

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

CMP: ₹ 115

Target: ₹ 155 (34%)

Target Period: 12 months

June 28, 2022

BUY

Superlative return ratios in blooming CV space...

About the stock: Jamna Auto Industries (JAI) is a manufacturer of suspension products (leaf & parabolic) for commercial vehicles (largely M&HCV space) and was established in 1965. It has eight manufacturing plants in India, each in close proximity to CV OEMs, with installed capacity of ~3,00,000 metric tonnes.

- FY22 sales product mix: OEMs: 63%; new market: 37%
- FY22 sales market mix: OEM: 77%; new market (aftermarket+exports):23%

FY22: JAI reported a healthy performance in FY22.

- Consolidated sales rose 59% YoY to ₹ 1,718 crore
- EBITDA was at ₹ 226 crore with margins up 90 bps YoY to 13.2%
- Consolidated PAT was up 93% YoY to ₹ 141 crore

What should investors do? Over the past five years, JAI has outperformed the wider Nifty Auto index, with share price growing at ~17% CAGR from June 2017.

- We initiate coverage on JAI under I-Direct Instinct format with a **BUY** rating

Target Price & Valuation: We value JAI at ₹ 155 i.e. 22x P/E on FY24E EPS of ₹ 7/share (implied EV/EBITDA ratio of ~15x, a tad premium to its last up-cycle multiple)

Key triggers for future price performance:

- Outsized beneficiary of cyclical upswing in the M&HCV space with dominant supplier of suspension system & ambitious targets of diversifying product basket as well as client profile. We build 29.6% sales CAGR over FY22-24E
- With increasing share of parabolic springs vs. the traditional product, cooling off in steel prices as well as operating leverage at play, we see EBITDA margins inching up to ~14.5% mark in FY24E vs. 13.2% in FY22
- Ambitious target of achieving 50% RoCE, 50% dividend payout, 50% revenues from new products & 50% revenue from new markets by FY26E
- Limited leverage of b/s (debt: equity at 0.3x) with history ~3x asset turns, double digit EBITDA margins, controlled WC cycle & largely positive CFO
- Vision to become a global leader in automobile suspension solutions

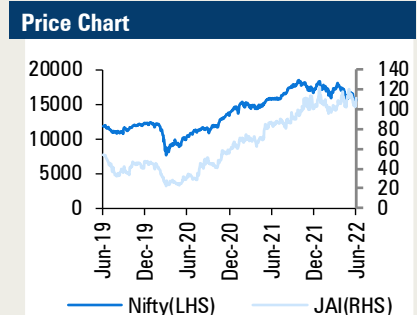
Alternate Stock Idea: In our auto universe, we also like Mahindra & Mahindra.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,315



Particulars	
Particulars	₹ crore
Market capitalisation	4,583
Total Debt (FY22P)	178
Cash & Investment (FY22P)	26
EV (₹ crore)	4,734
52 week H/L (₹)	125 / 78
Equity capital (₹ crore)	39.8
Face value (₹)	1.0

Shareholding pattern				
	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	50.0	50.0	50.0	50.0
FII	7.4	7.4	6.7	5.6
DII	9.9	11.6	12.9	13.6
Other	32.7	31.1	30.4	30.9



- ### Recent Event & Key risks
- Reports healthy FY22 result driven by growth in M&HCV volumes
 - Key Risk:** (i) Client concentration risk with top two clients forming ~60% of sales, (ii) slower than anticipated sales growth prospect

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,134.8	1,129.0	1,079.5	1,717.9	-6.9%	2,316.3	2,883.5	29.6%
EBITDA	276.7	114.1	132.5	226.3	-6.4%	324.3	418.1	35.9%
EBITDA Margins (%)	13.0	10.1	12.3	13.2		14.0	14.5	
Net Profit	137.5	47.9	73.0	140.8	0.8%	202.7	278.3	40.6%
EPS (₹)	3.4	1.2	1.8	3.5		5.1	7.0	
P/E	33.3	95.7	62.8	32.5		22.6	16.5	
RoNW (%)	27.0	9.3	12.6	20.6		25.1	28.2	
RoCE (%)	43.7	10.6	13.5	21.4		29.6	35.2	

Source: Company, ICICI Direct Research

Jamna Auto Industries

Jamna Auto Industries (JAI) is a leading auto ancillary company headquartered in Delhi and established by Bhupinder Singh Jauhar in 1965. It has been a supplier of leaf and parabolic springs to all major CV manufacturers in India for over 60 years. JAI was the first to introduce parabolic springs in India. It has eight strategically located manufacturing facilities at Yamuna Nagar, Malanpur, Jamshedpur, Pune, Chennai, Pilliapakkam, Hosur and Pant Nagar each in close proximity to leading OEMs.

