

The CUB Series

*“Catch the CUB before it
roars like a Lion”*



Jamna Auto Inds. Ltd

Q3 FY17 Result Update
CMP INR 196; Target INR 225, BUY

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We initiate coverage on **Jamna Auto Inds. Ltd.** as a part of our '**CUB**' series. Under the '**CUB**' series banner, we are covering small-cap companies with robust long-term growth potential. Through this series our endeavour is to recommend small-cap companies with limited coverage. Despite low liquidity and a small business size, these companies have robust long-term fundamentals and sustainable structural growth drivers.

In our view, investment themes in equity markets play-out over the long-term with potential payoffs taking time to materialize. By introducing the **CUB series** our goal is to identify quality small-cap companies in the early stages of significant growth cycle.

Some of the important attributes of CUB series stocks are as under:

- * Small cap companies with robust long-term growth potential
- * Steady cash flows, healthy balance sheets and return ratios
- * Good corporate governance
- * Not widely covered and liquidity could be an issue

Key risks to investing in CUB Series

- * Despite being potential multi-baggers the CUB stocks are essentially micro cap plays and tend to be more risky vis-à-vis Large- and Mid-Caps
- * The CUB stocks also tend to be highly volatile and fluctuate sharply on either side
- * The CUB stocks tend to be relatively illiquid when compared to Large- and Mid-Caps
- * The clients should exercise utmost care while investing in CUB stocks; patience and discipline are key
- * Clients should set aside only a small proportion of their investible surplus towards CUB stocks to mitigate risks
- * Try to diversify your exposure to CUB stocks by investing in multiple stocks rather than bet on just a few scrips

Topline witnessed a healthy rise despite of demand pressure; Revenue estimates revised downwards

Jamna Auto Industries (JAI) had an encouraging Q3FY17, as its topline observed a y-o-y growth of around 9%. Despite 3% y-o-y drop in M&HCV domestic sales during Q3FY17, growth in company's topline during the same period was encouraging. Healthy increase in production in Oct and Nov in anticipation of BS IV pre-buying and year end stocking negated the decline in production due to demand slowdown in Dec 2016, post demonetization announcement. JAI was able to reap the benefits of modest rise in M&HCV production in Q3FY17 and was able to drive healthy growth to its topline in Q3FY17. However in the event of slowdown in M&HCV demand post demonetization announcement in Q3FY17, we are revising our revenue estimates downwards by 720/30 bps for FY17E/FY18E. Nevertheless we expect in Q4FY17 domestic demand to recover and subsequently production to revive on the back of BS IV pre buying and demand pickup from infrastructure and construction space. We estimate JAI topline to grow by 4%/13% y-o-y in FY17E/FY18E.

EBITDA margins were in line with the expectation

Although prices of key raw materials has increased off-late, efforts towards improving efficiency has led JAI to keep its EBITDA margins in Q3FY17 at 12.5%, which was at same levels as Q3 previous fiscal. Further focus towards increasing margin lucrative after market business and realisation lucrative parabolic springs and lift axle business also enabled company buck the high input cost pressure. Drop in interest cost coupled with rise in other income fuelled growth in PAT margins from 5.6% in Q3FY16 to 6.8% in Q3FY17.

Outlook & Valuations

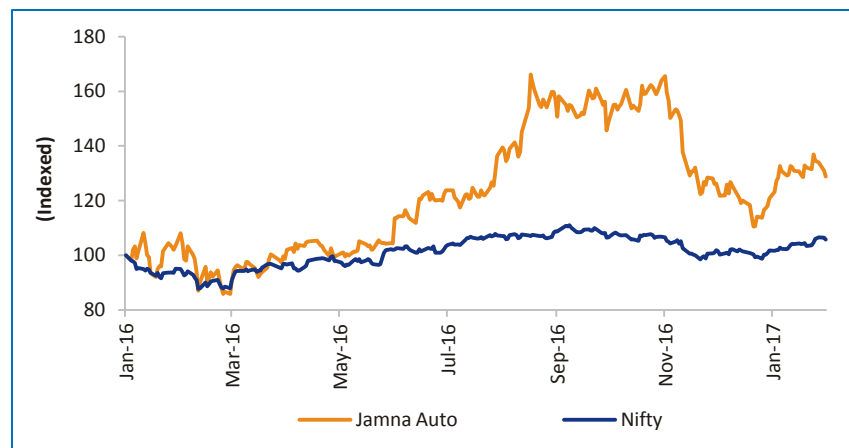
At a price of INR 196, the company is trading at a PE of 17.9x/13.9x FY17E/FY18E. We have revised our EPS estimates to INR 11.8/13.6 in FY17E/FY18E against INR 13.1/15.4. On the back of constant focus towards efficiency improvement, JAI would be able to keep margins at an healthy levels, despite y-o-y slowdown estimated in topline growth because of lower industry growth expected in FY17. However with healthy growth outlook intact in the near to medium term along with high ROCE, strong cash flow, and healthy margin performance would continue to lead higher valuation going forward. We reiterate our 'BUY' rating maintaining target price of INR 225.

