November 23, 2015

Jamna Auto Industries

Play on MHCV upcycle

Jamna Auto Industries (JAI) is engaged in the manufacturing of suspension products for commercial vehicles viz leaf springs and lift axles. It is the market leader in the MHCV OEM springs commanding market share of about 60%, while it has a 15% share in the aftermarket springs segment.

Recovery in OEM segment coupled with aftermarket focus to drive growth
The MHCV industry is clearly in an upcycle and is poised to grow at 16% CAGR over the FY2015-2018 period. This would be on account of economic pick-up leading to uptick in freight, huge pent up demand due to low base (industry had halved over FY2013-2014 period), and improving profitability of the fleet operators on account of firm freight rates and decline in diesel prices. The industry is likely to reach pre-slowdown levels by FY2018. Apart from growth in the springs segment, JAI is witnessing robust demand for lift axles used in multi axle vehicles (JAI commenced supplies to market leader Ashok Leyland). JAI is also in negotiation with high-end bus manufacturers for supplies of air suspension systems. We expect the share of new products to inch up from 4% of revenues in FY2015 to 7% by FY2018. We expect JAI to clock 14% revenue CAGR over the next three years.

Operating leverage, raw material localization and new products to augment margins
JAI would reap benefits of operating leverage on account of healthy double-digit top-line growth. Steep reduction in crude prices due to slowdown would lower the power and fuel costs which account for 7% of the top-line. Further, increasing share of high margin products such as parabolic leaf springs and lift axles (new products' share would go up from 22% currently to about 30% by FY2018) would also augment margins for the company. We estimate JAI's operating margins to improve by 130bp over the next three years.

Outlook and valuation: JAI's top-line is estimated to grow at 14% CAGR on account of uptick in the MHCV OEM segment and ramp up of new products, ie parabolic leaf springs and lift axles. Further, operating leverage coupled with a better product mix and savings on energy costs would enhance margins. We expect JAI's earnings to grow at a CAGR of 35% over FY2015-2018. JAI's return ratios are also estimated to improve on account of margin expansion, better working capital management and lower gearing. **We initiate coverage on JAI with an Accumulate rating and target price of ₹258 (based on 15x FY2018E earnings).**

Key financials

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net sales	1,095	1,292	1,486	1,620
% chg	*31.4*	*18.0*	*15.0*	*9.0*
Net profit (Adj.)	29	48	60	68
% chg	*NA*	*64.5*	*25.3*	*14.9*
EBITDA margin (%)	8.6	9.3	9.8	9.9
EPS (₹)	7.3	12.0	15.0	17.2
P/E (x)	32.2	19.6	15.6	13.6
P/BV (x)	4.7	4.0	3.4	2.9
RoE (%)	14.7	20.7	21.8	21.3
RoCE (%)	23.2	25.1	27.1	27.3
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	10.4	8.4	7.0	6.2

Source: Company, Angel Research; CMP as on Nov 20, 2015

ACCUMULATE

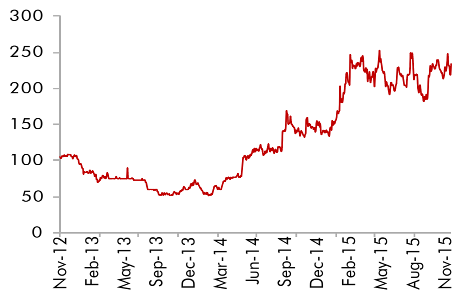
CMP	₹234
Target Price	₹258
Investment Period	12 Months

Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	890
Net Debt (₹ cr)	54
Beta	1.1
52 Week High / Low	275 / 130
Avg. Daily Volume	4,346
Face Value (₹)	10
BSE Sensex	25,868
Nifty	7,857
Reuters Code	JMNA.BO
Bloomberg Code	JMNA@IN

Shareholding Pattern (%)	
Promoters	43.8
MF / Banks / Indian FIs	1.9
FII / NRIs / OCBs	1.0
Indian Public / Others	53.3

