

Jamna Auto Industries

14 August, 2021

Reuters: JMNA.NS; Bloomberg: JMNA IN

Resilient operating performance; outlook remains positive

Jamna Auto's 1QFY22 results were above broader estimates, driven by a resilient operating performance. The company reported EBITDA margin of 11.9%, which was down ~300bps QoQ largely due to negative operating leverage, partially offset by break-even point (BEP) reduction initiatives. Gross margin improved by ~30bps QoQ to 37.2% on the back of better product & market mix, partially offset by RM inflation (net of pass-through). At Rs2.95bn, net sales declined by 39% QoQ, much better than the 52%/42% decline in MHCV/CV industry production. Absolute EBITDA at Rs353mn declined by 51% QoQ. Jamna Auto continues to maintain a dominant market share in the OEM segment (~68% in FY21). Share of Parabolic Springs (high-margin product) is witnessing a rising trend for the past few quarters, supporting the resilient operating performance. At Rs195mn, PAT declined by 59% QoQ. We continue to like Jamna Auto as we believe that it will be a key beneficiary of the recovery in CV cycle over the next few years and expect it to outperform the industry because of a better product and market mix. We have factored in 30%/39%/49% Revenue/EBITDA/PAT CAGR over FY21-FY24E. We expect limited capex and strong FCF generation over the next 2-3 years. Jamna Auto has turned net debt free in FY21. We have retained our Buy rating on Jamna Auto with a target price (TP) of Rs106, valuing the stock at 22x March'23E EPS.

Key beneficiary of a multi-year CV upcycle: We see strong multi-year CV upcycle over the next 2-3 years, which will be driven by (1) a significantly low base (MHCV sales are down to FY04 levels) (2) Government's thrust on infrastructure development and (3) strong pick-up in replacement demand on implementation of the scrappage policy. We expect a sharp uptick in CV volume from 2HFY22 as economic activities pick up pace. We believe that Jamna Auto is well placed to reap the benefits of the expected CV demand recovery.

Rising share of high-margin products & cost-control initiatives to drive margins: Steady modernization in trucks is driving a shift away from conventional springs to the more profitable parabolic springs (share of parabolic springs has risen to ~36-37% in the last two quarters vs. ~22% in FY19). Over the last few years, the company has also worked on reducing its fixed costs and thus the BEP through cost rationalization initiatives (employee and other expenses). These steps have supported its operating performance and the benefit of these initiatives is expected to structurally improve margins going forward.

Focus on non-cyclical aftermarket: Jamna Auto has been focusing on the high-margin replacement market to reduce its exposure to the cyclical CV business. Its replacement market share stands at ~15%. To increase traction in the aftermarket, Jamna Auto has taken various initiatives like (1) expanding its distribution network (2) increased number of products (3) reduced lead time for supplies and digitalization, leading to better efficiency. These initiatives have already started yielding results (aftermarket revenue share is at >25% currently vs. ~15% in FY19).

Valuation and outlook: We have retained Buy rating on Jamna Auto with a target price (TP) of Rs106, up 24% from the current market price (22x March'23E EPS).

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BUY
Sector: Automobile Ancillary

CMP: Rs86

Target Price: Rs106

Upside: 24%

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Key Data

Current Shares O/S (mn)	398.5
Mkt Cap (Rsbn/US\$mn)	34.0/458.6
52 Wk H / L (Rs)	91/38
Daily Vol. (3M NSE Avg.)	1,728,518

Price Performance (%)