Financials - Consol								
Year to March	Q3FY17	Q3FY16	%change	Q2FY17	%change	FY16	FY17E	FY18E
Net sales (INR cr)	306	282	9%	275	11%	1,256	1,323	1,532
Revenue Growth(%)						15%	5%	16%
EBITDA (INR cr)	38	36	7%	35	10%	157	182	227
Core PAT (INR cr)	21	15	35%	21	-1%	71	88	114
Dil. EPS (INR)						9	11	14
Diluted P/E (x)						22.0	17.9	13.9
EV/EBITDA (x)						0.0	0.0	0.0
ROACE (%)						24%	29%	29%

Target (INR)	225
Upside/downside (%)	13
Rating	Buy

CMP	196	Industry	Auto-Component
52 week high/low	241 / 116	Promoter	Jauhar Family
Market cap (INR cr)	1,588	Corporate Office	Delhi
Avg. Daily Vol ('000)	233	Auditors	S R Batliboi & Co LLP
Bloomberg code	JMNA IS	Credit rating	"A" Rated

	Dec-16	Sep-16	Jun-16
Promoter	47.88	47.91	47.91
Public	52.12	52.09	52.09

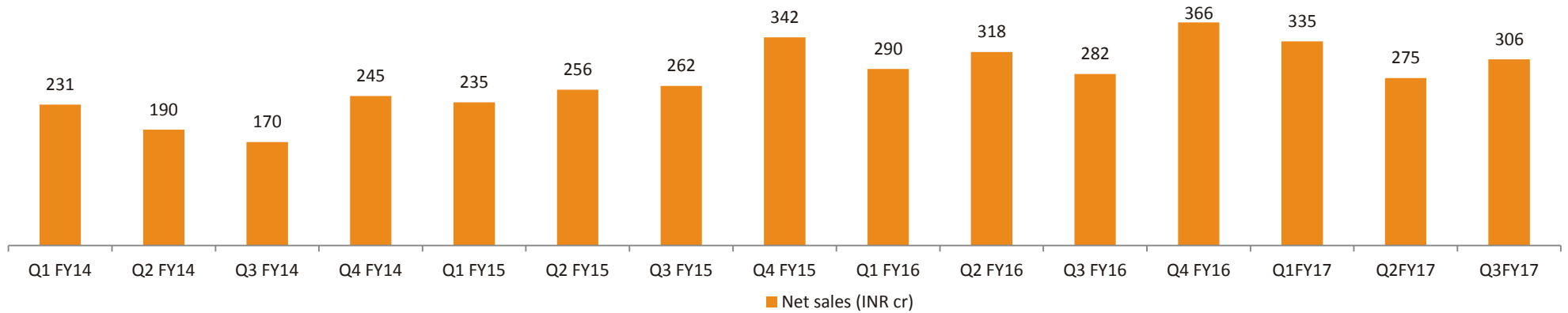


Source: Edel Invest Research.