Abs. (%)	3m	1yr	3yr
Sensex	(6.3)	(7.8)	41.1
JMNA	6.6	60.0	127.9

3-Year Daily price chart



Source: Company, Angel Research

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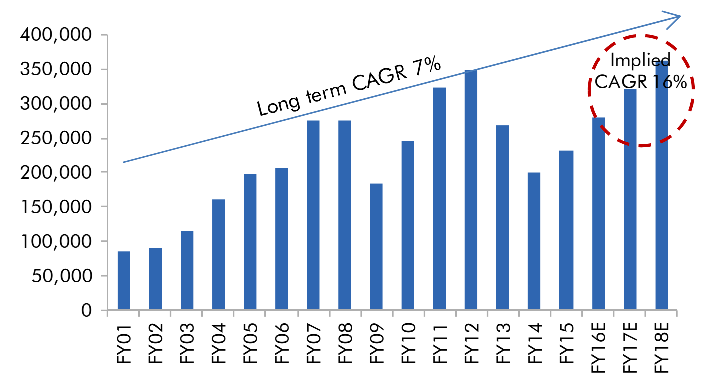
Investment Arguments

MHCV industry in upcycle; expect 16% CAGR over FY2015-18

After two consecutive years of double-digit dip, the MHCV industry resurged strongly in FY2015, reporting a healthy growth of 17%. Policy actions by the government led to economic recovery. Further, government actions in terms of clearing stalled projects, increased infrastructure activity, and resumption of mining have further boosted MHCV sales. Also, improvement in fleet operators' profitability due to firm freight rates and reduction in diesel prices have also boosted demand. Huge pent up demand due to severe slowdown in FY2013/14 coupled with economic revival has stoked demand.

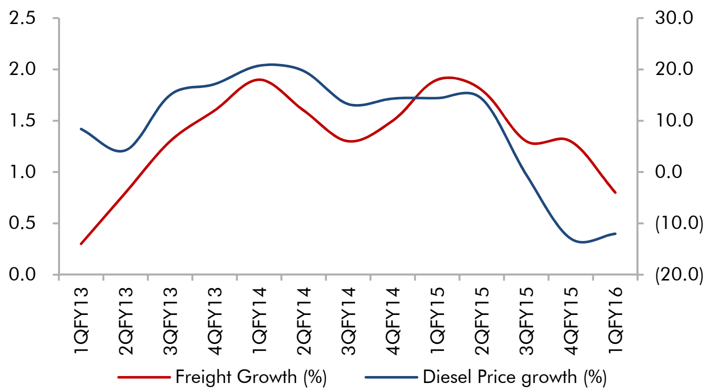
The MHCV industry is clearly in an upcycle and we expect the industry to maintain double-digit growth momentum and clock 16% CAGR over FY2015-2018 period. Given the pace of recovery, the MHCV segment should reach pre-slowdown levels (levels seen in FY2012) by FY2018. JAI derives about 70% of its revenues from the MHCV OEM segment and would be a beneficiary of the strong demand.