	1 M	6 M	1 Yr
Jamna Auto	(1.7)	25.3	115.8
Nifty Index	3.8	7.9	47.9

Source: Bloomberg

1QFY22 result

1QFY22 Presentation

Y/E March (Rsmn)	1QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY20	FY21
Net sales	652	4,844	2,953	352.6	(39.0)	11,290	10,795
COGS	359	3,057	1,856	416.9	(39.3)	7,123	6,580
% of sales	55.0	63.1	62.8	7.8	(0.3)	63.1	61.0
Gross margin %	45.0	36.9	37.2	(780bps)	30bps	36.9	39.0
Employee costs	206	335	293	41.9	(12.6)	1,129	1,118
% of sales	31.6	6.9	9.9	(21.7)	3.0	10.0	10.4
Other expenses	159	731	452	183.8	(38.2)	1,896	1,772
% of sales	24.4	15.1	15.3	(9.1)	0.2	16.8	16.4
EBITDA	(72)	721	353	(589.4)	(51.1)	1,141	1,325
EBITDA margin %	(11.0)	14.9	11.9	2300bps	(300bps)	10.1	12.3
Depreciation	78	99	83	5.8	(16.6)	414	356
Interest expenses	21	15	8	(61.9)	(48.1)	173	59
Other income	8	30	5	(41.5)	(84.6)	161	99
PBT	(163)	636	267	(263.6)	(58.1)	716	1,009
Tax	(35)	161	72	(302.6)	(55.5)	238	279
Effective tax rate %	21.8	25.3	26.9	5.2	1.6	33.2	27.7
Adj PAT	(128)	475	195	(252.8)	(59.0)	479	730
Adj PAT margin %	(19.5)	9.8	6.6	2600bps	(320bps)	4.2	6.8
EPS	(0.3)	1.2	0.5	(252.8)	(59.0)	1.2	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	11,290	10,795	14,010	19,659	23,567
YoY growth (%)	(47.1)	(4.4)	29.8	40.3	19.9
EBITDA	1,141	1,325	1,736	2,886	3,580
EBITDA margin (%)	10.1	12.3	12.4	14.7	15.2
Adjusted PAT	479	730	1,077	1,936	2,421
EPS	1.2	1.8	2.7	4.9	6.1
YoY change (%)	(65.2)	52.4	47.5	79.8	25.0
RoCE (%)	14.1	15.6	21.8	36.1	40.0
RoE (%)	9.3	13.3	17.7	28.3	31.3
P/E (x)	70.7	46.4	31.4	17.5	14.0
EV/Sales (x)	3.1	3.1	2.4	1.7	1.4
EV/EBITDA (x)	31.0	25.4	19.2	11.4	9.0

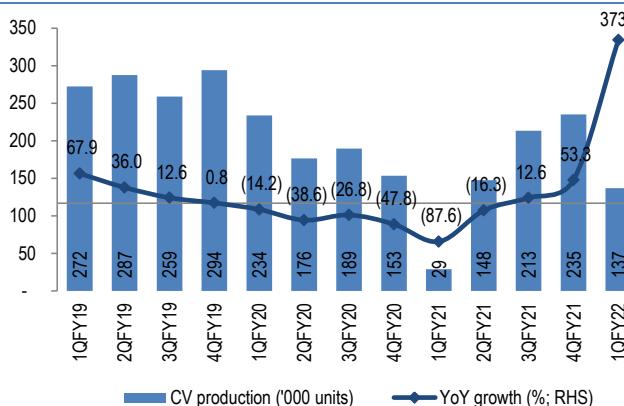
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: No change in our estimates

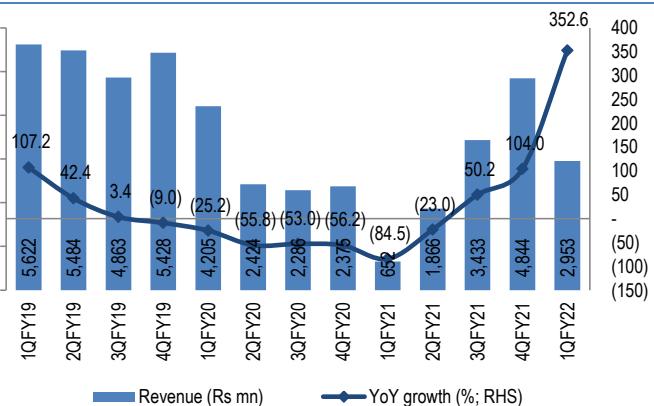
(Rsmn)	New estimates			Old estimates			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net sales	14,010	19,659	23,567	14,010	19,659	23,567	-	-	-
EBITDA	1,736	2,886	3,580	1,736	2,886	3,580	-	-	-
EBITDA margin (%)	12.4	14.7	15.2	12.4	14.7	15.2	-	-	-
PAT	1,077	1,936	2,421	1,077	1,936	2,421	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

