

CMP: ₹ 110

Target: ₹ 135 (23%)

Target Period: 12 months

November 3, 2022

BUY

Muted show; CV cyclical recovery, high RoCE at rescue

About the stock: Jamna Auto Industries (JAI) is a manufacturer of suspension products (leaf & parabolic) for commercial vehicles (largely M&HCV space). It was established in 1965. JAI 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%

Q2FY23: JAI reported a muted performance in Q2FY23.

- Consolidated sales rose 1% QoQ to ₹ 553 crore
- EBITDA was at ₹ 56.1 crore with margins down 80 bps QoQ to 10.2%
- Consolidated PAT was flat QoQ at ₹ 37.3 crore

What should investors do? In the past five years, JAI has outperformed the wider Nifty Auto index, with share price growing at ~12% CAGR from November 2017.

- We retain **BUY** on JAI amid cyclical recovery in its key target segment (M&HCV space), benign commodity price outlook & high return ratios matrix

Target Price and Valuation: Revising our forward estimates, we now value JAI at ₹ 135 i.e. 25x P/E (~1x PEG) on FY24E EPS of ₹ 5.5/share (earlier target price: ₹ 155).

Key triggers for future price performance:

- Outsized beneficiary of cyclical upswing in the M&HCV space with dominant supplier of suspension system & ambitious target to diversify product basket. We build 22.5% sales CAGR over FY22-24E
- With shift from traditional spring to parabolic springs, greater share of aftermarket products as well as operating leverage at play, we see EBITDA margins inching up to ~13% mark in FY24E
- Ambitious aim to achieve 50% RoCE, 50% dividend payout, 50% revenues from new products & 50% revenue from new markets by FY26-27
- 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

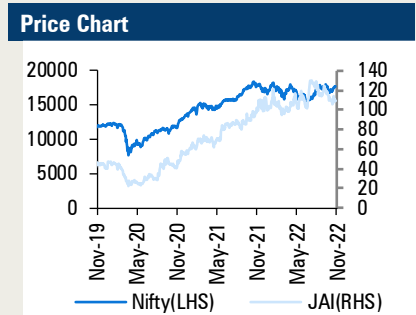
Alternate Stock Idea: In our auto universe, we also like Mahindra & Mahindra.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



Particulars	
Particulars	₹ crore
Market capitalisation	4,383
Total Debt (FY22)	178
Cash & Investment (FY22)	27
EV (₹ crore)	4,535
52 week H/L (₹)	136 / 85
Equity capital (₹ crore)	39.8
Face value (₹)	1.0

Shareholding pattern				
	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.0	50.0	50.0	50.0
FII	6.7	5.6	6.6	7.1
DII	12.9	13.6	13.8	13.4
Other	30.4	30.9	29.6	29.6



- ### Recent Event & Key risks
- Margins came in muted in Q2FY23
 - Key Risk:** (i) Slower than expected uptick in M&HCV volumes, (ii) slower than anticipated improvement in margin profile

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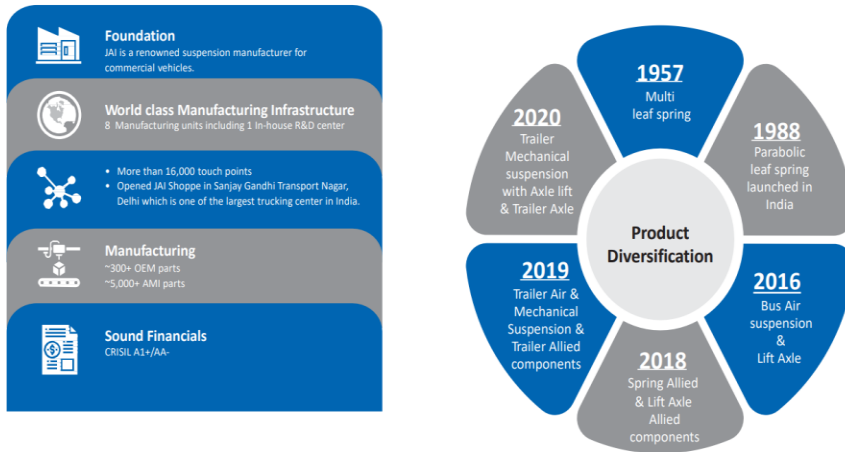
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Key Financial Summary								
Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,134.8	1,129.0	1,079.5	1,717.9	-6.9%	2,119.8	2,576.8	22.5%
EBITDA	276.7	114.1	132.5	226.3	-6.4%	249.1	335.0	21.7%
EBITDA Margins (%)	13.0	10.1	12.3	13.2		11.8	13.0	
Net Profit	137.5	47.9	73.0	140.8	0.8%	155.8	218.4	24.5%
EPS (₹)	3.4	1.2	1.8	3.5		3.9	5.5	
P/E	31.9	91.5	60.1	31.1		28.1	20.1	
RoNW (%)	27.0	9.3	12.6	20.6		20.1	24.1	
RoCE (%)	43.7	10.6	13.5	21.4		22.8	30.6	

