

Jamna Auto Industries Ltd

No. of shares (m)	398.5
Mkt cap (Rs crs/\$m)	3238/445.5
Current price (Rs/\$)	81/1.1
Price target (Rs/\$)	99/1.4
52 W H/L (Rs.)	103/50
Book Value (Rs/\$)	11/0.2
Beta	1.2
Daily volume NSE (avg. monthly)	1226690
P/BV (FY19e/20e)	6.5/5.1
EV/EBITDA (FY19e/20e)	11.5/9.7
P/E (FY19e/20e)	21.5/17.3
EPS growth (FY18/19e/20e)	19.4/20.0/24.3
OPM (FY18/19e/20e)	13.8/13.5/13.7
ROE (FY18/19e/20e)	35.3/33.5/33.0
ROCE(FY18/19e/20e)	32.9/32.2/32.4
D/E ratio (FY18/19e/20e)	0.2/0.1/0.0
BSE Code	520051
NSE Code	JAMNAAUTO
Bloomberg	JMNA IN
Reuters	JMNA.NS

Shareholding pattern

	%
Promoters	47.9
MFs / Banks / FIs	7.2
FPIs	7.3
Govt. Holding	0.0
Public & others	37.6
Total	100.0

As on June 30, 2018

Recommendation

BUY

Analyst

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Consolidated (Rs crs)	FY16	FY17	FY18	FY19e	FY20e
Income from operations	1255.80	1292.44	1738.12	2056.79	2385.88
Other Income	8.35	6.09	8.71	8.14	12.95
EBITDA (other income included)	170.56	207.39	247.88	285.82	340.24
Profit after MI & EO items	72.05	104.96	125.34	150.39	186.89
EPS(Rs)	1.81	2.63	3.15	3.77	4.69
EPS growth (%)	137.7	45.3	19.4	20.0	24.3

Company Brief

Jamna Auto manufactures auto suspension products -parabolic/ tapered leaf spring, lift axle and air suspension- mainly for OEMs in the CV segment.

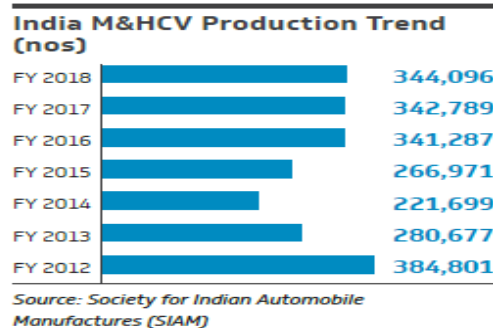
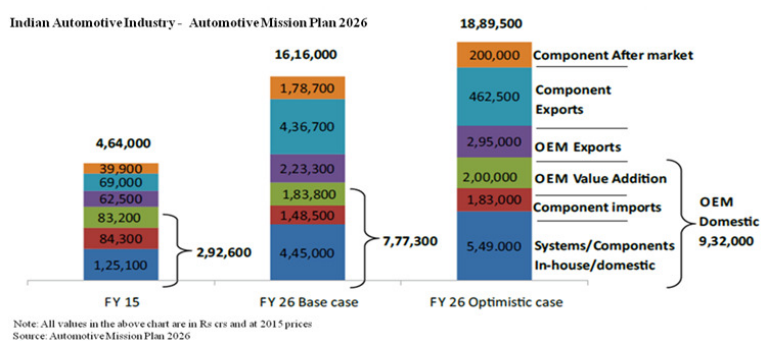
Quarterly Highlights

