

# Jamna Auto Industries

16 November 2018

Reuters: JMNA.NS; Bloomberg: JMNA IN

## Performance Below Expectations; Retain Buy Due To Strong Outlook

Jamna Auto's 2QFY19 earnings were 16% below our estimate largely because of lower sales as well as margins. The company reported EBITDA margin of 12.4% which was down ~70bps YoY and 140bps below our estimate. Net sales for the quarter at Rs5.5bn grew 42% YoY and were 4% below our estimate. Absolute EBITDA at Rs680mn grew 35% YoY and was 14% below our estimate. Jamna Auto increased its market share in 2QFY19 to 70% versus 69% in 1QFY19. Lower sales as well as margins, in our view, is because of a lower share of parabolic springs as these are high-value and high-margin products which have witnessed a rising trend in the past few quarters. PAT for the quarter at Rs355mn grew 21% YoY and was 16% below our estimate. We continue to like Jamna Auto as we believe that it is a good bet on commercial vehicle (CV) cycle for the next few years and expect it to outperform the industry growth rate because of market share gains and a better product mix. We have factored in 19%/21%/21% sales/EBITDA/PAT CAGR, respectively over FY18-FY21E. We have retained our Buy rating on Jamna Auto with a target price of Rs99, valuing the stock at 18x September 2020E EPS of Rs5.5. Jamna Auto's current valuation at 12x FY21E EPS, in our view, is quite attractive and has limited downside risk from the current level.

**Strong top-line growth, continues to gain market share:** Jamna Auto's 2QFY19 net sales grew by a robust 42% YoY driven by market share gains and strong growth in CV volume. The company has increased its market share to 70% in 2QFY19 from 69% in 1QFY19. Jamna Auto's 2QFY19 sales were 4% below our estimate which we believe is because of a lower share of high-value and high-margin parabolic springs. We believe that Jamna Auto will continue to grow faster than the CV industry as we expect parabolic and other products like lift axle and lift suspension to gain momentum in the coming years and believe the share of these products will improve going forward. We have factored in a 19% CAGR in Jamna Auto's (JAL's) sales over FY18-FY21E.

**De-risking revenue mix to reduce OEM dependence:** JAL has been focusing on the high-margin replacement and export markets to reduce its exposure to the cyclical CV business. It has a large after-market presence for leaf springs in India where margins are higher when compared to sales to OEMs. The after-market business, post Goods and Services Tax (GST) implementation, is projected to be a big demand driver for the company and we accordingly factor in a 29% CAGR in after-market revenues over FY18-FY21E, resulting in its revenue share rising to 19% in FY21E from ~15% currently.

**Valuation and outlook:** We have retained Buy rating on JAL with a target price of Rs99, up 38% from the current market price (20x September 2020E EPS).

## BUY

**Sector:** Automobile Ancillary

**CMP:** Rs72

**Target Price:** Rs99

**Upside:** 38%

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### Key Data

Current Shares O/S (mn)	398.5
Mkt Cap (Rsbn/US\$m)	28.5/397.2
52 Wk H / L (Rs)	103/58
Daily Vol. (3M NSE Avg.)	1,025,407

### Price Performance (%)

	1 M	6 M	1 Yr
Jamna Auto	(3.9)	(25.4)	18.0
Nifty Index	1.0	(0.5)	4.6

Source: Bloomberg

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)
Net revenues	3,850	5,622	5,484	42.4	(2.5)
Raw material costs	2,408	3,574	3,508	45.7	(1.8)
% of sales	62.5	63.6	64.0	14bps	41bps
Staff costs	307	402	398	29.5	(1.0)
% of sales	8.0	7.2	7.3	(7bps)	11bps
Gross profit	1,443	2,048	1,975	36.9	(3.5)
Gross margin (%)	37.5	36.4	36.0	(14bps)	(41)bps
Other expenses	424	893	897	111.4	0.4
Total expenditure	3,347	4,869	4,803	43.5	(1.4)
EBITDA	503	753	680	35.3	(9.6)
EBITDAM (%)	13.1	13.4	12.4	(66bps)	(98bps)
Depreciation	85	116	105	24.3	(9.3)
Interest costs	43	57	62	45.2	8.6
Other income	61	34	31	(49.0)	(6.6)
PBT	437	613	544	24.6	(11.2)
Tax	142	213	189	32.7	(11.2)
Effective tax rate (%)	33	35	35	214bps	2bps
Reported net profit	294	400	355	20.6	(11.2)
NPM (%)	7.6	7.1	6.5	(117bps)	(64bps)
EPS (Rs)	0.7	1.0	0.9	20.6	(11.2)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	12,924	17,381	22,144	27,163	29,528
YoY (%)	2.9	34.5	27.4	22.7	8.7
EBITDA	2,001	2,378	3,099	3,905	4,245
% of sales	15.5	13.7	14.0	14.4	14.4
PAT	1,050	1,253	1,667	2,123	2,244
YoY (%)	46.8	19.4	33.0	27.4	5.7
EPS (Rs)	2.6	3.1	4.2	5.3	5.6
RoE (%)	36.5	33.1	35.6	36.4	30.8
RoCE (%)	34.0	30.6	34.2	35.3	30.2
P/E (x)	28.1	23.6	17.7	13.9	13.2
EV/EBITDA (x)	15.0	12.6	9.6	7.7	7.0
P/BV (x)	8.9	7.0	5.8	4.5	3.7

