

# Buy

## Jamna Auto

Industry: Auto and Auto Components | Industry View: Positive

# LKP

Since 1948

Company update

### Extrapolating MHCV growth

#### Results better than expectations

Jamna Auto (Jamna) reported superb set of numbers in Q4 FY18. At all the levels of P/L statement, the numbers surpassed our expectations. In line with the rapid growth in the MHCV industry, Jamna's topline grew by 56% yoy and 27% qoq. As the proportion of parabolic leaf springs have gone up, Jamna's profitability has also increased. Margins in the quarter went up to 14.9% from 13.1% qoq and dropped a bit from 15.6% yoy as RM costs went up. Despite reduction in other income and growth in depreciation, bottomline grew by 31% yoy to ₹460 mn.

#### Proxy to the MHCV cycle, Jamna to participate in the up move

MHCV cycle has turned positive since Q2 FY18 and has grown at 19% for Q4 FY18, which has driven sales for Jamna. Also the higher tonnage industry has grown at 26%, higher than the overall MHCV industry. Jamna having a 72% OEM market share and being a significant vendor to the top two truck makers in the industry (Tata Motors and Ashok Leyland) derived great growth in Q4 FY18. Going forward, certain macro factors are anticipated to drive MHCV sales and in turn Jamna's performance. First of all, in the near term, low base of Q1 FY18 after pre-buying observed in Q4 FY17 just before the BS IV norms got implemented would present a good growth in Q1. Secondly, overloading ban in Northern states of the country would lead to a continued higher sale of higher tonnage vehicles and thirdly, overall growth in macro factors such as good monsoon triggering abundant agri produce, mining sector performing well and rapid infrastructure activities happening around the country remain the drivers. In H2 of FY 20, we may again see a spur in demand on pre buying just before prices hike post BS VI implementation in April 2020.

#### Increasing RM costs to be negated by operating leverage and better product mix

Q4 FY 18 margins were a bit impacted by increasing input costs. However, we believe that going forward better product mix in the form of higher sale of parabolic springs and higher utilization rates (currently 75%) with demand increase may negate any impact of rising input costs. With BS VI just a couple of years away, most of the truck makers are shifting from conventional leaf springs to parabolic leaf springs due to its durability, better load bearing capacity and light weight. Also, due to overloading ban imposed in northern states like UP, MP, Rajasthan and Haryana parabolic leaf springs are in high demand (25% currently). Parabolic springs (90% market share) being delivering higher realizations and margins may lift up the blended margins of Jamna. To tap the share of unorganized players in aftermarket segment the company is widening its distribution network (through tie-ups with retailers and garage personnel) and focusing on minimizing the price gap. In FY18 aftermarket revenue grew 7% (contributes 11% of overall sales) and management expects overall mix will improve in next two years. Lift axle revenue also witnessed strong growth in FY18 and contributed 10% to overall revenue. Aftermarket business commands about 250-300 bps higher margins than OEMs and Jamna has about 15-18% markets share in this business. GST implementation which took place last year will slowly and gradually benefit organized players like Jamna in mid-long term. Considering the above listed factors, we believe there will be a steady increase in the margins, profitability and return ratios.

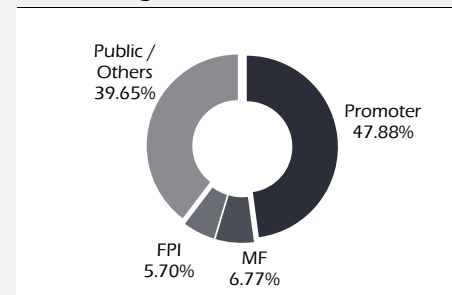
#### Stock Data

Current Market Price (₹)	94
Target Price (₹)	113
Potential upside (%)	20
FV (₹)	1
Reuters	JMNA.BO
Bloomberg	JMNA@IN
Market Cap. Full (₹ bn)	37
52-Week Range (₹)	103 / 45

#### What's changed

12 month Price Target (₹)	From 101 to 113
FY2019E EPS (₹)	From 4.0 to 4.3
FY2020E EPS (₹)	From 5.0 to 5.7