- Fostered by increased OEM demand, Jamna's sales more than doubled in Q1 to Rs 562.19 crs (\$83.9m) compared to Rs 271.37 crs (\$42.1m) in the same period a year ago. OPMs expanded too (though down sharply from 15% in Q4FY18) from 11.2% to 13.4% helped by disproportionate growth in other expenses (+80.9%). Post tax earnings climbed by a stunning 129.8% to Rs 40.01 crs (\$6m); though absolute earnings fell 14.4% q-oq.
- Other income though declined 42.8% to Rs 3.32 crs (\$0.5m) compared to Rs 5.79 crs (\$0.9m) in the same quarter a year ago. Propelled by uptick in business activity, employee costs surged too – from Rs 26.60 crs (\$4.1m) in Q1FY18 to Rs 40.20 crs (\$6.0m) last quarter.
- Gyrations in Jamna's OEM market share - 72% in Q4; 69% in Q1FY19 - have little bearing (if any) for its envious geographical reach and streamlined production processes have little scope of imitation for other component suppliers - thus erecting high barriers of entry. Its High return on capital barely refutes this argument.
- To gain furtherance in its leaf springs market, Jamna recently tied up with Tinsley Bridge Limited, UK, for transfer of Tinsley's extralite spring and special steel technologies. Technology transfers from Tinsley, a UK based group functioning in automotive, nuclear, rail, defense, renewable and energy sectors, would enable Jamna to produce high stress bearing lighter springs for commercial vehicles.
- The stock currently trades at 21.5x FY19e EPS of Rs 3.77 and 17.3x FY20e EPS of Rs 4.69. Jamna's plan to counter cyclicity of CV industry by refining its manufacturing infrastructure, launching new value added products, diversifying in to aftermarket and controlling costs. Yet it has little forbearance to entrenched slowdown in CV industry - thus triggering downside risks to earnings. Its post tax earnings would rise by 22.1% on average over the next two years on enhanced return on capital. On balance we advise buying the stock with revised target of Rs 99 (previous target: Rs 70) based on 21x FY20e earnings (PEG ratio: 1) over a period of 9-12 months.

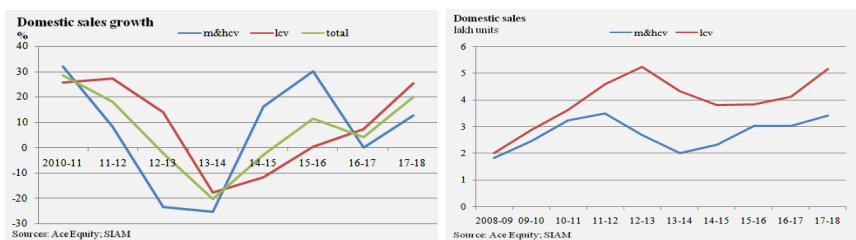
Outlook & Recommendation

CV industry

Propelled by pick up in infrastructure projects and industrial activity, Indian commercial vehicle industry would grow in 9-11% range in the current fiscal, contends ICRA, a credit rating agency. It also reckons that growth would also get a boost from robust demand from consumption-led sectors and rural market - the recent CV demand pick up largely due to uptick in construction activity and overall healthy cargo demand. Nature of demand has varied though, contends the agency, with North India witnessing healthy demand for tractor trailers and MAVs haulage trucks arising from the automobile sector and allied industries. Southern States, particularly Andhra Pradesh and Telangana has seen traction for tipper and construction related trucks perpetuated by strong pick up in infrastructure projects.



Industry players reckon that high replacement and stricter enforcement of overloading norms which has resulted in fleet operators preferring rated loads is pushing demand for higher tonnage trucks. Truck productivity and haulage efficiency has also got a leg up from the introduction of GST - removal of check posts, state tariff barriers. Higher investments are expected to be channelized in Indian e-commerce industry which would augment demand for LCVs and intermediate LCVs. Growth would be little stymied by impending implementation of BSVI norms and government's push for higher fuel efficiency.

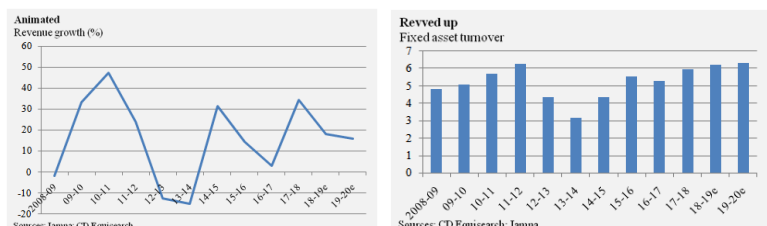


Stunned by vigorous off take of CVs in April-August period - when CV dispatches rose by 41.7%, SIAM would look to upwardly revise its earlier growth forecast of 10-12%. Yet incessant rise in diesel prices coupled with relaxation in overloading norms would somewhat stifle demand. However, ICRA in its latest report stated that the Indian CV industry is yet to feel the impact of change in axle load norms not least due to delay in its implementation and healthy construction demand.