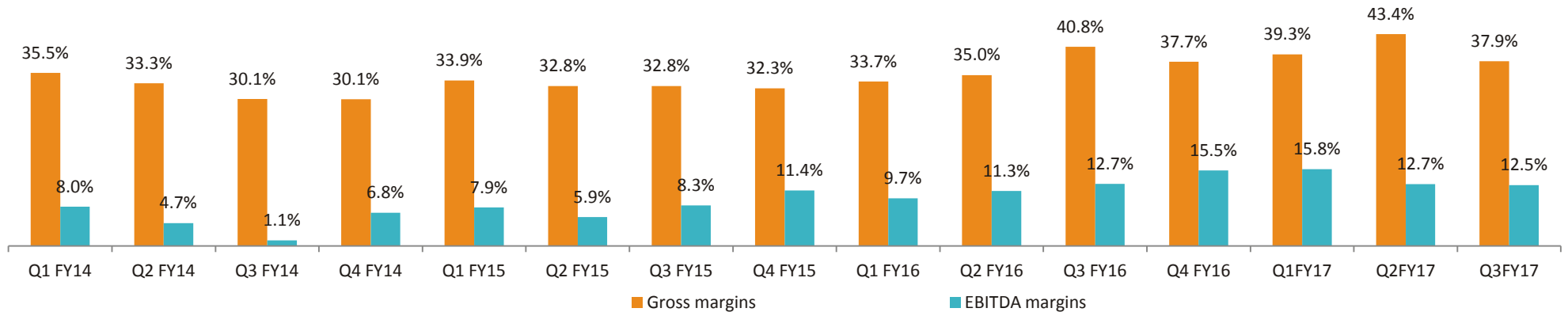
Other Key Highlights:

- * The new plant in Hosur with 36,000 MT spring capacity is expected to be completed shortly. Post the Hosur plant, the overall leaf spring capacity of the company will increase to 2,16,000 MT p.a. against 1,80,000 MT currently.
- * Continued strong momentum in margins would fuel rise in JAI's ROCE from 24% in FY16 to ~28%/29% in FY17E/FY18E. Healthy profitability will help the company to further improve its debt-equity from 0.05x in FY16 to 0.04x/0.03x in FY17E/FY18E.
- * The management is expected to maintain the modest growth momentum in the near term as they are not experiencing slow down in demand from the MHCV OEM on the back of decent BSIV pre-buying.
- * Implementation of GST, demand from after-market along with introduction of scrappage policy will open new growth avenues for the company in near to medium term period.
- * Jamna has around 20% market share in aftermarket business, which it plans to increase to 50% in next 2 years
- * Management is also targeting after-market demand in other countries that would drive the revenue growth in future.