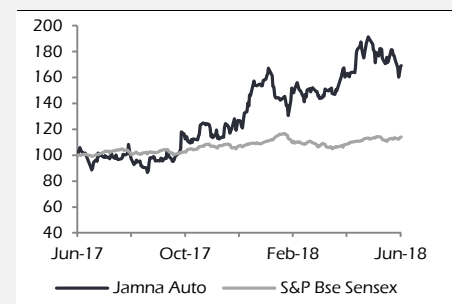
#### Shareholding Pattern



#### Fiscal YE

YE Mar	FY17	FY18P	FY19E	FY20E
Total sales(₹ mn)	12,976	17,381	20,122	24,251
EBITDA margins (%)	14.0%	13.7%	14.2%	15.0%
PAT margins (%)	7.9%	7.2%	8.5%	9.3%
EPS (₹)	2.6	3.2	4.3	5.7
P/E (x)	33.6	27.6	20.2	15.4
P/BV (x)	10.4	8.2	6.4	5.0
EV/EBITDA (x)	19.5	14.8	12.3	9.6
ROE (%)	30.9%	29.6%	31.8%	32.6%
ROCE (%)	36.5%	41.5%	40.0%	42.0%
Dividend yield (%)	1.0%	1.2%	1.6%	2.1%

#### Relative Price Performance



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**Financial Highlights**

YE Mar (₹.mn)	Q4 FY18	Q3FY18	% qoq	Q4 FY17	% yoy
Net sales	5,958	4,703	26.7%	3,828	55.6%
Raw material costs	3,850	3,004	28.2%	2,394	60.8%
Employee costs	401	301	33.0%	269	48.9%
Other expenses	821	783	4.9%	566	45.1%
EBITDA	887	614	44.3%	599	48.0%
EBITDA margins %	14.9%	13.1%	180 bps	15.6%	(70 bps)
Other income	14	16	-13.2%	27	-48.9%
Depreciation	144	101	42.6%	97	48.5%
PBT	690	471	46.5%	460	49.9%
Tax	230	154	49.2%	109	110.7%
Reported PAT	460	317	45.2%	476	-3.4%
Exceptional items	-	-	N/A	0	N/A
Adjusted PAT	460	317	45.2%	351	31.0%
Adj EPS (₹)	1.16	0.80	45.2%	0.88	31.0%

**Outlook and valuation**

Jamna is in a sweet spot considering the robust demand for MHCVs and its positioning as the #1 player in India and #2 player in the world. Additionally, the strong current demand for parabolic leaf spring in which Jamna is the unanimous leader is finding itself to be the most favored vendor. Being a formidable force in the OEM market and a challenger to the unorganized players in the Aftermarket industry the company has anchored its position well in the auto ancillaries space of the market. Steady shift to the high margin lift axles and parabolic leaf springs from the conventional ones would lead to margin escalation. With superior return ratios and clean balance sheet, we believe Jamna will post phenomenal growth hereon and will trade at a premium to its own historical multiple of 15x. We maintain our BUY rating on the stock with higher estimates and target price of ₹113.

**Financials**
**Income statement**

YE Mar (₹.mn)	FY17	FY18	FY19E	FY20E
<b>Total Revenues</b>	<b>12,976</b>	<b>17,381</b>	<b>20,122</b>	<b>24,251</b>
Raw Material Cost	7,958	10,911	12,475	15,036
Employee Cost	1,083	1,275	1,610	1,819
Other Exp	2,124	2,816	3,179	3,759
<b>EBITDA</b>	<b>1,812</b>	<b>2,379</b>	<b>2,857</b>	<b>3,638</b>
EBITDA Margin(%)	14.0%	13.7%	14.2%	15.0%
Depreciation	478	413	501	528
<b>EBIT</b>	<b>1,334</b>	<b>1,966</b>	<b>2,356</b>	<b>3,110</b>
EBIT Margin(%)	10.3%	11.3%	11.7%	12.8%
Other Income	239	79	200	200
Interest	148	182	110	95
<b>PBT</b>	<b>1,425</b>	<b>1,862</b>	<b>2,446</b>	<b>3,215</b>
PBT Margin(%)	11.0%	10.7%	12.2%	13.3%
Tax	1,425	1,862	2,446	3,215
<b>PAT</b>	<b>1,029</b>	<b>1,254</b>	<b>1,712</b>	<b>2,251</b>
PAT Margins (%)	7.9%	7.2%	8.5%	9.3%