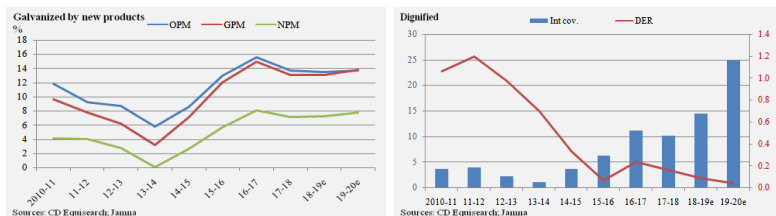
Financials & Valuation

Untangled by not inspired recovery in Indian CV industry of late, most auto component suppliers including Jamna Auto and Automotive Axles have been on capacity expansion binge. Besides adding new wares - UBolt and other allied products - to its existing line up, plans are barely wobbly to expand capacity and modernize existing infrastructure. After increasing capacity by some 30000 mt (largely aftermarket) last fiscal, Jamna's rank and file has set its sight on setting two more plants - one at Pithampur (MP) and the other at Adityanagar (near Jamshedpur). Modernization work would involve besides other things, introducing new machines, rebalancing of lines, refurbishment of painting shops and changing furnaces.

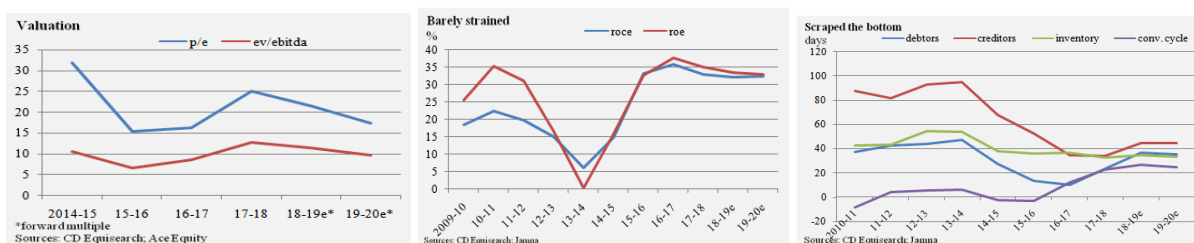
Little sparse acceptance of fledgling parabolic springs in Indian CV market has done wonders for Jamna, prompting it to add capacity. Increasing use of parabolic springs in higher tonnage trucks precipitated by better roadways and higher need for ride comfort has scarcely amiss signs of structural shifts in consumer demand. Besides attracting higher margin (compared to conventional springs), parabolic springs command higher realizations, thence the necessity of higher output. Unexpected surge in demand for parabolic springs also help aid the revenue share of new products to 37%, convincingly breaching its internal target of 33%.



Yet Jamna's aftermarket progress recently has been patchy at best not least due to demonetization and implementation of GST, invoking doubts on the efficacy of its vast distribution network - 11 depots, 300+ distributors, and 6000+ retailers. Exports market growth has also barely stayed unhindered - exports less than 1% of total sales - thus restricting Jamna's revenue share from new markets to just 15%. Still margin loss from timid replacement presence (gross margins are generally 25-30% higher) would be made up by strong OEM off take of parabolic springs. Not oblivious of rising steel prices, OPMs would largely be maintained over the next two years.



The stock currently trades at 21.5x FY19e EPS of Rs 3.77 and 17.3x FY20e EPS of Rs 4.69. Stability in Indian CV industry, particularly M&HCV, would barely fail to arrest uncertainties posed by terrible rise in crude oil prices (read diesel prices) and demand headwinds from newly introduced axle load norms. Wherefore post tax earnings would rise by 22.1% on average over the next two years on enhanced return on capital. Yet vagaries of CV demand to swaying fortunes of rural demand and interest rates cannot be sorely undermined. On balance we advise buying the stock with revised target of Rs 99 (previous target: Rs 70) based on 21x FY20e earnings (PEG ratio: 1) over a period of 9-12 months. For more info refer to our October report.



