV segment, recovery in 2W sales, upcycle in the CV segment would be capitalized by Lumax coupled with the strong longstanding relationship with majority of the auto OEMs. The company is dedicatedly focusing on new clients as well as model additions to garner new business, seen through the strong order book with front loaded capex. Furthermore, localization of requisites of the product portfolio (through the electronic facility) would be levers for margin expansion. Government support and growth in the EV market with opportunities from growing emphasis towards road safety and increasing demand for advanced technologies in vehicles add to further growth drivers. The various cost rationalization measures such as localization of certain parts, in-house manufacturing of PCBs, improvement in capacity utilization and increasing share of LED should help in gradual uptick and margin expansion. The company has guided for 20-25% growth in revenues in FY24 which will be a combination of volume and value growth. Backward integration for electronics would lead to gross margin expansion going forward. The long-term outlook remains promising in the wake of varied growth levers such as the company's market leadership position, long-lasting OEM relationships, a rising share of the high-margin LED segment, diversified clientele, strong technological capabilities through the collaboration with international player, and constant innovation of new products. We initiate Buy on the stock for a target of Rs2500 over a 12 months horizon.

Exhibit 17: Price v/s Sensex



Source: Ace Equity, Progressive Research

Exhibit 18: One Year Forward P/E



Source: Ace Equity, Progressive Research

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Registered Office Address:

Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai—400053, Maharashtra
www.progressiveshares.com | Contact No.:022-40777500.

Compliance Officer:

Ms. Neha Oza,
Email: compliance@progressiveshares.com,
Contact No.:022-40777500.

Grievance Officer:

Email: grievancecell@progressiveshares.com