

Lumax taps opportunities in car, emission control products

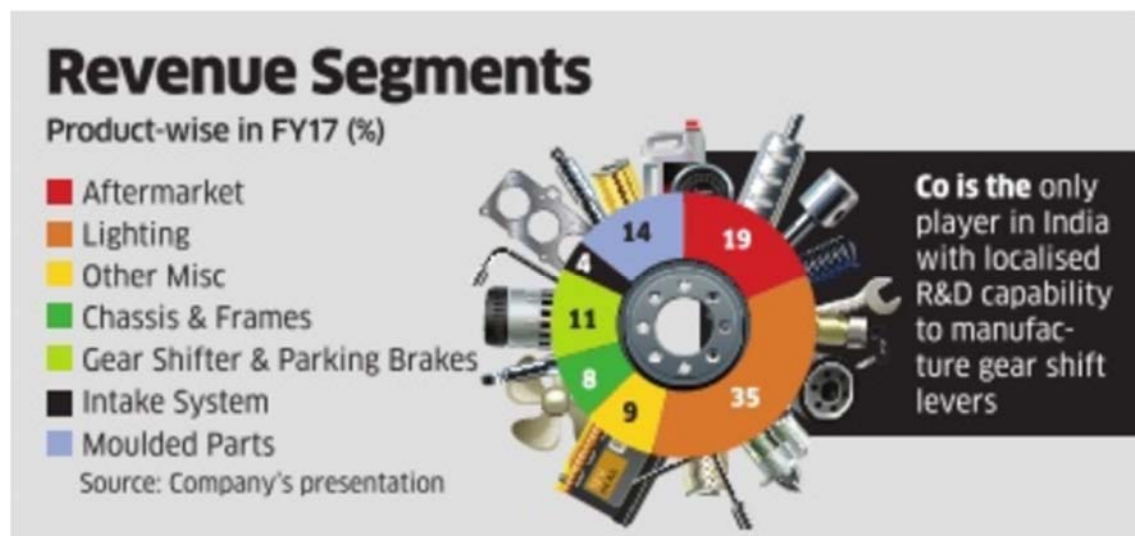
Recovery in after-market business, growing contribution from passenger car segment, and a line-up of products for emission control are likely to drive earnings growth for Lumax Auto Technologies, a supplier of lighting, chassis and gear shift levers for automakers.

The revenues of the company have dropped steeply from the after-market segment in the first quarter of the current fiscal, owing to the channel destocking due to the GST transition. The high-margin aftermarket segment fell to 14 per cent in the June 2017 quarter against 19 per cent in the last fiscal.

However, channel inventory is gradually normalising and has lately recorded sequential growth of nearly 30 per cent over the June quarter. On the long-term front, the company is expanding its reach of after-market from the current 10,000 retail touch points to 15,000 over the next three years.

From the current annual sales of Rs 200 crore, the company is now targeting its after-market sales business to more than-double over the next three years. Margins in the after-market business are 18-25 per cent higher than OEM sales.

On the automaker supply side, the company is looking for more opportunities from the passenger car makers. The passenger car segment share in total revenues increased to 40 per cent from an almost nil five years ago.



This helps the company to diversify its income which was earlier focused on the two wheelers segment (largely Bajaj Auto). The company has over 70 per cent market share in the gear shift levers for passenger cars and it is the only company in India with localised R&D capability to manufacture gear shift levers.

To boost realisation, the company has also started making automatic transmission (AT) levers and is supplying it for Maruti's Baleno and Ertiga models.

AT levers are still imported and therefore offers enormous opportunity for the company to grab new orders. Several automakers expect ATAMT share of new cars sold will increase to 20 per cent by 2020 from 8 per cent currently. The realisation of AT lever is 2-3.5 times higher than the manual lever.

In addition to gear shift lever, the company has a line-up of new products developed with a foreign joint venture to comply with new emission norms from 2020.

Lumax Cornaglia, the JV for emission system, will manufacture new product such as urea tank, plastic fuel filler pipe and plastic oil pump that will play a pivotal role in lower emission, durability, and weight reduction.

For the two-wheelers emission control, it signed a JV with a Spanish firm for manufacturing of oxygen sensors, which will be mandatory under BS-VI. The asset turnover from oxygen sensors could be 8-10 times and is a low capital but a high technology business.

The company has no major capital expenditure in the medium term. Lumax has invested Rs 255 crore in the past five years. The company is targeting over 20 per cent return on capital employed (RoCE) in FY18 against 17.6 per cent to 18.5 per cent in the past four years.

Ashutosh Shyam,

ET Bureau