Modest rise in M&HCV production helped JAI to gain in terms of topline

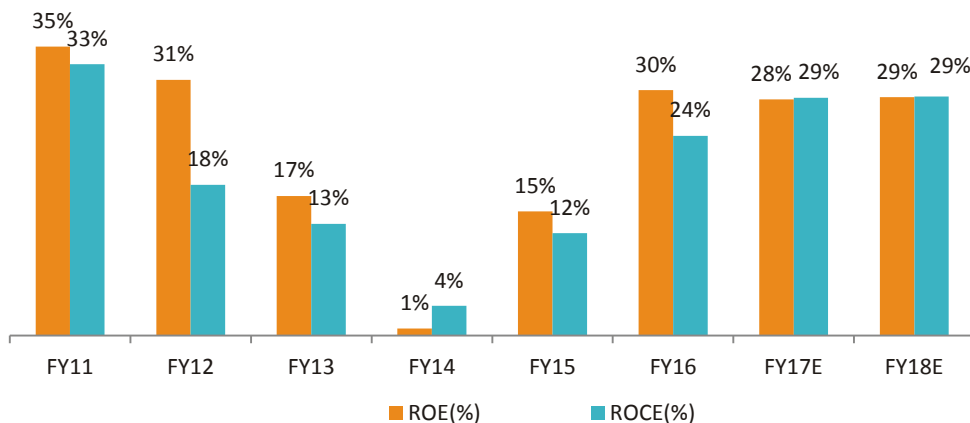


Rise in key input prices led to marginal drop in EBITDA margins in Q3FY17

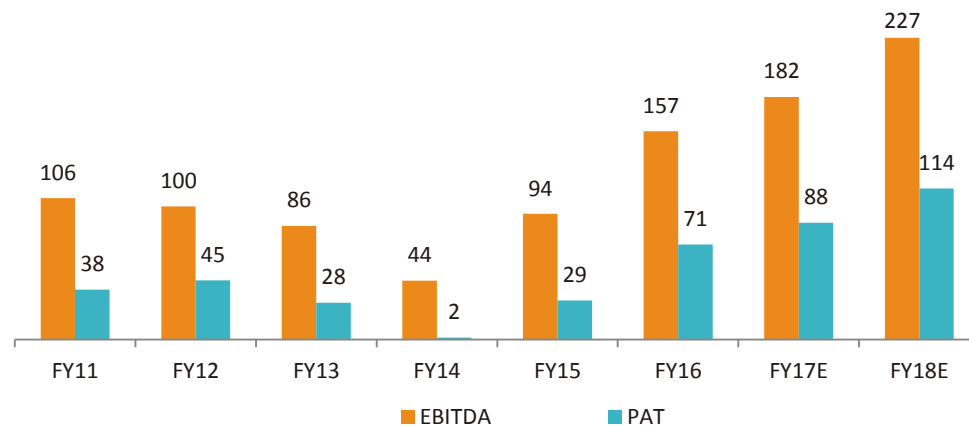


ROCE to reach 35%, Cash flow generation to improve

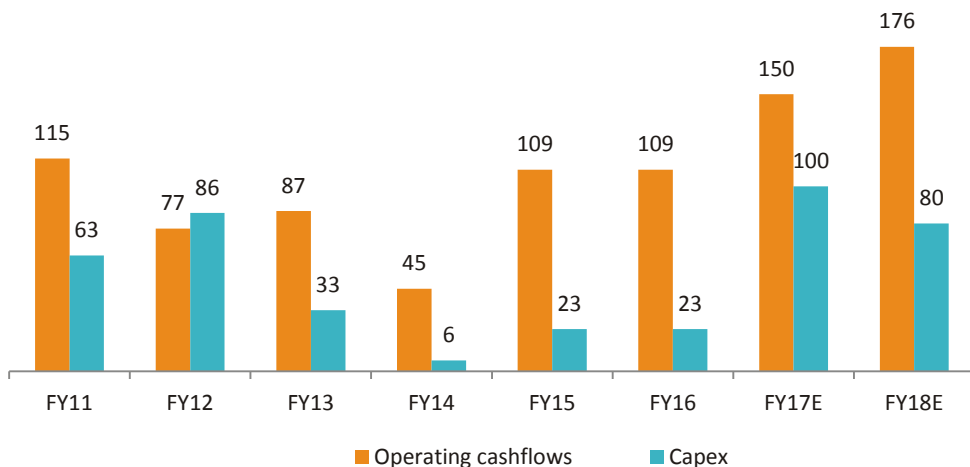
Improving ROCE trajectory



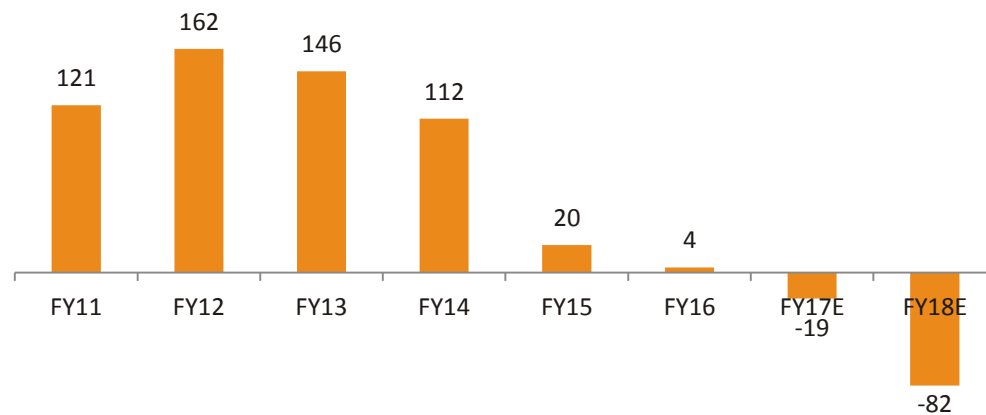
Operating Leverage to be a primary driver of profitability



Operating cash-flow generation to fund JAI's Capex requirement



Reducing Net Debt ; Incremental capex from internal accruals



Source: Company, Edel Invest Research.

Financials

Year to March	Q3FY17	Q3FY16	%change	Q2FY17	%change
Net sales	305.7	281.6	8.5%	275.3	11.0%
EBITDA	38.2	35.8	6.6%	34.9	9.5%
PAT	20.9	15.5	34.8%	21.0	-0.6%

EBITDA Analysis	Q3FY17	Q3FY16	%change	Q2FY17	%change
Net sales	305.7	281.6	8.5%	275.3	11.0%
Raw material consumed	189.9	166.7	-6.5%	155.8	21.9%
Gross Profits	115.8	114.9	0.7%	119.5	-3.1%
Employee Expenses	26.3	24.7	6.8%	26.7	-1.4%
Other Expenses	51.3	54.5	-5.9%	57.9	-11.5%
EBITDA	38.2	35.8	6.6%	34.9	9.5%