JAI is primarily serving CV space with particular focus on the M&HCV sub-segment

Tata Motors & Ashok Leyland are biggest client which contribute ~60% of top line.

It has production capacity of 3 lakh MTPA

Product Offerings

Multi leaf spring (traditional product): A multi leaf spring is a stack of steel leaves held together with a centre bolt. The number of leaves in a stack will directly affect the spring's capacity or load rate.

Exhibit 1: Multi Leaf Spring



Source: Company, ICICI Direct Research

Parabolic Spring (New age product): Parabolic springs are an upgradation in technology from leaf springs. This technology not only reduces the weight of the springs (henceforth lower raw material content) but also improves the ride comfort and gives much better vehicle life.

Exhibit 2: Parabolic Spring

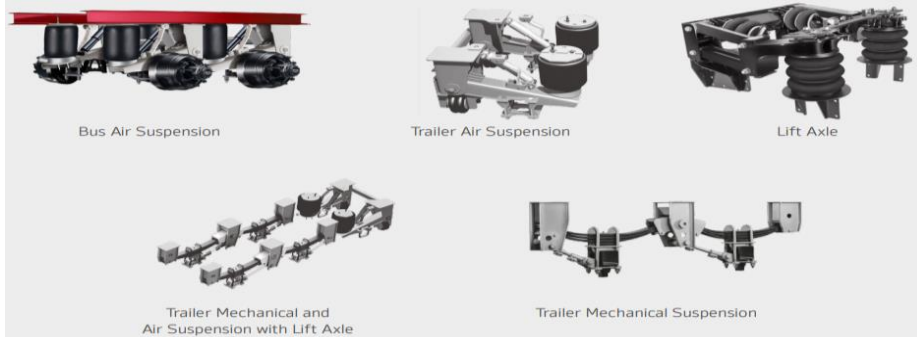


Source: Company, ICICI Direct Research

JAI has more than 90% share in Indian OE market for parabolic springs

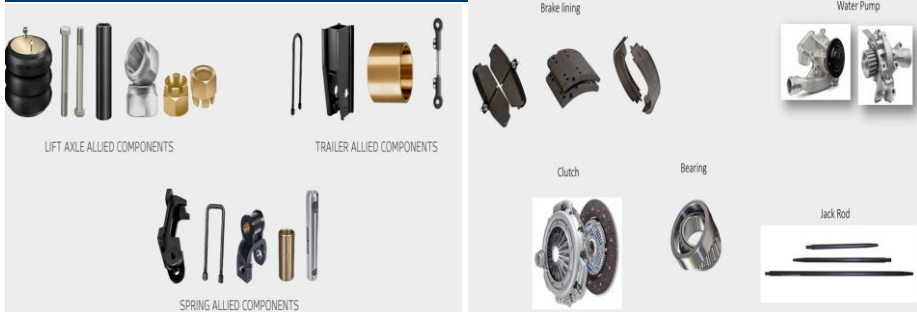
Lift axle & air suspensions

Exhibit 3: Suspension products



Source: Company, ICICI Direct Research

Exhibit 4: After-market product portfolio (mostly traded)



Source: Company, ICICI Direct Research

Other Products includes **after-market** products like break lining, clutch, water pumps, spring allied components, etc.

Triggers

Bestride on CV cyclical upswing amid dominant market share

CV is a cyclical industry with the industry witnessing a down cycle of two years i.e. FY20, FY21 and now geared up for a two to three year upcycle starting present financial year i.e. FY22. Recent volume prints (consistent MoM growth) by leading OEMs affirms our thesis on this. The key drivers for growth are: (i) revival of capex cycle domestically by both private as well as public sector enterprises. Union budget's capex outlay for FY23 was at ₹ 7.5 lakh crore, up 35% YoY; (ii) High age of existing fleet thereby indicating healthy replacement demand in the offering; (iii) scrappage policy- which makes automated testing compulsory for aged vehicles from April 2023 thereby generating demand for new fuel efficient vehicles and (iv) decline in retail fuel prices indicating savings in running cost and consequent better cash-flow in hands of fleet operators, thereby stimulating vehicle demand. With a cyclical recovery underway, we expect the domestic CV industry volumes to grow at 15.2% CAGR in FY22-24E, with volumes in M&HCV space seen growing at a CAGR of 25% in the same timeframe. JAI with a market share of ~70% in the OEM space is a direct proxy to M&HCV cyclical recovery with spare capacity to capitalise upon the impending growth.

