

## The CUB Series

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



## Jamna Auto Inds. Ltd

Q4 FY17 Result Update  
CMP INR 239; Target INR 270, HOLD

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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 modest rise despite of demand pressure

Jamna Auto Industries (JAI) had an encouraging Q4FY17, as its topline observed a y-o-y growth of around 5%. Despite 3% y-o-y drop in M&HCV production during Q4FY17, growth in company's topline during the same period is encouraging. Company's lift axle business has seen a significant 50% y-o-y increase in Q4FY17. Even in FY17, despite uncertainties in market scenario, pricing pressures, etc. company has been able to record ~4% y-o-y growth in the topline. For FY18, in the light of expectation of sluggish first half for CV demand, we have revised the revenue estimates downwards by ~10%. Interaction with management and our channel checks indicated CV sales growth to remain in a range of ~0-5% for FY18, mainly dragged by slump expected in the H1FY18.

## EBITDA margins were in line with the expectation

Although prices of key raw materials have increased, and there has been pricing pressures in the industry, JAI has been able to keep EBITDA margins at healthy levels of ~14.5% in Q4FY17. The period Q4FY16 was among the best in the history of the company with strong topline growth due to robust demand scenario and lower input prices helped company to achieve highest ever EBITDA margins which led to higher base for Q4FY17. In FY17 JAI's EBITDA margins improved by ~140 bps y-o-y to ~14%, which was mainly driven by production efficiency and cost reduction efforts company has taken offlate. Margins at PAT levels improved even further during Q4FY17 and FY17 as well. For Q4FY17, PAT margins grew by 160 bps y-o-y to 9.2% (rise in other income and lower taxes due to year end adjustments fuelled the growth), while for FY17 PAT margins improved by 240 bps to 8.1%, on the back of healthy rise in other income. Rise in the other income was due cash discounts received from the suppliers owing to pre payment to their creditors.

## Outlook & Valuations

At a price of INR 239, the company is trading at a PE of 17.5x/14.8x FY18E/FY19E. Our EPS estimates are INR 14/16 in FY18E/FY19E. On the back of constant focus towards efficiency improvement, JAI was able to improve margins, however because of pressure on topline growth expected owing to sluggish demand outlook in FY18, we are revising our recommendation from 'BUY' to 'HOLD'. However with modest growth outlook for margins still intact along with high ROCE and strong cash flow, would continue to provide strength to the valuation.

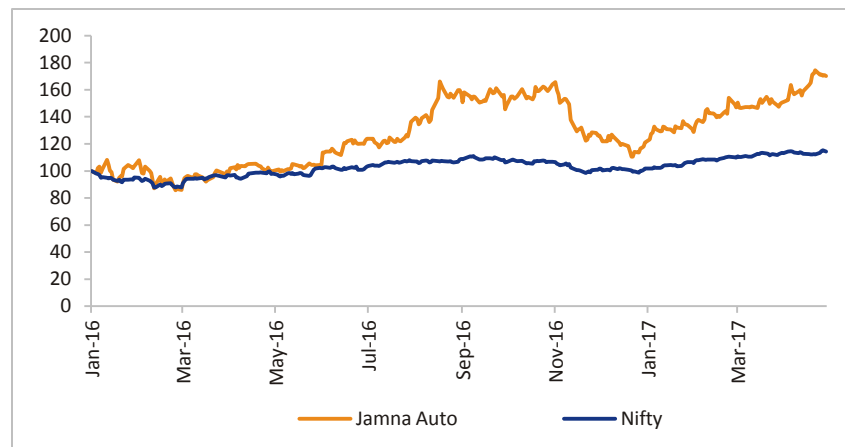
## Financials - Consol

Year to March	Q4FY17	Q4FY16	%change	Q3FY17	%change	FY17	FY18E	FY19E
Net sales (INR cr)	385	366	5.1%	275	39.9%	1,300	1,365	1,488
Revenue Growth(%)						3.5%	5.0%	9.0%
EBITDA (INR cr)	56	58	-3.7%	35	60.0%	181	197	218
Core PAT (INR cr)	35	28	27.1%	21	68.8%	72	106	107
Dil. EPS (INR)						13.4	13.6	16.2
Diluted P/E (x)						17.8	17.5	14.8
EV/EBITDA (x)						10.7	9.5	8.3
ROACE adj cash and invt (%)						41.9%	36.5%	38.2%

Target (INR)	270
Upside/downside (%)	13
Rating	HOLD

CMP	239	Industry	Auto-Component
52 week high/low	250 / 145	Promoter	Jauhar Family
Market cap (INR cr)	1,852	Corporate Office	Delhi
Avg. Daily Vol ('000)	283	Auditors	S R Batliboi & Co LLP
Bloomberg code	JMNA IS	Credit rating	"A" Rated