Exhibit 1: MHCV industry trend



Source: SIAM, Angel Research

Exhibit 2: Trend in freight rates and diesel prices



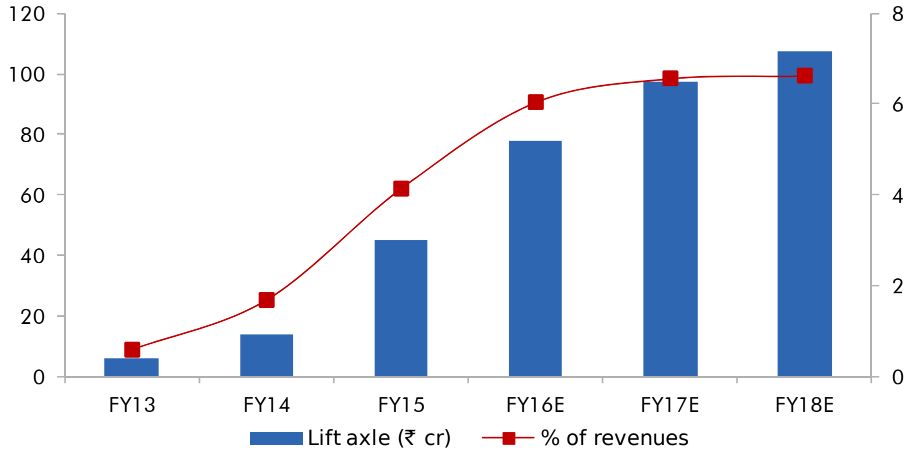
Source: SIAM, Angel Research

New product launches to boost top-line

Under the "Lakshya" initiative, JAI is aiming for 33% revenue contribution from new products. JAI is focusing on new products such as parabolic leaf springs, lift axles and air suspension systems. JAI has been a pioneer in introducing parabolic springs (currently holds 95% market share) which are more strong as compared to conventional springs and offer more driving comfort. The penetration of parabolic springs currently stands at 18% and is expected to reach 25% levels over the next three years.

JAI aims to be a leader in automobile suspension solutions. It aims to be a full suspension system provider and has expanded its product profile. In 2013, JAI ventured into manufacturing of lift axles and air suspensions with technological collaboration with Ridewell Corporation, USA. JAI successfully commenced supplies of lift axles to Ashok Leyland in FY2013 and is in negotiation with other OEMs. The share of lift axles in the overall revenues increased to 4% in FY2015. Similarly, JAI is also negotiating with SML Isuzu for commencing supplies of air suspension systems. We expect the share of new products to improve from 22% to 30% by FY2018.

Exhibit 3: Lift axles



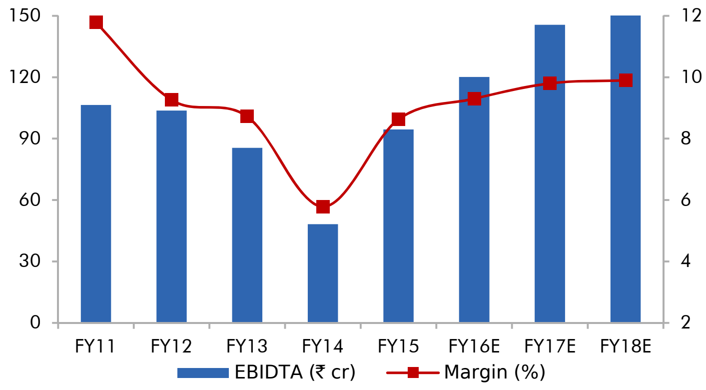
Source: Company, Angel Research

Operating leverage, lower energy prices coupled with better product mix to improve margins

JAI's revenues are likely to grow at 14% CAGR over the next three years owing to steep uptrend in the MHCV OEM segment. The company is likely to draw benefits of operating leverage due to double digit top-line growth. Also, given the slump in oil prices due to slowdown in China, the energy cost for the company (forming about 7% of the revenues) is likely to remain lower resulting into margin improvement.

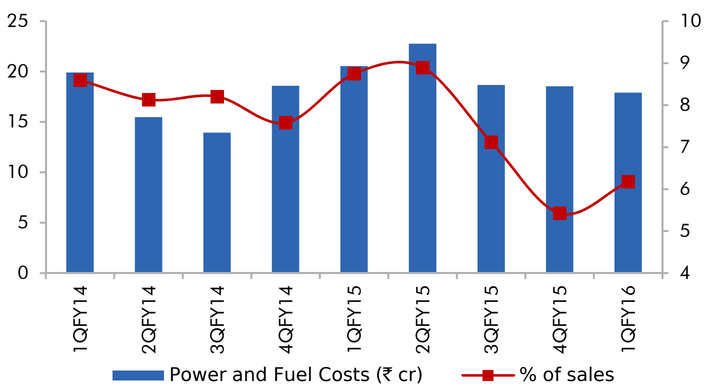
Also, JAI is likely to benefit from a better product mix viz lift axles and parabolic springs. The MHCV industry is increasingly adopting technologically advanced parabolic springs which offer more driver comfort and are long lasting as compared to conventional springs. Parabolic springs fetch about 20% more realisaton as well as better margins. JAI is the pioneer in introduction of parabolic springs and already commands 95% market share. The share of parabolic springs is likely to increase from 18% to 25% over the next three years. Also, the share of lift axles is likely to inch up given the ramp up of supplies. We expect JAI's margins to improve by 130bp over the next three years.