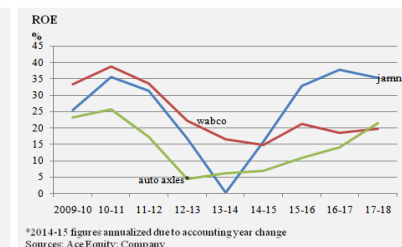
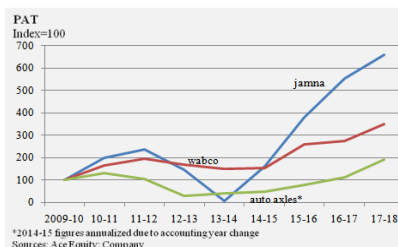
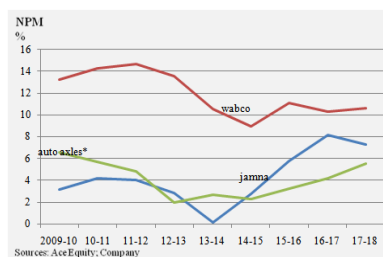
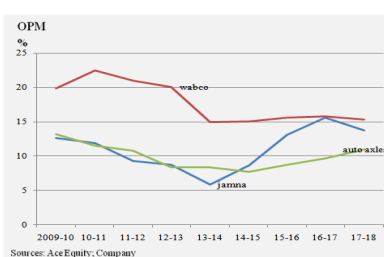
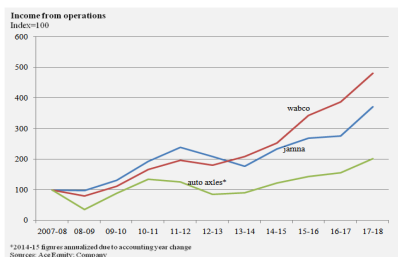
Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	Op. inc.	Profit*	OPM	NPM	Int cov.	ROE	Mcap / OI	P/BV	P/E	EV/EBITDA
Automotive Axles	15.1	1446	2185	1700	100	11.4	5.9	252.1	24.3	1.3	4.9	21.8	10.8
Jamna Auto	39.85	81	3238	2029	148	14.0	7.3	10.4	38.5	1.6	7.4	21.9	11.3
WABCO	9.5	6981	13241	2791	294	14.9	10.5	271.5	20.3	4.7	8.4	45.1	25.9

*figures in crores; calculations on ttm basis

Owing to sturdy recovery in Indian CV industry last fiscal - production up by 10.4%; domestic sales up by 20%- Automotive Axles increased its axles and brakes capacity last fiscal, besides upgrading its state-of-the-art manufacturing facilities with modern technologies such as face-hob gear cutting and robotic gear quenching for higher productivity. Resultantly, its revenues surged by nearly 30% - the highest rate in three years - last fiscal and OPMs expanded by 130 bps to 11% - multi year high. Post tax earnings thus advanced by 70.4%; Q1FY19 earnings barely pressured for it more than doubled. Its forward integration initiative includes incorporation of brake setting & oil filling operations into its production, assembly and testing facilities.

Not timid demand boost in Indian CV industry post demonetization and GST helped most auto component makers report higher dispatches. High off take coupled with higher content per vehicle - new technologies like fleet management solutions and electronic stability control; also higher market share of automatic slack adjuster - helped WABCO report over 24% growth in top line. It barely expects to miss opportunities in its newly expanded sectors like off- highway, defense, luxury bus, car and trailers by leveraging site plants of its customers and providing technical support. Sales boost has scarcely escaped attention of increased off take of retro fitment of trailer anti-lock brake systems TABS and trailer electronic brake systems TEBS in trailer segment. Plans are barely thwarted for exploring further market potential in retro-fitment of advanced products such as air disc brakes and electronically controlled air suspension in the aftermarket.



Financials

Quarterly Results -Consolidated

Figures in Rs crs

	Q1FY19	Q1FY18	% chg.	FY18	FY17	% chg.
Income from operations	562.19	271.37	107.2	1738.12	1292.44	34.5
Other Income	3.36	5.95	-43.6	8.71	6.09	43.0
Total Income	565.54	277.32	103.9	1746.83	1298.53	34.5
Total Expenditure	486.92	240.85	102.2	1498.95	1091.15	37.4
PBIDT (other income included)	78.62	36.47	115.6	247.88	207.39	19.5
Interest	5.74	2.51	129.2	20.42	14.38	42.0
Depreciation	11.59	8.40	38.0	41.37	47.73	-13.3
PBT	61.29	25.57	139.7	186.09	145.28	28.1
Tax	21.28	8.15	161.0	60.79	40.32	50.8
PAT	40.01	17.41	129.8	125.31	104.96	19.4
Minority interest	0.00	0.00	0.0	0.00	0.00	0.0
PAT after MI	40.01	17.41	129.8	125.31	104.96	19.4
Extraordinary Item	0.00	0.00	#DIV/0!	-0.04	-0.01	613.7
Adjusted Net Profit	40.01	17.41	129.8	125.34	104.96	19.4
EPS (F.V. 1)	1.00	0.44	129.7	3.15	2.63	19.4

