

Buy
18 November 2009

Face Value	Rs 10
Last Price	Rs 60
Target Price	Rs 80
Potential Gain	33%
Industry P/E	24.5

Industry: Auto Components

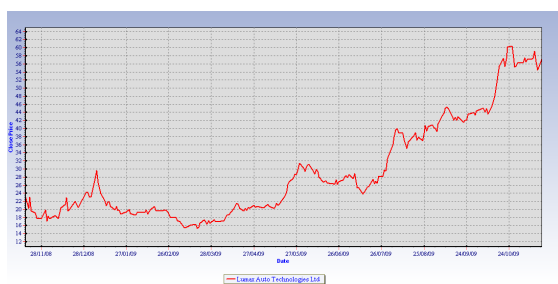
Market Cap (Rs Crs)	70
Year High/Low (Rs)	63/15

Holding Pattern (%)

Promoters	59.6
Foreign	7.5
Institutions/Mutual Funds	0
Corporate	5.2
Public	27.7

(As on 30 Sept 2009)

Performance (%)	3M	6M	12M
Stock (LATL)	58	160	160
BSE 200	17	27	92
BSE 500	17	29	92

Price Chart: (One-Year)

<http://www.lumaxautotech.com>

Vijay Dave

vijaydave@sunidhi.com

Phone: +91- 22- 6636 9669

Company Description:

Lumax Auto Technologies is part of the DK Jain group of companies whose flagship company was Lumax Industries. Lumax is the leader in automotive lighting systems and has a technical and financial collaboration with Stanley Electric Co (Stanley) of Japan.

LATL's eight manufacturing units are located at Bhosai, Chinchwad, Chakan, Pantnagar in Uttaranchal and Waluj in Maharashtra. LATL tapped the capital market in December 2006 with an issue of 30.12 lakh shares at Rs 75 aggregating Rs 22.6 crore to part finance the projects cost of Rs 50.2 crore.

Highlights:

In the lighting space, LATL manufactures headlamps, tail-lamps, blinkers, fog lamps, engine lamps. In sheet metal & fabrication – chassis assembly, silencers, petrol tank, fork assemblies, handle bar assemblies, stand assembly and frame sub assemblies, gear shift levers and parking brakes for two-three and four wheelers.

The IPO proceeds were utilised for setting up of a chassis assembly at Bhosari, besides expansion and modernization of manufacturing facilities at Chakan and Waluj, and modernization of developing centre at Chinchwad.

LATL also made investment in Lumax DK Auto Industries Limited (LDK), its subsidiary, set up automotive lighting unit at Pantnagar, Uttaranchal and leveling motor unit and enhancement of infrastructure facilities at Manesar near Gurgaon, Haryana.

LATL's Uttaranchal plant was commissioned in FY08 with capital investment of around Rs 23 crore and started supplying its products to Baja Auto. The plant has a production capacity, which can cater to automotive parts for one million two wheelers.

The company's main customers include Ashok Leyland, Force Motors, Eicher Group, Swaraj Mazda, Daimler, Nissan, Hyundai, Tata Motors, Volvo, Maruti Suzuki, Bajaj Auto, Maharashtra Scooters, Hero Honda, TAFE and Lumax Industries.

Key Financial: (Consolidated)
(Rs Crore)

Year End March	H1FY10	FY09	FY10E	FY11E
Sales	182.8	296.3	360.0	420
PBIDT	15.4	23.1	31.0	35.7
Interest	0.9	2.4	2.2	2.2
PBDT	14.5	20.7	28.8	33.5
Depreciation	2.7	4.3	5.5	5.5
Tax	2.4	5.0	6.6	8.5
PAT	9.4	11.4	16.7	19.5
Equity		11.6	11.6	11.6
Reserves		52.3	68.2	87.9
Book Value (Rs)		55.0	68.8	85.8
EPS (Rs)	8.2	9.8	14.4	16.8
OPM (%)	8.4	7.8	8.6	8.5
NPM (%)	5.1	3.8	4.6	4.7
P/E		6.1	4.2	3.6

**Q2FY10 results**

During Q2FY10, on consolidated basis, sales were higher by 27% to Rs 101 crore and net profit advanced by 29 per cent to Rs 4.9 crore. OP & NP margin stood at 7.8 per cent and 4.7 per cent against 8.9 per cent and 4.8 per cent respectively in Q2FY09.