De-risking OEM concentration, diversified exposure

Majority of JAI's topline is contributed by OEMs (~77%) and with prominent players like Tata Motors & Ashok Leyland contributing ~60% of its topline. With the view to reduce client concentration risk, JAI has been focusing on increasing the share of aftermarket revenue to diversify its customer base. To strengthen its aftermarket, it is actively adding new parts as well as expanded its reach with touchpoints now placed at 16,000+ levels from ~13,000+ levels as of FY19. Revenue from new markets increased from ~16% in FY19 to 23% in FY22. It has further set aggressive target for itself to diversify both its product mix as well as client profile.

Correlation within CV segments, M&HCV play			
Category\Year	M&HCV Change	LCV Change	JAI Topline change
FY13	-23%	14%	-12%
FY14	-25%	-18%	-15%
FY15	16%	-12%	31%
FY16	30%	0%	15%
FY17	0%	7%	3%
FY18	12%	25%	34%
FY19	15%	19%	23%
FY20	-42%	-20%	-47%
FY21	-29%	-17%	-4%
FY22P	50%	17%	59%
Correlation	0.9	0.6	

Exhibit 5: Diversification targets vs. current scenario

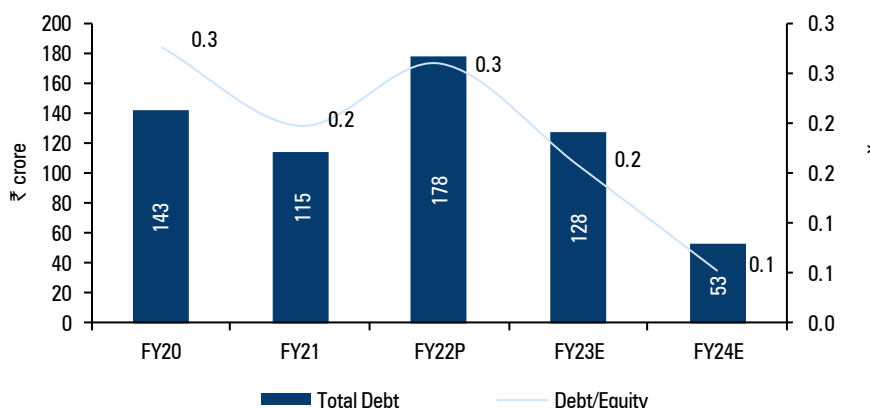


Source: Company, ICICI Direct Research

Minimal capex; favourable asset turns, deleveraged b/s

JAI has a capital efficient business model (10-year average RoCE at ~29%) amid ~3x asset turnover, double digit EBITDA margins and controlled working capital cycle. It has a history of generating healthy cash flow from operations with cumulative CFO over FY12-22 period at ~₹ 1,141 crore with cash flows used in investing pegged at ~₹ 627 crore, implying FCF to the tune of ~₹ 515 crore over FY12-22. It also has controlled leveraged on b/s with absolute debt as of FY22 at ~₹ 178 crore and consequent debt: equity at 0.3x.