	Mar-17	Dec-16	Sep-16
Promoter	47.88	47.88	47.91
Public	52.12	52.12	52.09

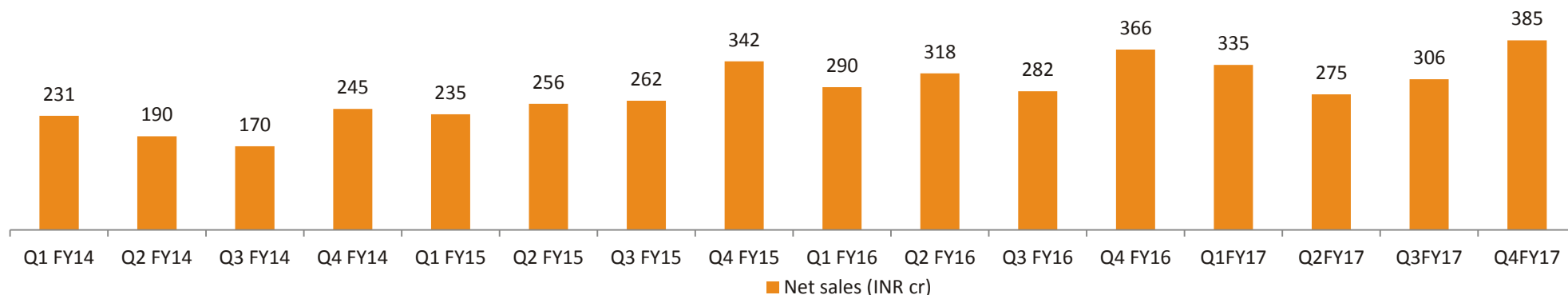


Source: Edelweiss Investment Research.

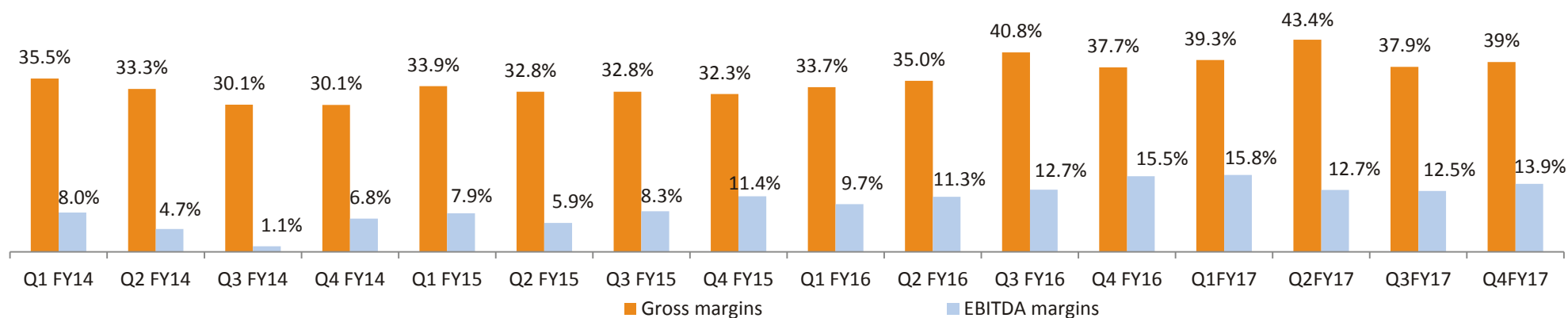
### Other Key Highlights:

- \* The management is expecting to maintain the modest growth momentum in FY18, as they estimate H2FY18 will be a weak half owing to pre buying that has happened in Q4FY17.
- \* Healthy momentum is expected in the margins, as it is expected to rise from around 14% in FY17 to around 14.8% in FY19. Continued efforts towards process improvement and focus towards increasing the share of margins accretive after market and exports business to fuel this rise
- \* Implementation of GST to fuel 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 Q4FY17

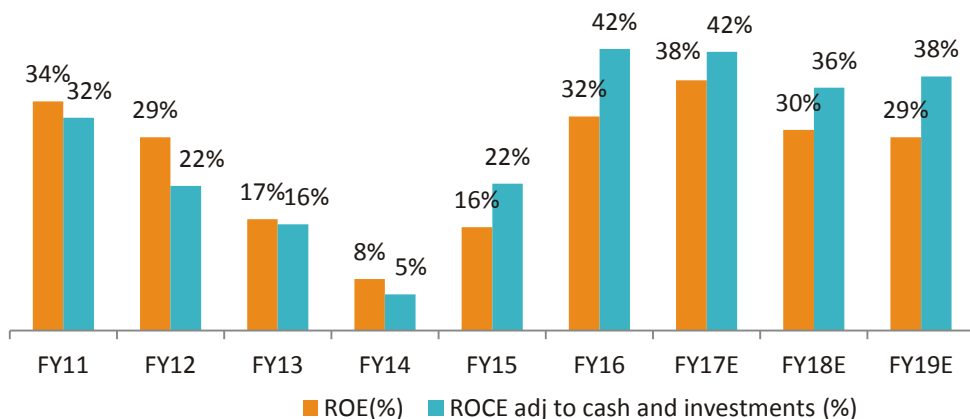


Source: Company, Edelweiss Investment Research.