Common size metrics- as % of net revenues

Year to March	Q3FY17	Q3FY16	%change	Q2FY17	%change
Net sales	100.0%	100.0%	0	100.0%	0
Raw material consumed	62.1%	59.2%	294	56.6%	554
Gross Profits	37.9%	40.8%	-294	43.4%	-554
Employee Expenses	8.6%	8.8%	-14	9.7%	-109
Other Expenses	16.8%	19.3%	-257	21.0%	-427
EBITDA	12.5%	12.7%	-23	12.7%	-17

Segmental mix

Year to March	Q3FY17	Q3FY16	%change	Q2FY17	%change
Leafspring	270.0	251.0	7.6%	247.8	9.0%
Conventional	220.6	194.3	13.5%	193.2	14.2%
Parabolic	49.4	56.7	-12.9%	54.5	-9.4%
Lift axle	36.0	30.0	20.0%	28.0	28.6%

Financial Overview



Financial Statements

Year to March (INR Cr)	FY14	FY15	FY16	FY17E	FY18E
Net revenue	834	1,095	1,256	1,323	1,532
Materials costs	563	735	794	847	988
Gross profit	271	360	462	476	544
Employee costs	60	69	94	107	107
Manufacturing exp	107	127	104	99	123
SG&A	59	70	107	86	100
EBITDA	44	94	157	182	227
Depreciation & Amortization	26	31	45	44	51
EBIT	18	63	111	138	175
Other income	10	2	8	1	1
EBIT incl. other income	28	65	120	139	176
Interest expenses	24	18	15	8	6
Profit before tax	4	47	105	131	170
Provision for tax	3	18	33	43	56
Adjusted Profit	2	29	71	88	114
Minority interest	-	0	-	-	-
Adjusted Profit after minority	2	29	71	88	114
Extraordinary income/(loss)	(12)	-	-	-	-
Net profit after minority	14	29	71	88	114
Basic shares outstanding (crs)	8.3	7.9	8.0	8.0	8.0
EPS (Rs.)	0.2	3.7	8.9	11.0	14.2
Dividend per share (Rs.)	0.5	0.0	1.8	2.2	2.8
Dividend payout (%)	260%	0%	20%	20%	20%

Common size metrics - as % of net revenues

Year to March	FY14	FY15	FY16	FY17E	FY18E
Materials costs	67.5%	67.1%	63.2%	64.0%	64.5%
Employee expenses	7.2%	6.3%	7.5%	8.1%	7.0%
Manufacturing exp	12.9%	11.6%	8.3%	7.5%	8.0%
SG&A	7.1%	6.4%	8.5%	6.5%	6.5%
Depreciation	3.1%	2.8%	3.6%	3.3%	3.4%
EBITDA margins	5.3%	8.6%	12.5%	13.8%	14.8%
EBIT margins	2.2%	5.8%	8.9%	10.4%	11.4%
Adj profit margins	0.2%	2.7%	5.7%	6.6%	7.4%
Net profit margins	1.7%	2.7%	5.7%	6.6%	7.4%

Growth ratios (%)

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	-14.9%	31.3%	14.7%	5.4%	15.8%
EBITDA	-48.1%	112.8%	65.7%	16.5%	24.3%
PBT	-86.4%	981.8%	121.5%	25.1%	29.2%
Adj profit	-94.5%	1833.2%	143.2%	23.1%	29.2%
Net profit	-50.1%	112.3%	143.2%	23.1%	29.2%

Balance sheet

As on 31st March	FY14	FY15	FY16	FY17E	FY18E
Equity capital	41	40	40	40	40
Reserves & surplus	140	157	202	270	357
Minority Interest	-	0	0	-	-
Borrowings	125	31	12	12	12
Deferred tax	15	16	5	5	5
Sources of funds	322	243	259	327	414
Gross Block	467	480	503	603	683
Accumulated Depreciation	208	239	226	271	322
CWIP	2	8	-	-	-
Net Fixed Assets	262	250	276	332	361
Investments	-	-	-	-	-
Inventories	101	109	107	109	126
Sundry debtors	108	56	38	36	42
Cash and equivalents	14	11	8	30	94
Loans and advances	55	70	40	42	49
Total current assets	278	246	193	218	311
Sundry creditors and others	207	197	205	218	252
Provisions	11	-	-	-	-
Total current liabilities & provisions	217	253	205	218	252
Net current assets	60	(7)	(11)	0	59
Uses of funds	322	243	259	327	414
Book value per share (INR)	22.0	24.8	30.3	38.7	49.6