Source: Company, ICICI Direct Research

Key Highlights from presentation

Exhibit 1: Jamna Auto at glance

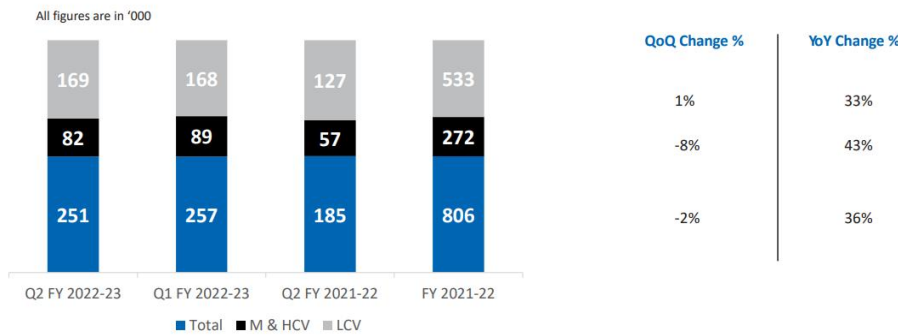


Source: Company, ICICI Direct Research

Annual Report Snippets

The company launched their first five-year plan named "Lakshya 50XT" with four key targets for FY26-27. JAI have received order for rotavator blades from Mahindra & Mahindra. The products are under development at Yamuna Nagar plant and supplies are expected to begin by January 2023

Exhibit 2: Industry production figures



Data Source-SIAM

CV production changes

- ↑ - Q2 FY23 vs Q1 FY23 - 1% (Increase)
- ↑ - Q2 FY23 vs Q2 FY22 - 33%(Increase)

M&HCV production changes

- ↓ - Q2 FY23 vs Q1 FY23 - (-8%)(Decrease)
- ↑ - Q2 FY23 vs Q2 FY22 - 43%(Increase)