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: No change in our estimates

(Rsmn)	New estimates			Old estimates			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	22,144	27,163	29,528	22,144	27,163	29,528	-	-	-
EBITDA	3,099	3,905	4,245	3,099	3,905	4,245	-	-	-
EBITDA margin (%)	14.0	14.4	14.4	14.0	14.4	14.4	-	-	-
PAT	1,667	2,123	2,244	1,667	2,123	2,244	-	-	-
EPS (Rs)	4.2	5.3	5.6	4.2	5.3	5.6	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Deviation of our estimates from actual performance in 2QFY19

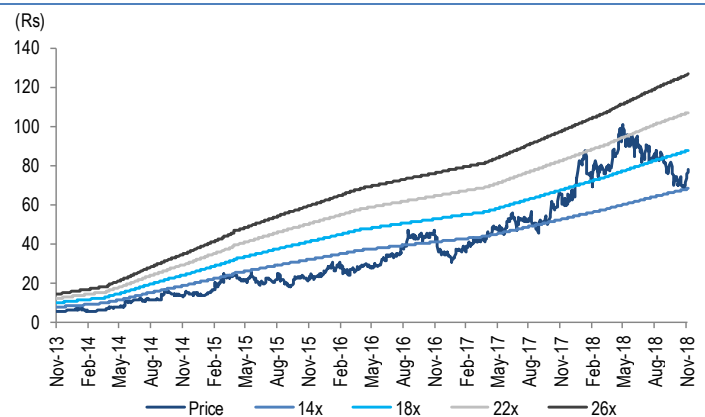
(Rsmn)	Actual performance 2QFY19	Our estimate 2QFY19	Deviation %
Net sales	5,484	5,699	(3.8)
EBITDA	680	787	(13.6)
Net profit	355	421	(15.6)

Source: Nirmal Bang Institutional Equities Research

## Exhibit 4: P/E bands



Source: Nirmal Bang Institutional Equities Research



Source: Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>12,924</b>	<b>17,381</b>	<b>22,144</b>	<b>27,163</b>	<b>29,528</b>
% growth	2.9	34.5	27.4	22.7	8.7
Raw material costs	7,712	10,911	13,876	16,972	18,449
Staff costs	1,076	1,275	1,602	1,938	2,107
Other expenses	2,135	2,817	3,567	4,348	4,727
Total expenditure	10,923	15,003	19,045	23,258	25,283
<b>EBITDA</b>	<b>2,001</b>	<b>2,378</b>	<b>3,099</b>	<b>3,905</b>	<b>4,245</b>
% growth	22.6	18.8	30.3	26.0	8.7
<b>EBITDA margin (%)</b>	<b>15.5</b>	<b>13.7</b>	<b>14.0</b>	<b>14.4</b>	<b>14.4</b>
Other income	51	79	52	57	62
Interest costs	122	182	190	196	199
Gross profit	5,212	6,470	8,268	10,191	11,079
% growth	12.5	24.1	27.8	23.3	8.7
Depreciation	477	414	474	597	759
Profit before tax	1,453	1,861	2,488	3,169	3,349
% growth	38.4	28.1	33.7	27.4	5.7
Tax	403	608	821	1,046	1,105
Effective tax rate (%)	27.8	32.7	33.0	33.0	33.0
<b>Net profit</b>	<b>1,050</b>	<b>1,253</b>	<b>1,667</b>	<b>2,123</b>	<b>2,244</b>
% growth	46.8	19.4	33.0	27.4	5.7
<b>EPS (Rs)</b>	<b>2.6</b>	<b>3.1</b>	<b>4.2</b>	<b>5.3</b>	<b>5.6</b>
% growth	46.8	19.4	33.0	27.4	5.7
DPS (Rs)	0.8	0.9	1.1	1.5	1.5
Payout (%)	32.2	27.0	27.0	27.2	27.3