Free cash flow

Year to March	FY14	FY15	FY16	FY17E	FY18E
Net profit	14	29	71	88	114
Add : Depreciation	26	31	45	44	51
Others	-4	-2	-64	0	0
Gross cash flow	36	58	52	132	165
Add: Changes in WC	10	28	28	11	5
Operating cash flow	45	109	109	150	176
Less: Capex	6	23	23	100	80
Free cash flow	39	86	86	50	96

Cash flow metrics

Year to March	FY14	FY15	FY16	FY17E	FY18E
Cash flow from operations	45	92	109	150	176
Cash Flow from investing activities	24	-22	-22	-99	-79
Cash Flow from financing activities	-66	-78	-50	-28	-33
Capex	-6	-23	-23	-100	-80
Dividends	-10	-5	-17	-21	-27

Profitability & efficiency ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
ROAE (%)	1%	15%	30%	28%	29%
ROACE (%)	4%	12%	24%	29%	29%
ROIC (%)	5%	15%	35%	37%	40%
Inventory day	50	43	40	38	38
Debtors days	47	19	11	10	10
Payable days	103	77	75	75	75
Cash conversion cycle (days)	-6	-16	-25	-28	-28
Current ratio	1.28	0.97	0.94	1.00	1.23
Debt/Equity	0.69	0.16	0.05	0.04	0.03

Operating ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
Total asset turnover	2.46	3.88	5.00	4.52	4.14
Fixed asset turnover	3.18	4.38	4.86	4.35	4.43
Equity turnover	4.68	5.79	5.73	4.80	4.34

Du pont analysis

Year to March	FY14	FY15	FY16	FY17E	FY18E
NP margin (%)	0.2%	2.7%	5.7%	6.6%	7.4%
Total assets turnover	2.46	3.88	5.00	4.52	4.14
Leverage multiplier	1.9	1.5	1.1	1.1	1.0
ROAE (%)	1%	15%	30%	28%	29%

Valuation parameters

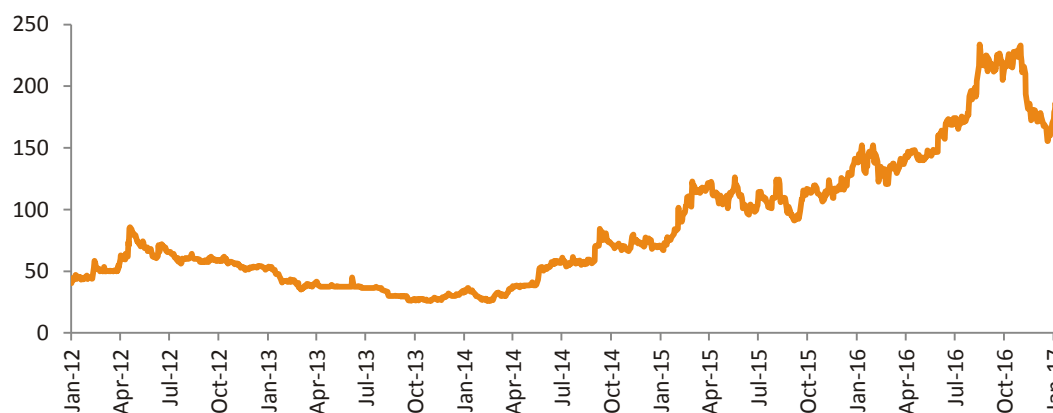
Year to March	FY14	FY15	FY16	FY17E	FY18E
Diluted EPS (Rs.)	0.2	3.7	8.9	11.0	14.2
Y-o-Y growth (%)	-94%	1912%	141%	23%	29%
Diluted PE (x)	1069.2	53.1	22.0	17.9	13.9
Price/BV (x)	8.9	7.9	6.5	5.1	4.0
EV/Sales (x)	2.1	1.4	1.3	1.2	1.0
EV/EBITDA (x)	39.1	16.7	10.1	8.5	6.6
Dividend yield (%)	0.2%	0.0%	0.9%	1.1%	1.4%

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

Jamna Auto 5 years price chart



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