Source: Company, ICICI Direct Research

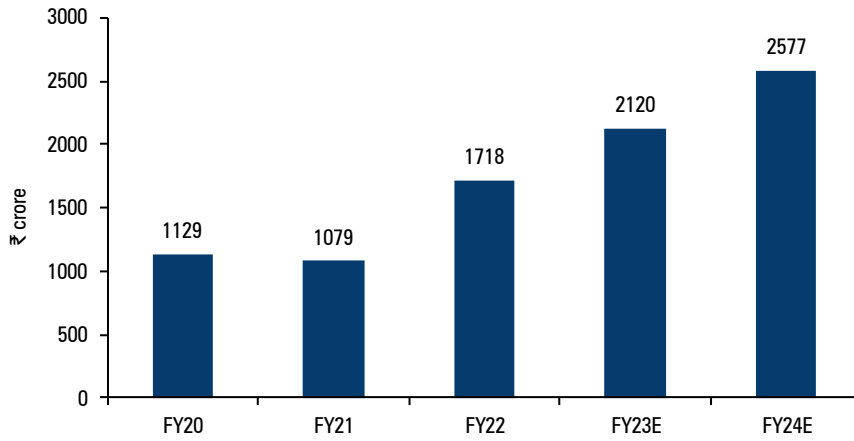
Exhibit 3: Key clients



Source: Company, ICICI Direct Research

Key Financial charts

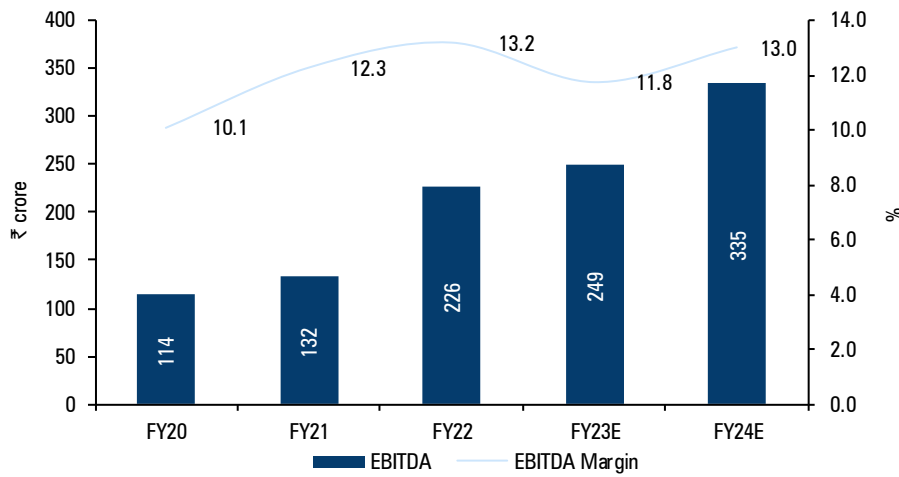
Exhibit 4: Trend in topline



Net sales are expected to grow at 22.5% CAGR over FY22-24E to ₹ 2,577 crore as of FY24E

Source: Company, ICICI Direct Research

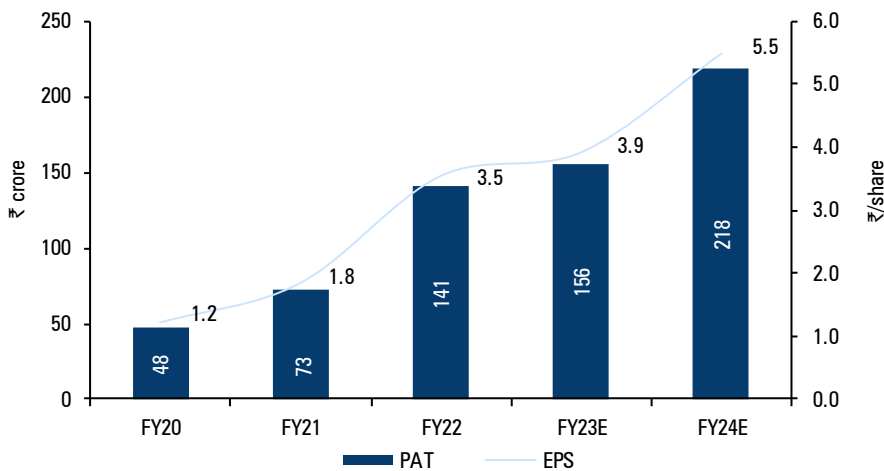
Exhibit 5: Trend in EBITDA & Margins



EBITDA is expected to grow at 21.7% CAGR over FY22-24E to ₹ 335 crore in FY24E with margins reaching 13% as in FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in bottomline & EPS



PAT is expected to grow to ₹ 218 crore in FY24E with corresponding EPS seen at ₹ 5.5 in FY24E