Income Statement-Consolidated

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Income from operations	1255.80	1292.44	1738.12	2056.79	2385.88
Growth (%)	14.7	2.9	34.5	18.3	16.0
Other Income	8.35	6.09	8.71	8.14	12.95
Total Income	1264.14	1298.53	1746.83	2064.94	2398.83
Total Expenditure	1093.58	1091.15	1498.95	1779.11	2058.60
EBITDA (other income included)	170.56	207.39	247.88	285.82	340.24
Interest	20.34	14.38	20.42	16.69	11.71
EBDT	150.22	193.01	227.47	269.13	328.53
Depreciation	45.23	47.73	41.37	44.67	49.59
Tax	33.48	40.32	60.79	74.07	92.05
MI	0.00	0.00	0.00	0.00	0.00
PAT after MI	71.50	104.96	125.31	150.39	186.89
Extraordinary item	-0.54	-0.01	-0.04	-	-
Adjusted Net Profit	72.05	104.96	125.34	150.39	186.89
EPS (Rs.)	1.81	2.63	3.15	3.77	4.69

Figures may differ from published figures due to reclassifications

Consolidated Balance Sheet

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
SOURCES OF FUNDS					
Share Capital	39.72	39.83	39.83	39.83	39.83
Reserves	228.98	292.86	384.06	493.65	632.53
Total Shareholders Funds	268.71	332.69	423.89	533.48	672.36
Long term debt	5.23	9.89	24.57	14.55	4.55
Minority interest	0.00	0.00	0.00	0.00	0.00
Total Liabilities	273.94	342.58	448.46	548.03	676.91
APPLICATION OF FUNDS					
Gross Block	209.19	320.91	373.46	474.31	564.31
Less: Accumulated Depreciation	0.00	39.62	72.04	116.71	166.31
Net Block	209.19	281.30	301.41	357.60	398.00
Capital Work in Progress	65.49	19.93	30.85	20.00	25.00
Investments	0.00	0.47	0.47	0.47	0.47
Current Assets, Loans & Advances					
Inventory	107.45	112.75	158.47	182.24	200.47
Sundry Debtors	37.61	34.19	191.22	219.91	241.90
Cash and Bank	8.02	14.54	12.31	41.04	116.19
Other Assets	13.80	33.96	53.93	56.33	58.76
Total CA & LA	166.88	195.44	415.94	499.52	617.31
Current liabilities	157.04	163.97	280.08	310.82	343.71
Provisions	40.40	31.03	34.49	38.69	43.07
Total Current Liabilities	197.44	195.00	314.57	349.51	386.78
Net Current Assets	-30.56	0.44	101.37	150.01	230.52
Net Deferred Tax (net of liability)	-0.36	5.23	7.35	11.00	15.00
Other Assets (Net of liabilities)	30.18	35.21	7.00	8.96	7.92
Total Assets	273.94	342.58	448.46	548.03	676.91

Figures may differ from published figures due to reclassifications

Key Financial Ratios

	FY16	FY17	FY18	FY19e	FY20e
Growth Ratios					
Revenue (%)	14.7	2.9	34.5	18.3	16.0
EBIDTA (%)	77.5	21.0	19.5	15.3	19.0
Net Profit (%)	138.3	45.7	19.4	20.0	24.3
EPS (%)	137.7	45.3	19.4	20.0	24.3
Margins					
Operating Profit Margin (%)	13.0	15.6	13.8	13.5	13.7
Gross Profit Margin (%)	12.0	14.9	13.1	13.1	13.8
Net Profit Margin (%)	5.7	8.1	7.2	7.3	7.8
Return					
ROCE (%)	33.2	35.8	32.9	32.2	32.4
ROE (%)	32.8	37.8	35.3	33.5	33.0
Valuations					
Market Cap / OI	0.9	1.3	1.8	1.6	1.4
EV/EBIDTA	6.5	8.5	12.8	11.5	9.7
P/E	15.4	16.1	25.0	21.5	17.3
P/BV	4.6	5.4	7.9	6.5	5.1
Other Ratios					
Interest Coverage	6.2	11.1	10.1	14.4	24.8
Debt-Equity Ratio	0.1	0.2	0.2	0.1	0.0
Current Ratio	0.7	0.9	1.2	1.3	1.4
Turnover Ratios					
Fixed Asset Turnover	5.6	5.3	6.0	6.2	6.3
Total Asset Turnover	5.4	4.5	4.7	4.4	4.1
Debtors Turnover	26.7	36.0	15.4	10.0	10.3
Inventory Turnover	10.1	9.9	11.1	10.4	10.8
Creditors Turnover	6.9	10.4	10.7	8.1	
WC Ratios					
Debtor Days	13.7	10.1	23.7	36.5	35.3
Inventory Days	36.2	36.8	33.0	35.0	33.9
Creditor Days	52.5	34.9	34.2	44.9	44.7
Cash Conversion Cycle	-2.7	12.0	22.5	26.5	24.6