**Key Ratios**

YE Mar	FY17	FY18P	FY19E	FY20E
<b>Per Share Data (Rs)</b>				
Adj. EPS	2.6	3.2	4.3	5.7
CEPS	3.8	4.2	5.6	7.0
BVPS	8.4	10.6	13.5	17.3
DPS	0.8	1.0	1.4	1.9
<b>Growth Ratios (%)</b>				
Total revenues	3.3%	33.9%	15.8%	20.5%
EBITDA	11.7%	31.3%	20.1%	27.3%
PAT	43.9%	21.9%	36.5%	31.4%
EPS Growth	43.6%	21.9%	36.5%	31.4%
<b>Valuation Ratios (X)</b>				
PE	33.6	27.6	20.2	15.4
P/CEPS	23.0	20.8	15.6	12.5
P/BV	10.4	8.2	6.4	5.0
EV/Sales	3.2	2.4	2.0	1.7
EV/EBITDA	19.5	14.8	12.3	9.6
<b>Operating Ratios (Days)</b>				
Inventory days	51.7	53.0	57.0	60.0
Receivable Days	15.7	64.0	27.0	37.0
Payables day	21.7	42.8	20.0	20.0
Net Debt/Equity (x)	0.01	0.01	0.01	0.00
<b>Profitability Ratios (%)</b>				
ROCE	36.5%	41.5%	40.0%	42.0%
ROE	30.9%	29.6%	31.8%	32.6%
Dividend payout	32.2%	33.0%	33.0%	33.0%
Dividend yield	1.0%	1.2%	1.6%	2.1%

Source: Company, LKP Research

**Balance sheet**

YE Mar (₹. mn)	FY17	FY18	FY19E	FY20E
<b>Equity and Liabilities</b>				
Equity Share Capital	398	398	398	398
Reserves & Surplus	2,929	3,840	4,987	6,495
<b>Total Networkth</b>	<b>3,327</b>	<b>4,238</b>	<b>5,386</b>	<b>6,893</b>
Total debt	255	396	366	351
Net Deferred Tax Asst/Liabs	0	0	0	0
Long term provisions	233	263	273	288
<b>Current Liab &amp; Prov</b>				
Trade payables	773	2,037	1,103	1,329
Short term borrowings	523	226	176	126
Short term provisions	307	340	331	332
Other current liabilities	346	542	662	864
Total current liab and privs	1,948	3,145	2,271	2,651
<b>Total Equity &amp; Liabilities</b>	<b>5,608</b>	<b>7,892</b>	<b>8,155</b>	<b>10,048</b>
<b>Assets</b>				
Net block	2,805	3,007	3,625	3,898
Capital WIP	199	308	268	243
Long term loans and advances	275	48	78	128
Other non current assets	368	364	349	334
<b>Total fixed assets</b>	<b>3,647</b>	<b>3,727</b>	<b>4,320</b>	<b>4,603</b>
Cash and Bank	146	124	198	305
Inventories	1,128	1,585	1,948	2,472
Trade receivables	342	1,912	1,488	2,458
Loan, Advances & others	8	15	110	133
Other current assets	331	524	90	78
<b>Total current Assets</b>	<b>1,955</b>	<b>4,160</b>	<b>3,835</b>	<b>5,446</b>
<b>Total Assets</b>	<b>5,608</b>	<b>7,892</b>	<b>8,155</b>	<b>10,048</b>

**Cash Flow**

YE Mar (₹ mn)	FY17	FY18P	FY19E	FY20E
PBT	1,444	1,862	2,446	3,215
Depreciation	474	841	601	829
Interest	51	182	110	95
Chng in working capital	(527)	(380)	(480)	(1,101)
Tax paid	(570)	(608)	(734)	(965)
Other operating activities	0	0	0	0
<b>Cash flow from operations (a)</b>	<b>821</b>	<b>1,716</b>	<b>1,834</b>	<b>1,978</b>
Capital expenditure	(880)	(909)	(860)	(775)
Chng in investments	(5)	(0)	0	0
Other investing activities	(12)	4	15	15
<b>Cash flow from investing (b)</b>	<b>(897)</b>	<b>(905)</b>	<b>(845)</b>	<b>(760)</b>
<b>Free cash flow (a+b)</b>	<b>(76)</b>	<b>811</b>	<b>989</b>	<b>1,218</b>
Inc/dec in borrowings	76	(26)	(20)	(221)
Dividend paid (incl. tax)	(400)	(414)	(565)	(743)
Interest paid	(69)	0	0	0
Other financing activities	2	36	20	20
<b>Cash flow from financing (c)</b>	<b>49</b>	<b>(79)</b>	<b>168</b>	<b>106</b>
<b>Net chng in cash (a+b+c)</b>	<b>60</b>	<b>109</b>	<b>30</b>	<b>198</b>
<b>Closing cash &amp; cash equivalents</b>	<b>109</b>	<b>30</b>	<b>198</b>	<b>305</b>

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