Exhibit 4: EBIDTA margins to improve



Source: Company, Angel Research

Exhibit 5: Energy cost trend

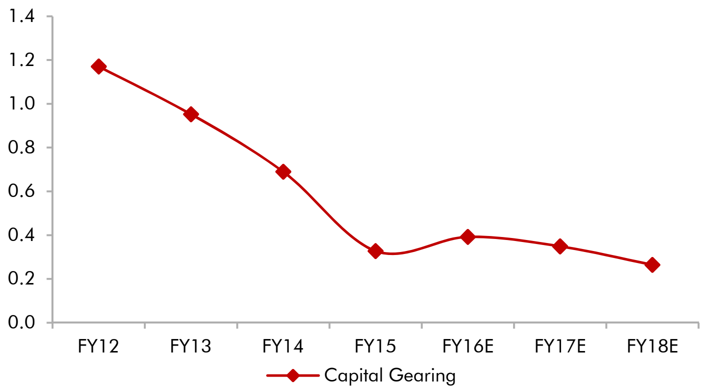


Source: Exchange rates, Angel Research

Margin improvement coupled with improvement in leverage to boost return ratios

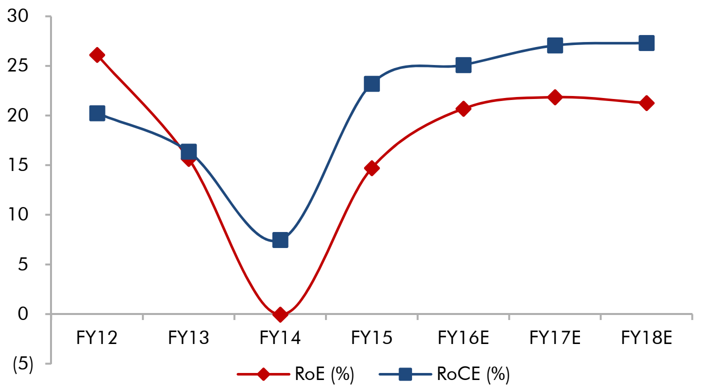
JAI's margins are estimated to improve by 130bp from 8.6% in FY2015 to 9.9% in FY2018. Also, JAI is following better working capital management by adopting just-in-time approach (leading to lower inventory) and having better negotiation terms with customers. Given the robust top-line growth coupled with improved working capital cycle, JAI's capital expenditure is likely to be met through internal accruals. JAI's debt/equity ratio is likely to remain low at 0.3x. Given the above factors, we expect JAI's RoCE to improve from 23.2% in FY2015 to 27.3% in FY2018. Similarly, the RoE is estimated to improve from 14.7% in FY2015 to 21.3% in FY2018.

Exhibit 6: Capital Gearing



Source: Company, Angel Research

Exhibit 7: Return ratios



Source: Company, Angel Research

Focus on Aftermarket segment to augment growth

In a bid to reduce dependence on the OEM business, JAI is focusing on the aftermarket segment. As per industry estimates, the size of the aftermarket segment is similar to the OEM (aftermarket size is pegged at ₹1200cr-1500cr). JAI's aftermarket revenues have grown at 15% CAGR over the FY2011-15 period. JAI is pretty strong in the Northern and Western markets with it deriving about 70% of the aftermarket revenues from these markets. JAI is expanding dealerships in the Southern and the Eastern markets as well to boost revenues.

