

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

LUMAX AUTO TECHNOLOGIES

WHAT WE LIKE

2 LISTED ENTITIES, THIS ONE IS ON LUMAX

AUTO TECH
Lumax Industries Limited

Products & Services
End-to-end Automotive
Lighting Solutions

HVAC Panels and other electronic components in the electronic components

Partnerships

Stanley-Japan

St Corporation - Korea

Stanley-Japan

**Stanley-Japan*

SCALING THE AFTER-MARKET BUSINESS

- 1. One of the toughest businesses to scale:
- -Brand equity & intense competition
- ~Initial capital outlay for distribution
- ~Cashflow realization

2. Benefits:

- ~High Asset Turnover
- ~Better margins
- ~Less cyclical
- ~Unorganized to Organized shift

DIVERSIFIED CUSTOMER BASE



STRONG R&D & BRAND EQUITY

- Leading gear shifter manufacturer with 70% market share.
- Oxygen Sensor & Telematics Through JVs
- Deal win with Japanese Honda Global shows the quality of the product.
- Brand Equity + Regular Additions = Growth of Aftermarket Business

STRONG FINANCIALS & REASONABLE VALUATION

At 22 times earnings and close to 1 times sales, the valuation appears fair if not very attractive. Financials have shown strength.



WHAT WE DON'T LIKE

COMPLEX CORPORATE STRUCTURE



DEPENDENCY ON BAJAJ AUTO

Bajaj Auto controls roughly 40% of the revenue of LATL. This kind of dependency on a customer is highly risky. In a way, the fortunes of Lumax Auto Tech are in Bajaj Auto's hands. Thereby, Bajaj Auto will always have better bargaining power over LATL as Bajaj is not dependent on LATL, but LATL is dependent on Bajaj.

CONFLICT OF INTEREST BETWEEN GROUP COMPANIES

- · LATL'S SMT transferred to Lumax industries.
- This division contributed Rs. 170 Cr. to the topline with Lumax being the only client.
- The asset was transferred for a paltry Rs.22 Crs.
- What if Lumax Ind starts its own aftermarket division?
- Also, the agreement with Lumax industries restricts its growth in the lighting business.

CAPITAL ALLOCATION PROBLEMS M&A / JV - A Failure till now other than Lumax Mannoh.

- Gill Co. Had to buy back the entire stake
- SIPAL company ceding control
- Sold its bulb division to Lumax Ancillary Ltd due to poor performance.

CYCLICALITY OF THE AUTO SECTOR

- The auto sector is highly cyclical. We at SSS believe one should be cautious in taking a long-term bet on any player in the sector.
- Currently, the sector tailwinds might make things look very easy.
- "Only when the tide goes out, we get to know who is swimming naked."

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