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1079.5	1717.9	2119.8	2576.8
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,079.5	1,717.9	2,119.8	2,576.8
Growth (%)	-4.4	59.1	23.4	21.6
Raw Material Expenses	658.0	1,123.6	1,420.3	1,726.5
Employee Expenses	111.8	124.6	132.5	148.2
Other Operating Expense	177.2	243.4	318.0	367.2
Total Operating Expenditure	947.0	1,491.6	1,870.7	2,241.8
EBITDA	132.5	226.3	249.1	335.0
Growth (%)	16.1	70.8	10.1	34.5
Depreciation	35.6	36.7	41.4	44.6
Interest	5.9	2.8	3.2	0.9
Other Income	9.9	4.5	7.4	7.6
PBT	100.9	191.3	211.9	297.1
Exceptional Item & MI	0.0	0.0	0.0	0.0
Total Tax	27.9	50.5	56.2	78.7
PAT	73.0	140.8	155.8	218.4
Growth (%)	52.4	93.0	10.6	40.2
EPS (₹)	1.8	3.5	3.9	5.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	73.0	140.8	155.8	218.4
Add: Depreciation	35.6	36.7	41.4	44.6
(Inc)/dec in Current Assets	-197.2	-204.7	-98.1	-119.1
Inc/(dec) in CL and Provisions	172.8	27.3	86.0	84.4
Others	5.9	2.8	3.2	0.9
CF from operating activities	90.1	3.0	188.2	229.1
(Inc)/dec in Investments	0.6	-0.2	0.0	0.0
(Inc)/dec in Fixed Assets	-20.0	-41.4	-50.0	-50.0
Others	10.2	-0.2	2.0	2.0
CF from investing activities	-9.3	-41.8	-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	-70.0	-90.0
Dividend & interest	-15.9	-62.6	-67.0	-90.6
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	-137.0	-180.6
Net Cash flow	37.4	-14.6	3.2	0.6
Opening Cash	3.7	41.1	26.5	29.8
Closing Cash	41.1	26.5	29.8	30.3

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	39.8	39.8	39.8	39.8
Reserve and Surplus	540.2	644.8	736.8	865.5
Total Shareholders funds	580.0	684.7	776.7	905.4
Total Debt	114.7	177.9	107.9	17.9
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	909.8	948.4
Assets				
Gross Block	519.0	635.1	688.5	738.5
Less: Acc Depreciation	169.8	200.8	242.2	286.8
Net Block	349.2	434.3	446.3	451.8
Capital WIP	133.8	53.4	50.0	50.0
Total Fixed Assets	483.0	487.7	496.3	501.8
Investments	2.2	2.3	2.3	2.3
Inventory	209.6	313.2	377.5	423.6
Debtors	170.5	288.6	319.4	388.3
Loans and Advances	13.3	2.6	3.3	4.0
Other Current Assets	43.9	37.5	40.0	43.4
Cash	41.1	26.5	29.8	30.3
Total Current Assets	478.5	668.6	769.9	889.6
Current Liabilities	184.7	202.5	261.3	317.7
Provisions	42.9	54.4	70.2	85.4
Current Liabilities & Prov	278.1	305.5	391.4	475.8
Net Current Assets	200.3	363.1	378.5	413.8
Others Assets	33.9	34.6	32.6	30.6
Application of Funds	719.4	887.8	909.8	948.4

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	1.8	3.5	3.9	5.5
Cash EPS	2.7	4.5	4.9	6.6
BV	14.6	17.2	19.5	22.7
DPS	0.2	1.5	1.6	2.3
Cash Per Share	1.0	0.7	0.7	0.8
Operating Ratios (%)				
EBITDA Margin	12.3	13.2	11.8	13.0
PAT Margin	6.8	8.2	7.3	8.5
Inventory days	70.9	66.6	65.0	60.0
Debtor days	57.7	61.3	55.0	55.0
Creditor days	62.5	43.0	45.0	45.0
Return Ratios (%)				
RoE	12.6	20.6	20.1	24.1
RoCE	13.5	21.4	22.8	30.6
RoIC	17.8	23.5	25.0	33.5
Valuation Ratios (x)				
P/E	60.1	31.1	28.1	20.1
EV / EBITDA	33.6	20.0	17.9	13.0
EV / Net Sales	4.1	2.6	2.1	1.7
Market Cap / Sales	4.1	2.6	2.1	1.7
Price to Book Value	7.6	6.4	5.6	4.8
Solvency Ratios				
Debt/EBITDA	0.9	0.8	0.4	0.1
Debt / Equity	0.2	0.3	0.1	0.0
Current Ratio	1.9	2.5	2.2	2.1
Quick Ratio	1.0	1.3	1.1	1.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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