Further as per JAI, the unorganised players currently constitute about half of the overall aftermarket industry. Unorganised players are mostly from the cottage industry and do not pay taxes, leading to a price advantage. As per the Management, the rollout of GST would virtually eliminate the pricing advantage of the unorgainsed players. Organised players such as JAI would benefit from GST and are likely to see market share gains.

Management targets

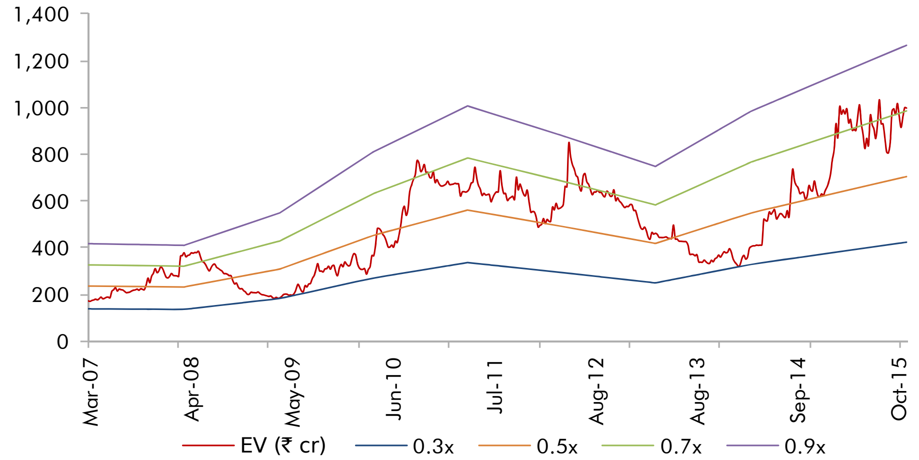
JAI has a vision to be a leader in automobile suspension solutions. To achieve this, the Management has charted out an action plan - Lakshya 33. Lakshya 33 envisages the following:

- **33% revenue from new products:** JAI aims to derive one-third of its revenues from new products. JAI has successfully introduced new products viz lift axles, air suspension systems and new generation springs.
- **33% revenues from new markets:** The Management is aiming to derive one-third of the revenues from new segments, viz the aftermarket segment and exports. The company is strengthening its dealer network in Eastern and Southern markets to boost aftermarket sales. Further, JAI is setting up a plant in Hosur to supply to global OEMs, viz General Motors and Ford.
- **Lower breakeven point:** JAI is aiming to lower the breakeven point to 33% of the installed capacity. The Management aims to achieve this by focusing on operational efficiencies and reducing fixed costs.
- **RoCE and dividend payout of 33%:** The Management aims to achieve RoCE of 33%, led by lowering the breakeven point and a better product mix. Further, to award shareholders, the Management would increase the dividend payout to 33%.

Outlook and Valuation

JAI's top-line is estimated to grow at a CAGR of 14% on account of uptick in the MHCV OEM segment and ramp up of new products, ie parabolic leaf springs and lift axles. Further, operating leverage coupled with a better product mix and savings on energy costs would enhance margins. We expect JAI's earnings to grow at a CAGR of 35% over FY2015-2018. JAI's return ratios are also estimated to improve on account of margin expansion, better working capital management and lower gearing. **We initiate coverage on JAI with an Accumulate rating and target price of ₹258 (based on 15x FY2018E earnings).**