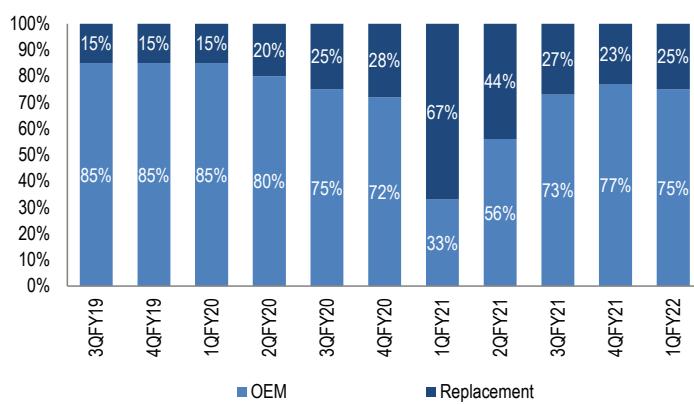
Story in Charts

Exhibit 3: CV production growth trend


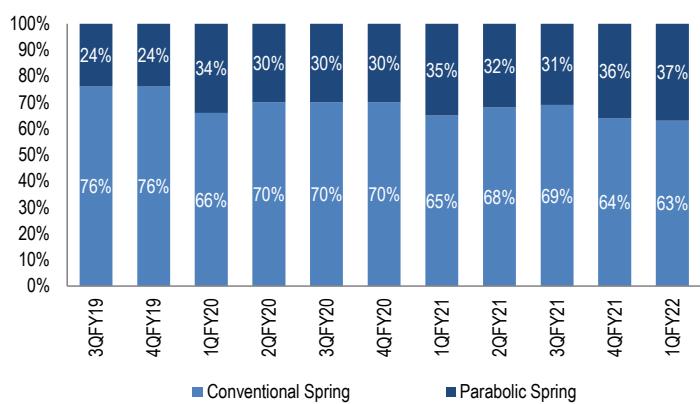
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Revenue and growth trend


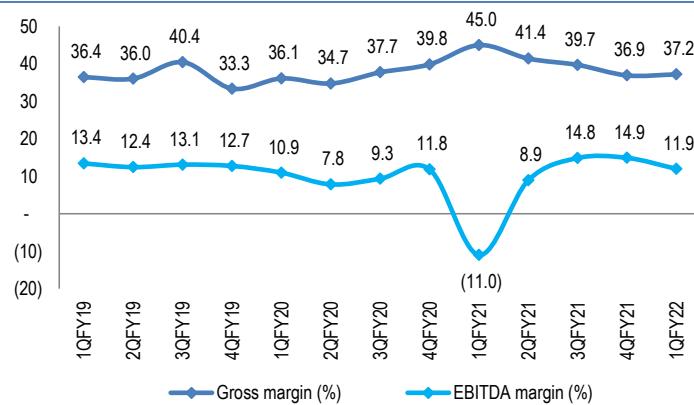
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Sales by market mix


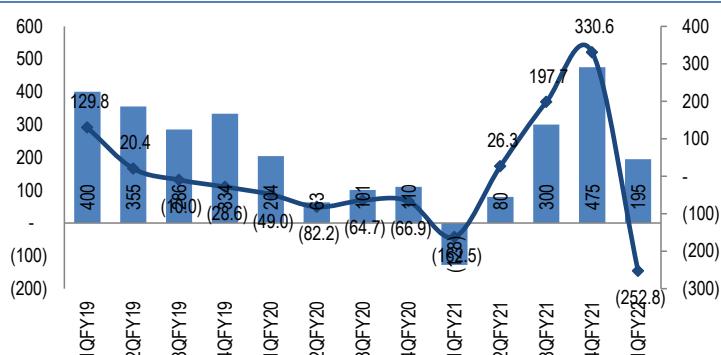
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Sales by product mix