During H1FY10, sales advanced by 16 per cent to Rs 296 crore and net profit 40 per cent to Rs 9.4 crore. During H1FY10, OP & NP margins stood at 8.4 per cent and 5.1 per cent Vs 9.3 per cent and 4.2 per cent respectively in H1FY09. H1FY10 EPS works out higher at Rs 8.2 as against Rs 5.8 in H1FY09.

Despite automotive sector badly affected by global recession and shrinking investment credit affecting the consumer demand, LATL posted good results.

Joint Venture with Cornaglia

LATL has formed an equally owned joint venture with Turin-based Cornaglia group for manufacture of emission systems (air intake systems). Cornaglia group is a key supplier to Fiat. The JV already has orders from Tata Motors, Fiat and Bajaj Auto.

The JV has acquired orders from Volkswagen and Skoda India. The JV has planned to set up new facility to produce air intake systems elements locally that are being imported at present from Cornaglia, Italy.

Subsidiary-Lumax DK Automotive

Lumax DK Automotive Systems, the 100 % subsidiary was incorporated as Lumax GHSP Industries Limited on May 07, 1997 as a joint venture between GHSP of USA and Lumax Industries to manufacture and supply gear shifter assembly to automobile manufacturers in India.

LDK is engaged in the business of manufacturing and supplying of gear shifter assembly for various four wheeler products of Maruti Udyog at its manufacturing facility located at Manesar near Gurgaon. It is also engaged in manufacturing and supplying of corrugated boxes to Lumax Industries at a separate manufacturing facility located at Daultabad, Gurgaon.

Increased domestic demand of automobiles

The domestic automobile industry has increased at a CAGR of 10.6 % for 2003-2008. The vast domestic market is attracting increasing number of foreign automobile manufacturers such as Ford, General Motors, Honda and Toyota as they look for alternative markets to counter act the sluggish US market and overcapacity in other global markets. Global manufacturers such as Suzuki and Hyundai have adopted India as their global production base for small cars.

Prospects

The present size of the auto components industry in India was \$18.7 billion in 2009, which is <1% of the global auto components industry. The Indian auto component industry has been growing at a CAGR 16% p.a. for past seven years. It is expected to have 3% share of the global market by 2015-16.

Exports of auto components grew at the rate of 30 per cent during the last five years and touched US\$ 3.3 billion in 2008-09. As per estimates provided by Automobile Components Manufacturers Association of India (ACMA), auto component exports are expected to reach US\$ 20-22 billion by 2015-16.

Growth Drivers

The entry of foreign vehicle manufacturers in India, growing cost pressures in the global automotive market, huge exports potential, growing middle class from 50 million to 550 million by 2025, low domestic penetration of 7-8 cars per 1000 persons and infrastructure development (\$500 billion in the next 5-6 years) are key growth drivers for the auto component industry in India.

Valuation & Recommendations

The expansion plans laid down by Mauti Suzuki, Hyundai, Tata Motors, GM India and presences of MNCs like Nissan, Toyota, Nissan-Renault, Volkswagen, Honda Motors and Ford Motor will only increase the demand of quality components in India. Further easy finance schemes for vehicle purchase, shift from two wheelers to four wheelers and growing concept of second vehicle in urban areas augur well for the automobile and auto component industries.



We view LATL's business profile positively given that its principal customer—Bajaj Auto—and Maruti Suzuki have consistently demonstrated its understanding of the domestic market with a series of successful launches across product categories in recent years. We expect the momentum to be sustained.

At the CMP of Rs 60, the share is trading at a P/E of 4.2x on FY10E and 3.6x on FY11E We recommend BUY with a target price of Rs 80 in the medium term.

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SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021
Tel: (+91-22) 6636 9669 Fax: (+91-22) 6631 8637 Web-site: <http://www.sunidhi.com>

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