Exhibit 8: One-year forward EV/Sales band

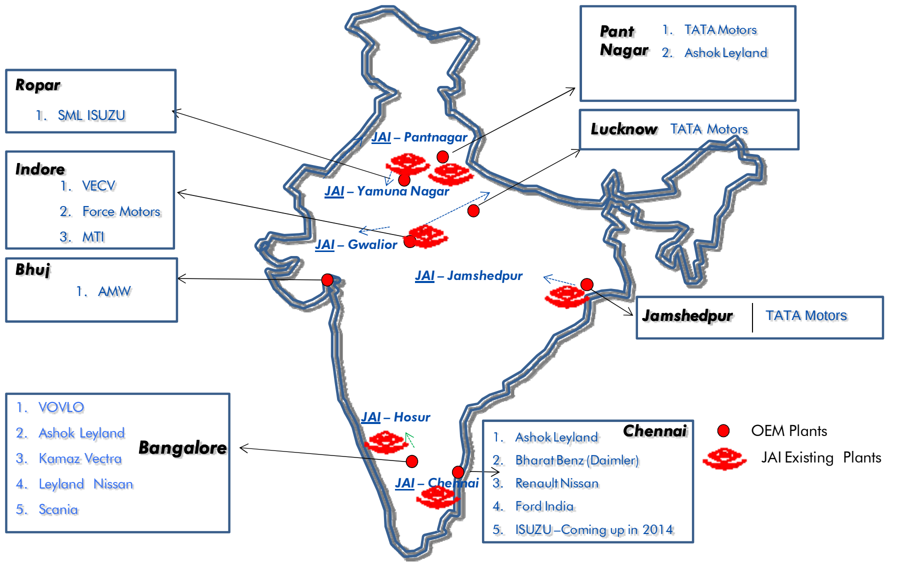


Source: Company, Angel Research

Company Background

Jamna Auto Industries Ltd is India's largest and world's third largest manufacturer of tapered leaf springs and parabolic springs for automobiles. The company was first to introduce parabolic springs in India. It has six strategically located manufacturing facilities at Yamuna Nagar, Malanpur (near Gwalior), Chennai, Jamshedpur, Hosure and Pantnagar (under subsidiary entity). The company is the market leader with 57% market share in the Indian OEM segment and produces over 410 modes of springs for OEMs.

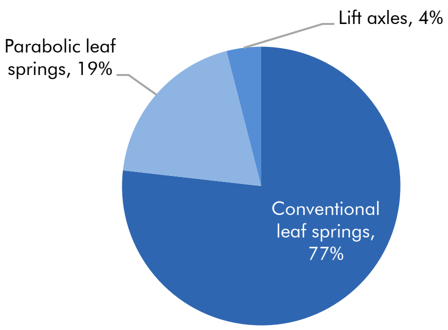
Exhibit 9: Manufacturing footprint



Source: Company, Angel Research

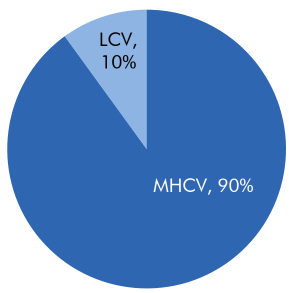
JAI is the domestic leader in the manufacturing of leaf springs for commercial vehicles. It has a well established client base supplying to major domestic customers such as Tata Motors, Ashok Leyland, Volvo Eicher Commercial Vehicles and foreign players such as Daimler India. Springs constitute about 95% of the company's sales. Conventional springs contribute 77% of the revenues while the parabolic springs account for 19%. The recently introduced lift axles constitute 4% of the top-line. The MHCV segment contributes a major chunk of revenues for the company, forming about 90% of the overall top-line. Besides the MHCV segment, JAI also supplies to the LCV segment which constitutes about 10% of the revenues.

Exhibit 10: Product breakup



Source: Company, Angel Research

Exhibit 11: Segmentwise breakup



Source: Company, Angel Research

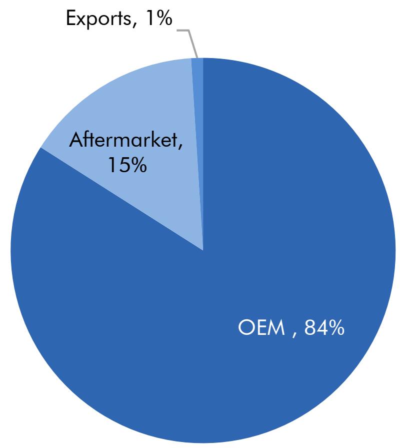
The OEM segment is the largest contributing segment, accounting for about 84% of revenues. Aftermarket is the second largest segment constituting ~15% of the revenues. Exports currently constitute about 1% of the overall sales.