Cumulative Financial Data

Figures in Rs crs	FY12-14	FY15-17	FY18-20e
Income from operations	2933	3643	6181
Operating profit	239	460	844
EBIT	157	351	738
PBT	88	298	689
PAT	74	207	463
Dividends	30	70	144
OPM (%)	8.1	12.6	13.7
NPM (%)	2.5	5.7	7.5
Interest coverage	2.3	6.7	15.1
ROE (%)	15.5	28.0	32.6
ROCE (%)	15.1	23.4	31.7
Debt-equity ratio*	0.7	0.2	0.0
Fixed asset turnover	4.5	4.5	6.1
Debtors turnover	8.2	17.0	14.9
Inventory turnover	8.7	9.9	11.4
Creditors turnover	4.4	7.9	10.3
Debtors days	44.7	21.4	24.5
Inventory days	42.1	36.7	32.1
Creditor days	83.1	46.2	35.6
Cash conversion cycle	3.8	12.0	21.0
Dividend payout ratio (%)	36.5	34.2	31.1

FY12-14 implies three years ending fiscal 14; *as on terminal year;

Optimum capacity utilization coupled with margin expansion (scarcely contained by increased off take of more efficient parabolic springs newly unveiled suspension products) largely explain little unobservable expansion in return on capital - ROE to rise to 32.6% in FY18-20 period from 28% in FY15-17 period; ROCE from 23.4% to 31.7%. With barely suppressed demand for parabolic springs and suspension products, revenue share of new products would further rise from the current 37%, stimulating need for little torpid R&D endeavors including plough back of surplus cash in refurbishment of existing manufacturing infrastructure.

Amassment of arbitrage opportunities arising from eliminating cash discounts to debtors would doubtlessly stymie turnover ratio - projected to fall to 14.9 from 17 in FY15-17 period (see table). Piling up of inventory to cater to increased OEM demand would also propel its stock. Cash conversion cycle as a result is estimated to rise to 21 days from 12 days in FY15-17 period. As reflected in historical trends, nearly a third of its covetous earnings would be doled out as dividends (see table).

Financial Summary – US dollar denominated

million \$	FY16	FY17	FY18	FY19e	FY20e
Equity capital	6.0	6.1	6.1	5.5	5.5
Equity shareholders funds	36.5	48.4	61.1	68.8	86.9
Total debt	2.3	11.3	9.6	6.1	3.4
Net fixed assets (incl CWIP)	41.4	46.5	51.1	52.0	58.2
Investments	0.0	0.1	0.1	0.1	0.1
Net current assets	-8.6	-2.9	11.5	16.0	26.1
Total assets	37.3	49.9	64.9	70.8	87.5
Revenues	191.8	192.6	269.7	283.0	328.3
EBITDA	26.2	30.9	38.5	39.3	46.8
EBDT	23.1	28.8	35.3	37.0	45.2
PBT	16.2	21.7	28.9	30.9	38.4
Profit after MI	11.0	15.6	19.4	20.7	25.7
EPS(\$)	0.03	0.04	0.05	0.05	0.06
Book value (\$)	0.09	0.12	0.15	0.17	0.22

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates(Rs 72.68/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY14	FY15	FY16	FY17	FY18
Average	60.5	61.15	65.46	67.09	64.45
Year end	60.1	62.59	66.33	64.84	65.04

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.