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Gross & EBITDA margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: PAT and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: 1-year forward P/E band


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: 1-year forward EV/EBITDA band


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	11,290	10,795	14,010	19,659	23,567
% Growth	(47.1)	(4.4)	29.8	40.3	19.9
Raw material	7,123	6,580	8,772	12,114	14,508
Staff costs	1,129	1,118	1,331	1,671	1,944
Other expenses	1,896	1,772	2,172	2,988	3,535
Total expenses	10,148	9,470	12,274	16,773	19,987
EBITDA	1,141	1,325	1,736	2,886	3,580
% Growth	(58.8)	16.1	31.0	66.2	24.1
EBITDA margin (%)	10.1	12.3	12.4	14.7	15.2
Other income	161	99	109	153	183
Interest costs	173	59	9	-	-
Depreciation	414	356	398	453	531
Profit before tax (before E/O)	716	1,009	1,438	2,585	3,233
Tax	238	279	361	649	812
Adj PAT	479	730	1,077	1,936	2,421
% Growth	(65.2)	52.4	47.5	79.8	25.0
Adj PAT margin (%)	4.2	6.8	7.7	9.8	10.3
EPS (Rs)	1.2	1.8	2.7	4.9	6.1
% Growth	(65.2)	52.4	47.5	79.8	25.0
DPS (Rs)	0.4	0.3	1.3	2.5	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	398	398	398	398	398
Reserves	4,769	5,402	5,981	6,921	7,749
Net worth	5,167	5,800	6,379	7,319	8,147
Total debt	1,381	201	-	-	-
Other non-current liabilities & provisions	382	292	310	331	353
Net deferred tax liability	(28)	78	(64)	(64)	(64)
Capital employed	6,904	6,370	6,626	7,586	8,437
Gross block	5,180	5,300	5,821	6,642	7,517
Depreciation	1,492	1,776	2,142	2,563	3,061
Net block	3,687	3,525	3,679	4,079	4,457
Capital work-in-progress	1,322	1,338	1,338	1,000	300
Other non-current assets	423	276	303	364	437
Investments	5	5	5	5	5
Inventories	1,300	2,096	1,802	1,991	2,385
Debtors	801	558	1,152	1,077	1,291
Cash & Bank balance	36	530	461	944	1,745
Loans & advances	9	-	-	-	-
Other current assets	292	439	483	579	695
Total current assets	2,437	3,622	3,897	4,592	6,116
Creditors	379	1,847	2,163	1,991	2,385
Other current liabilities & provisions	592	547	433	462	493
Total current liabilities	970	2,395	2,596	2,453	2,878
Net current assets	1,467	1,227	1,301	2,138	3,239
Application of funds	6,904	6,370	6,626	7,586	8,437

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Profit/(loss) before tax	716	1,009	1,438	2,585	3,233
Finance cost	173	59	9	-	-
Depreciation & amortization	414	356	398	453	531
Direct taxes paid	(183)	(174)	(502)	(649)	(812)
(Inc./dec. in working capital)	(1,080)	814	16	(334)	(276)
Cash flow from operations (after E/O)	40	2,063	1,359	2,055	2,675
Capital expenditure (-)	(1,299)	(209)	(553)	(516)	(208)
Other investing activites	119	147	(28)	(61)	(73)
Free cash flow	(1,140)	2,002	778	1,479	2,394
Dividends paid (-)	(191)	(100)	(498)	(995)	(1,593)
Inc./dec. in total borrowings	1,384	(1,214)	(340)	-	-
Interest paid (-)	(173)	(59)	(9)	-	-
Others	(91)	(135)	0	0	0
Cash from financial activities	929	(1,508)	(847)	(995)	(1,593)
Opening cash balance	246	36	530	461	944
Closing cash balance	35	530	461	944	1,745
Change in cash balance	(211)	494	(69)	483	801