Exhibit 12: Client base

Domestic customers	International customers
Tata Motors, Ashok Leyland, VECV, Swaraj Mazda, AMW, Mahindra & Mahindra	Daimler India, Volvo, Renault-Nissan, Isuzu, Ford, General Motors

Source: Company, Angel Research

Exhibit 13: Customer segmentation



Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	**980**	**833**	**1,095**	**1,292**	**1,486**	**1,620**
% chg	*(12.5)*	*(15.0)*	*31.4*	*18.0*	*15.0*	*9.0*
Total Expenditure	**895**	**785**	**1,001**	**1,172**	**1,340**	**1,459**
Net Raw Materials	645	563	735	863	988	1,077
Personnel	60	60	69	79	89	97
Other	190	162	197	230	263	285
EBITDA	**85**	**48**	**94**	**120**	**146**	**160**
% chg	*(17.6)*	*(43.6)*	*95.9*	*27.2*	*21.2*	*10.1*
(% of Net Sales)	*8.7*	*5.8*	*8.6*	*9.3*	*9.8*	*9.9*
Depreciation & Amortisation	29	26	31	37	43	46
EBIT	**59**	**24**	**65**	**86**	**106**	**118**
% chg	*(19.9)*	*(58.7)*	*168.7*	*31.0*	*23.3*	*11.6*
(% of Net Sales)	*6.0*	*2.9*	*6.0*	*6.6*	*7.1*	*7.3*
Interest & other Charges	27	24	18	14	16	15
Other Income	2	2	2	3	3	4
PBT (recurring)	**32**	**0**	**47**	**72**	**90**	**103**
% chg	*(41.2)*	*(99.2)*	*17,639.2*	*51.3*	*25.1*	*14.8*
Extraordinary Expense/(Inc.)	-	16	-	-	-	-
PBT (reported)	**32**	**17**	**47**	**72**	**90**	**103**
Tax	4	3	18	24	30	34
(% of PBT)	*13.8*	*17.2*	*38.0*	*33.0*	*33.0*	*33.0*
Minority Interest	0	0	0	-	-	-
Preference dividend	0	0	0	0	0	0
PAT (reported)	**27**	**14**	**29**	**48**	**60**	**68**
ADJ. PAT	**27**	**(0)**	**29**	**48**	**60**	**68**
% chg	*(33.0)*	*NA*	*NA*	*64.5*	*25.3*	*14.9*
(% of Net Sales)	*2.8*	*(0.0)*	*2.6*	*3.7*	*4.0*	*4.2*
Basic EPS (₹)	**6.9**	**3.4**	**7.3**	**12.0**	**15.0**	**17.2**
Fully Diluted EPS (₹)	**6.9**	**(0.0)**	**7.3**	**12.0**	**15.0**	**17.2**
% chg	*(33.0)*	*NA*	*NA*	*64.5*	*25.3*	*14.9*

Balance sheet statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	43	41	40	40	40	40
Reserves& Surplus	132	140	157	190	233	282
Shareholders Funds	**175**	**182**	**196**	**230**	**273**	**322**
Total Loans	166	125	64	90	95	85
Deferred Tax Liability	16	15	16	16	16	16
Other long term liab.	1	1	1	1	1	1
Long term provisions	3	3	4	5	6	8
Total Liabilities	**360**	**326**	**282**	**342**	**391**	**432**
APPLICATION OF FUNDS						
Gross Block	463	467	479	579	669	729
Less: Acc. Dep.	198	208	237	274	317	363
Net Block	**265**	**259**	**242**	**305**	**352**	**366**
Capital WIP	17	2	8	3	3	3
Investments	**5**	**0**	**0**	**0**	**0**	**0**
Long Loans and adv.	39	32	39	47	53	58
Current Assets	274	245	206	243	272	322
Cash	15	14	11	8	3	14
Other	259	231	196	234	270	308
Current liabilities	241	213	214	256	291	318
Net Current Assets	**32**	**32**	**(8)**	**(13)**	**(18)**	**4**
Total Assets	**360**	**326**	**282**	**342**	**391**	**432**

Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	32	17	47	72	90	103
Depreciation	19	10	29	37	43	46
Change in Working Capital	9	(1)	37	3	(1)	(11)
Others	1	0	2	0	1	2
Direct taxes paid	(4)	(3)	(18)	(24)	(30)	(34)
Cash Flow from Operations	57	23	96	88	103	105
(Inc.)/ Dec. in Fixed Assets	(28)	11	(17)	(95)	(90)	(60)
(Inc.)/ Dec. in Investments	0	5	0	0	0	0
(Inc.)/ Dec. in Loans & Adv	2	7	(7)	(7)	(7)	(5)
Cash Flow from Investing	(26)	23	(24)	(102)	(97)	(65)
Issue of Equity	0	(2)	(2)	0	0	0
Inc./(Dec.) in loans	(17)	(41)	(61)	26	5	(10)
Dividend Paid (Incl. Tax)	(8)	(4)	(9)	(14)	(17)	(19)
Others	(1)	(1)	(4)	0	0	0
Cash Flow from Financing	(25)	(47)	(75)	11	(12)	(29)
Inc./(Dec.) in Cash	5	(1)	(3)	(2)	(6)	11
Opening Cash balances	10	15	14	11	8	3
Closing Cash balances	15	14	11	8	3	14

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	34.1	NA	32.2	19.6	15.6	13.6
P/CEPS	16.5	36.0	15.5	11.0	9.1	8.1
P/BV	5.3	5.1	4.7	4.0	3.4	2.9
Dividend yield (%)	0.9	0.4	0.9	1.5	1.8	2.1
EV/Sales	1.1	1.2	0.9	0.8	0.7	0.6
EV/EBITDA	12.6	21.6	10.4	8.4	7.0	6.2
EV / Total Assets	3.0	3.2	3.5	3.0	2.6	2.3
Per Share Data (₹)						
EPS (Basic)	6.9	0.0	7.3	12.0	15.0	17.2
EPS (fully diluted)	6.9	0.0	7.3	12.0	15.0	17.2
Cash EPS	14.2	6.5	15.1	21.3	25.8	28.8
DPS	2.0	1.0	2.2	3.6	4.2	4.8
Book Value	43.9	45.7	49.4	57.8	68.6	81.0
Dupont Analysis						
EBIT margin	6.0	2.9	6.0	6.6	7.1	7.3
Tax retention ratio	0.9	0.8	0.6	0.7	0.7	0.7
Asset turnover (x)	2.8	2.7	4.0	3.9	3.8	3.9
ROIC (Post-tax)	14.7	6.5	15.0	17.2	18.3	18.9
Cost of Debt (Post Tax)	13.9	15.9	17.4	10.4	11.3	11.8
Leverage (x)	0.9	0.6	0.3	0.4	0.3	0.2
Operating ROE	15.4	0.6	14.3	19.7	20.6	20.5
Returns (%)						
ROCE (Pre-tax)	16.4	7.5	23.2	25.1	27.1	27.3
Angel ROIC (Pre-tax)	17.1	7.8	24.1	25.7	27.3	28.2
ROE	15.6	(0.1)	14.7	20.7	21.8	21.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	1.8	2.3	2.2	2.2	2.2
Inventory / Sales (days)	49.0	44.1	36.4	37.0	37.0	38.0
Receivables (days)	39.8	47.5	18.8	19.0	19.0	21.0
Payables (days)	89.9	93.3	71.4	72.3	71.4	71.6
WC cycle (ex-cash) (days)	6.4	7.9	(6.2)	(6.1)	(5.2)	(2.2)
Solvency ratios (x)						
Net debt to equity	0.9	0.6	0.3	0.4	0.3	0.2
Net debt to EBITDA	1.8	2.3	0.6	0.7	0.6	0.4
Interest Coverage (EBIT / Int.)	2.2	1.0	3.6	6.1	6.6	7.9

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Disclosure of Interest Statement	Jamna Auto Industries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*