Exhibit 6: Debt trend



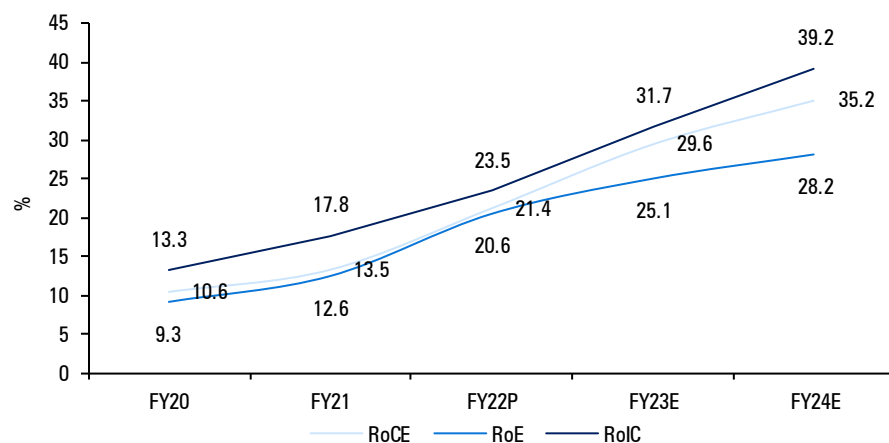
Source: Company, ICICI Direct Research

With sufficient capacity to reap CV upswing benefits in FY22-24E, and healthy asset turns debt/equity is seen declining to 0.1x by FY24E

Gearing up return ratios to desired targets

High return ratios have been the key differentiator at JAI – the key barometer of its highly capital efficient business model. However, they were in low double digits in the recent past (FY20-21) amid subdued demand in the CV space and industrial downturn due to Covid-19 led disruption. With worst of the decline behind us and cyclical recovery underway in the CV space and consequent CFO generation as well as decline in debt on its books, return ratios are expected to improve substantially with ~30%+ levels seen by FY24E. This is amid its broader vision to attain 50% RoCE by FY26E.

Exhibit 7: Trend in Return Ratio



Company is expected to report healthy double digit ratios of ~30%+ by FY24E

Source: Company, ICICI Direct Research

Valuation & Outlook

With macro tailwinds in place and JAI's intent to diversify its product as well as client mix, we expect 29.6% net sales CAGR for JAI over FY22-24E. This coupled with its ability to maintain ~14% margin trajectory amid increasing share of new markets (aftermarket + exports), PAT is seen growing at a CAGR of 40.6% over FY22-24E to ₹ 278 crore by FY24E. At the CMP, it trades at inexpensive valuations of ~16x P/E and ~11x EV/EBITDA on FY24E. Consequently, with high capital efficiency at bay, we assign **BUY** rating to the stock, thereby valuing JAI at ₹ 155, i.e. 22x P/E on FY24E EPS of ₹7.0/share.

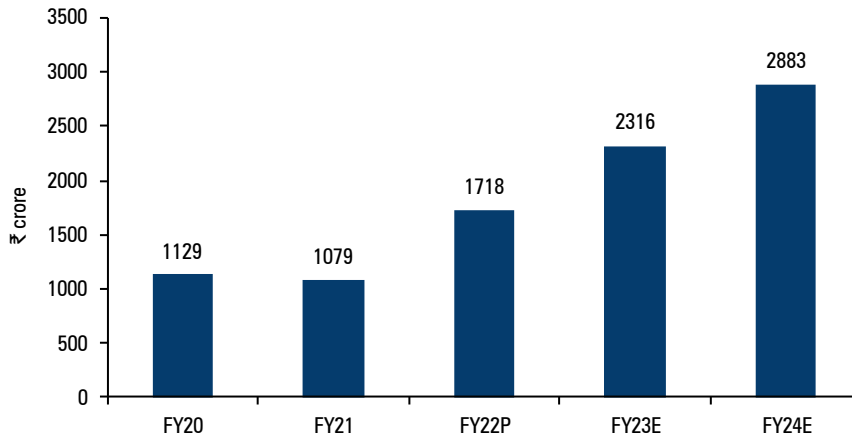
Exhibit 8: Detailed financial summary

P&L Account (₹ crores)	FY21	FY22P	FY23E	FY24E
Net Sales	1,079.5	1,717.9	2,316.3	2,883.5
EBITDA	132.5	226.3	324.3	418.1
EBITDA Margins (%)	12.3	13.2	14.0	14.5
PAT	73.0	140.8	202.7	278.3
EPS	1.8	3.5	5.1	7.0
Balance Sheet (₹ crores)	FY21	FY22P	FY23E	FY24E
Equity	39.8	39.8	39.8	39.8
NetWorth	509.5	516.7	580.0	684.7
Debt	114.7	177.9	127.9	52.9
Debt/Equity	0.2	0.3	0.2	0.1
Return Ratios	FY21	FY22P	FY23E	FY24E
RoE	12.6	20.6	25.1	28.2
RoCE	13.5	21.4	29.6	35.2
Valuation Ratios	FY21	FY22P	FY23E	FY24E
P/E	62.8	32.5	22.6	16.5
EV/EBITDA	35.2	20.9	14.5	10.9
P/B	7.9	6.7	5.7	4.6