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Equity</b>	<b>398</b>	<b>398</b>	<b>398</b>	<b>398</b>	<b>398</b>
Reserves	2,929	3,840	4,714	6,142	7,647
Net worth	3,327	4,239	5,113	6,540	8,045
Net deferred tax liab.	(52)	(74)	(74)	(74)	(74)
LT liabilities/provisions	234	264	264	264	264
Total loans	622	472	462	442	433
<b>Liabilities</b>	<b>4,130</b>	<b>4,901</b>	<b>5,764</b>	<b>7,172</b>	<b>8,668</b>
Gross block	3,209	3,735	4,935	6,635	8,435
Depreciation	396	720	1,194	1,791	2,550
Net block	2,813	3,014	3,740	4,843	5,884
Capital work-in-progress	199	309	309	309	309
LT investments	5	5	-	-	-
Other long-term assets	586	334	349	349	349
Inventories	1,128	1,585	1,849	2,268	2,466
Debtors	342	1,912	1,497	1,836	1,996
Cash	145	123	108	112	475
Cash equivalents	92	72	56	61	424
Other bank balance	54	51	51	51	51
ST investments	-	-	-	-	-
Other current assets	340	539	579	579	579
Total current assets	1,954	4,159	4,033	4,796	5,515
Trade payables	773	2,037	1,783	2,242	2,506
Other current liabilities/provisions	654	882	882	882	882
Total current liabilities	1,427	2,920	2,666	3,124	3,389
Miscellaneous expenses	0	-	-	-	-
Net current assets	527	1,240	1,367	1,672	2,127
<b>Total assets</b>	<b>4,130</b>	<b>4,901</b>	<b>5,764</b>	<b>7,172</b>	<b>8,668</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	1,453	1,861	2,488	3,169	3,349
(Inc.)/dec. in working capital	(632)	(494)	(142)	(300)	(93)
Cash flow from operations	820	1,367	2,345	2,869	3,256
Other income	(10)	(8)	-	-	-
Other expenses	96	105	190	196	199
Depreciation	477	414	474	597	759
Tax/interest paid	(577)	(616)	(1,011)	(1,242)	(1,304)
<b>Net cash from operations</b>	<b>808</b>	<b>1,262</b>	<b>1,998</b>	<b>2,420</b>	<b>2,910</b>
Capital expenditure	(882)	(762)	(1,200)	(1,700)	(1,800)
Net cash after capex	(74)	500	798	720	1,110
Other investment activities	55	47	5	-	-
Cash from financial activities	61	(566)	(818)	(716)	(747)
Opening cash balance	50	92	72	56	61
Closing cash balance*	92	72	56	61	424
Change in cash balance	42	(20)	(16)	5	363

\*Note: Excluding other bank balances

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Key ratios

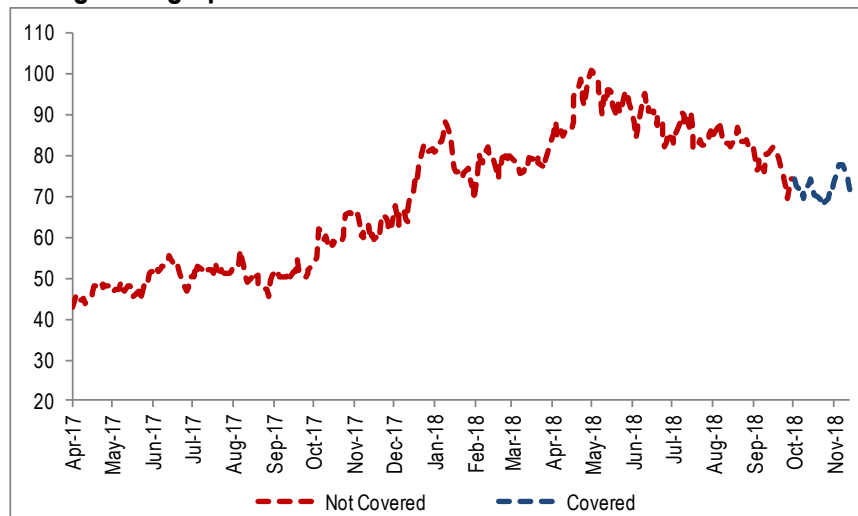
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	15.5	13.7	14.0	14.4	14.4
EBIT margin (%)	11.8	11.3	11.9	12.2	11.8
Net profit margin (%)	8.1	7.2	7.5	7.8	7.6
RoE (%)	36.5	33.1	35.6	36.4	30.8
RoCE (%)	34.0	30.6	34.2	35.3	30.2
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	10	24	25	25	25
Inventory (days)	31	28	30	30	30
Payables (days)	35	34	34	35	36
Cash conversion cycle (WC days)	6	18	21	20	19
Net WC-ex cash (days)	(11)	8	16	16	17
Current ratio (x)	1.4	1.4	1.5	1.6	1.6
Quick ratio (x)	0.6	0.9	0.8	0.8	0.9
<b>Valuation ratios</b>					
EV/Sales (x)	2.2	1.7	1.3	1.1	1.0
EV/EBITDA (x)	14.5	12.1	9.3	7.4	6.7
P/E (x)	27.2	22.8	17.1	13.4	12.7
P/BV (x)	8.6	6.7	5.6	4.4	3.5

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
4 October 2018	Buy	74	99

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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