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

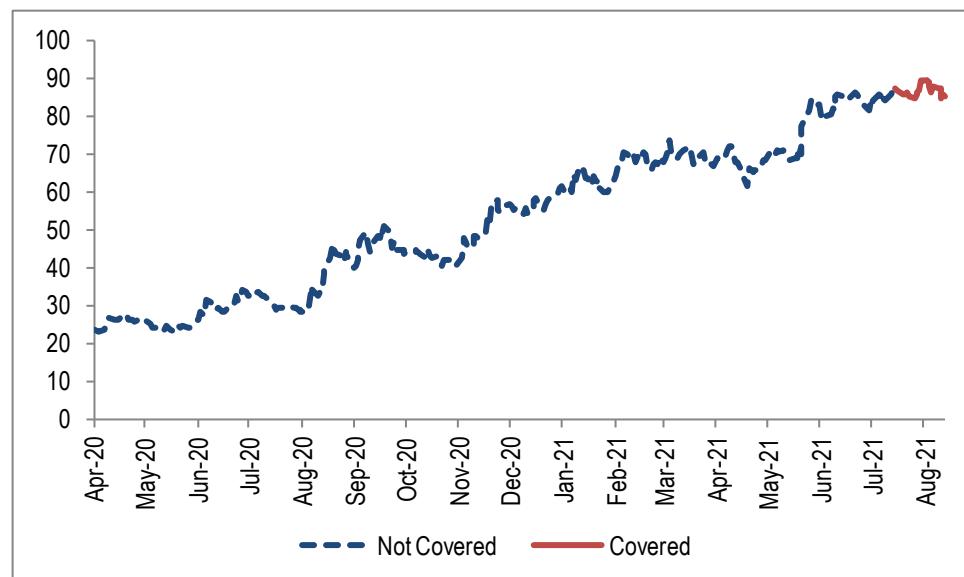
Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per share (Rs)					
EPS	1.2	1.8	2.7	4.9	6.1
EPS Growth (%)	(65.2)	52.4	47.5	79.8	25.0
Cash EPS	2.2	2.7	3.7	6.0	7.4
Book value per share	13.0	14.6	16.0	18.4	20.5
DPS	0.4	0.3	1.3	2.5	4.0
Payout (incl. div. tax) %	39.9	13.6	46.2	51.4	65.8
Valuation (x)					
P/E	70.7	46.4	31.4	17.5	14.0
Cash P/E	37.9	31.2	22.9	14.2	11.5
EV/EBITDA	31.0	25.4	19.2	11.4	9.0
EV/Sales	3.1	3.1	2.4	1.7	1.4
P/BV	6.6	5.8	5.3	4.6	4.2
Dividend yield (%)	0.5	0.3	1.5	2.9	4.7
Return ratios (%)					
RoCE	14.1	15.6	21.8	36.1	40.0
RoE	9.3	13.3	17.7	28.3	31.3
Profitability ratios (%)					
Gross margin	36.9	39.0	37.4	38.4	38.4
EBITDA margin	10.1	12.3	12.4	14.7	15.2
PAT margin	4.2	6.8	7.7	9.8	10.3
Turnover ratios					
Debtors (days)	26	19	30	20	20
Inventory (days)	42	71	47	37	37
Creditors (days)	14	71	64	43	44
Asset turnover (x)	1.2	1.3	1.5	2.0	2.2
Leverage Ratio					
Net Debt/equity (x)	0.3	(0.0)	(0.1)	(0.1)	(0.2)

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
15 July 2021	Buy	87	106
14 August 2021	Buy	86	106

Rating track graph



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