Source: Company, ICICI Direct Research

Key Financial charts

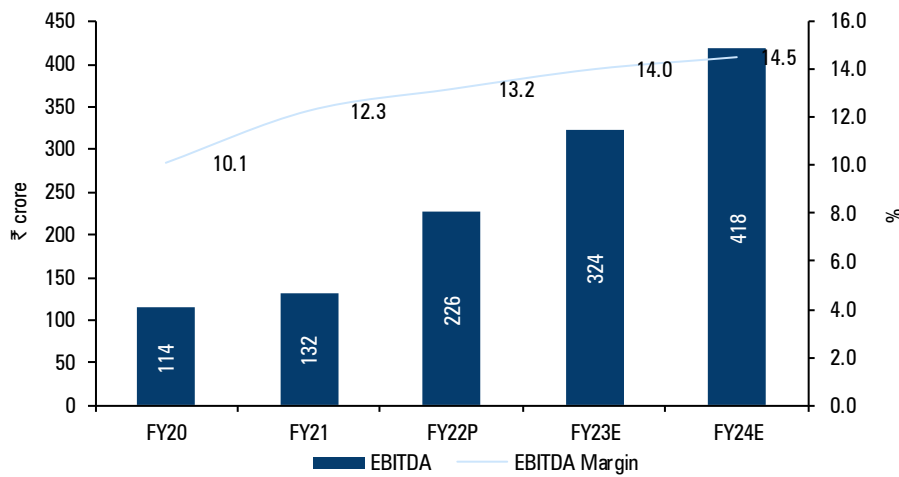
Exhibit 9: Trend in topline



Net sales are expected to grow at 29.6% CAGR over FY22-24E to ₹2,883 crore as of FY24E

Source: Company, ICICI Direct Research

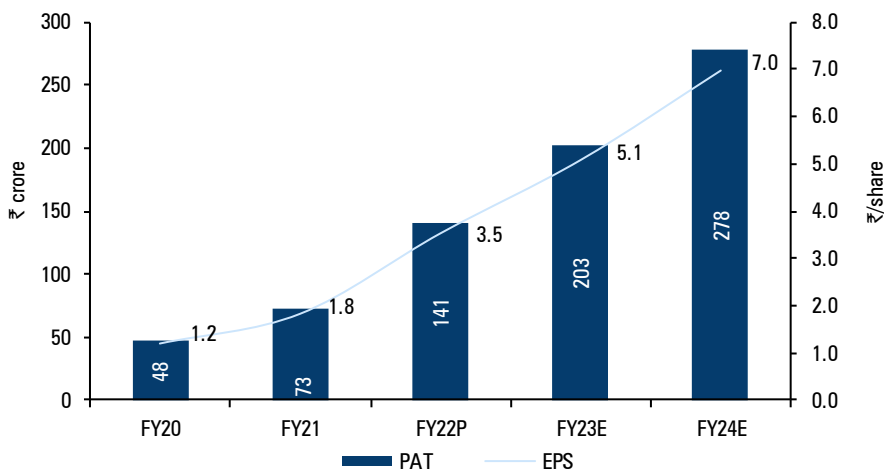
Exhibit 10: Trend in EBITDA & Margins



EBITDA is expected to grow at 35.9% CAGR over FY22-24E to ₹ 418 crore in FY24E with margins reaching 14.5% as at FY24E

Source: Company, ICICI Direct Research

Exhibit 11: Trend in bottomline & EPS



PAT is expected to grow to ₹ 278 crore in FY24E with corresponding EPS seen at ₹ 7 in FY24E

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Net Sales	1079.5	1717.9	2316.3	2883.5
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,079.5	1,717.9	2,316.3	2,883.5
Growth (%)	-4.4	59.1	34.8	24.5
Raw Material Expenses	658.0	1,123.6	1,551.9	1,931.9
Employee Expenses	111.8	124.6	139.0	158.6
Other Operating Expense	177.2	243.4	301.1	374.9
Total Operating Expenditure	947.0	1,491.6	1,992.0	2,465.4
EBITDA	132.5	226.3	324.3	418.1
Growth (%)	16.1	70.8	43.3	28.9
Depreciation	35.6	36.7	40.1	43.2
Interest	5.9	2.8	11.5	4.8
Other Income	9.9	4.5	3.1	5.8
PBT	100.9	191.3	275.8	376.0
Exceptional Item & MI	0.0	0.0	0.0	0.0
Total Tax	27.9	50.5	73.1	97.8
PAT	73.0	140.8	202.7	278.3
Growth (%)	52.4	93.0	44.0	37.3
EPS (₹)	1.8	3.5	5.1	7.0

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	73.0	140.8	202.7	278.3
Add: Depreciation	35.6	36.7	40.1	43.2
(Inc)/dec in Current Assets	-197.2	-204.7	-198.5	-160.5
Inc/(dec) in CL and Provisions	172.8	27.3	122.3	104.7
Others	5.9	2.8	11.5	4.8
CF from operating activities	90.1	3.0	178.1	270.4
(Inc)/dec in Investments	0.6	-0.2	0.0	0.0
(Inc)/dec in Fixed Assets	-20.0	-41.5	-50.0	-50.0
Others	10.2	-0.2	2.0	2.0
CF from investing activities	-9.3	-41.9	-48.0	-48.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-27.8	63.2	-50.0	-75.0
Dividend & interest	-15.9	-62.6	-91.2	-104.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	0.3	23.6	0.0	0.0
CF from financing activities	-43.4	24.3	-141.2	-179.4
Net Cash flow	37.4	-14.6	-11.1	43.0
Opening Cash	3.7	41.1	26.5	15.3
Closing Cash	41.1	26.5	15.3	58.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	39.8	39.8	39.8	39.8
Reserve and Surplus	540.2	644.8	767.8	946.5
Total Shareholders funds	580.0	684.7	807.7	986.3
Total Debt	114.7	177.9	127.9	52.9
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	24.7	25.2	25.2	25.2
Total Liabilities	719.4	887.8	960.8	1,064.4
Assets				
Gross Block	519.0	640.8	694.3	744.3
Less: Acc Depreciation	169.8	206.5	246.6	289.7
Net Block	349.2	434.3	447.7	454.6
Capital WIP	133.8	53.4	50.0	50.0
Total Fixed Assets	483.0	487.8	497.7	504.6
Investments	2.2	2.3	2.3	2.3
Inventory	209.6	313.2	412.5	474.0
Debtors	170.5	288.6	380.8	474.0
Loans and Advances	13.3	2.6	3.6	4.4
Other Current Assets	43.9	37.5	43.7	48.6
Cash	41.1	26.5	15.3	58.3
Total Current Assets	478.5	668.5	855.8	1,059.4
Current Liabilities	184.7	202.5	285.6	355.5
Provisions	42.9	54.4	76.8	95.6
Current Liabilities & Prov	278.1	305.5	427.7	532.5
Net Current Assets	200.3	363.0	428.1	526.9
Others Assets	33.9	34.6	32.6	30.6
Application of Funds	719.4	887.8	960.8	1,064.4

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	1.8	3.5	5.1	7.0
Cash EPS	2.7	4.5	6.1	8.1
BV	14.6	17.2	20.3	24.8
DPS	0.2	1.5	2.0	2.5
Cash Per Share	1.0	0.7	0.4	1.5
Operating Ratios (%)				
EBITDA Margin	12.3	13.2	14.0	14.5
PAT Margin	6.8	8.2	8.8	9.6
Inventory days	70.9	66.6	65.0	60.0
Debtor days	57.7	61.3	60.0	60.0
Creditor days	62.5	43.0	45.0	45.0
Return Ratios (%)				
RoE	12.6	20.6	25.1	28.2
RoCE	13.5	21.4	29.6	35.2
RoIC	17.8	23.5	31.7	39.2
Valuation Ratios (x)				
P/E	62.8	32.5	22.6	16.5
EV / EBITDA	35.2	20.9	14.5	10.9
EV / Net Sales	4.3	2.8	2.0	1.6
Market Cap / Sales	4.2	2.7	2.0	1.6
Price to Book Value	7.9	6.7	5.7	4.6
Solvency Ratios				
Debt/EBITDA	0.9	0.8	0.4	0.1
Debt / Equity	0.2	0.3	0.2	0.1
Current Ratio	1.9	2.5	2.3	2.2
Quick Ratio	1.0	1.3	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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