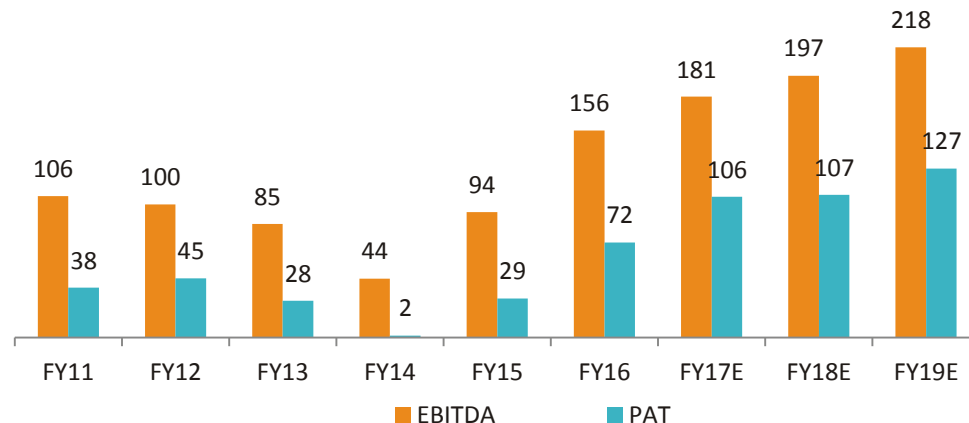
# ROCE to remain at healthy levels, Cash flow generation to improve



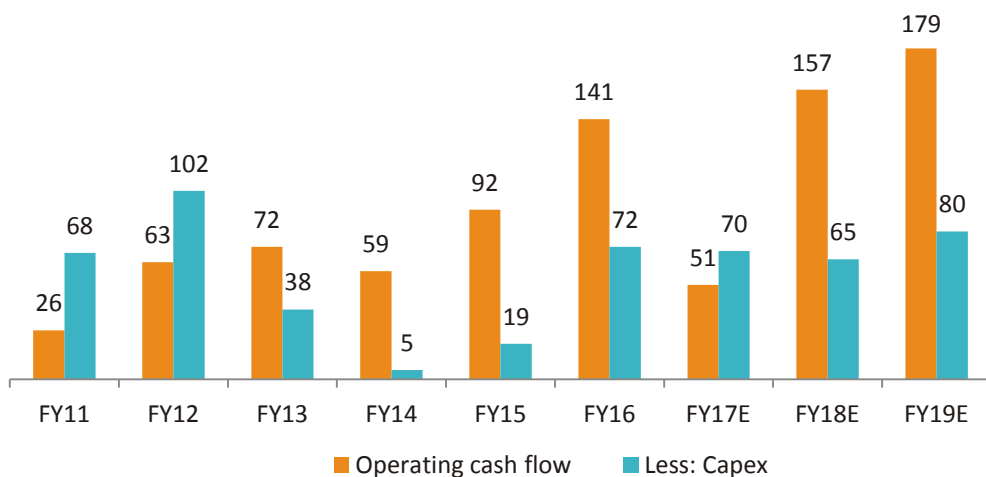
## Improving ROCE trajectory



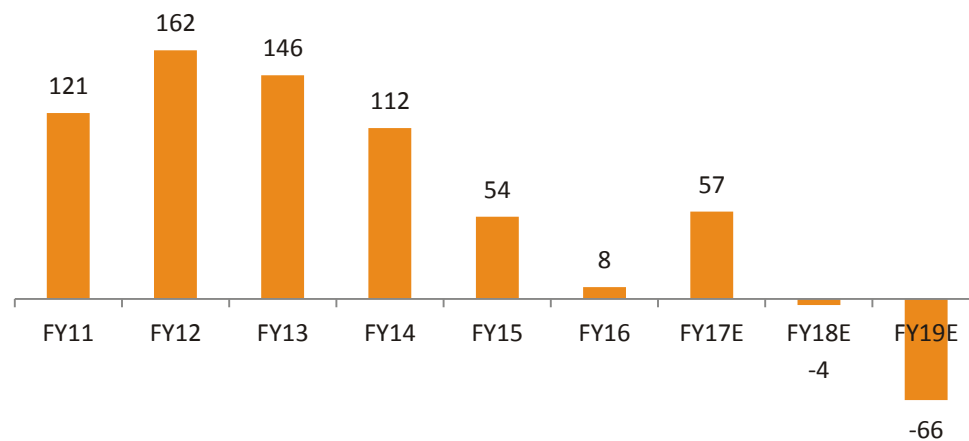
## Operating Leverage to be a primary driver of profitability



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



## Reducing Net Debt ; Incremental capex from internal accruals



Source: Company, Edelweiss Investment Research.

## Financials

Year to March	Q4FY17	Q4FY16	%change	Q3FY17	%change
Net sales	385	366	5%	275	40%
EBITDA	56	58	-4%	35	60%
PAT	35	28	27%	21	69%

EBITDA Analysis	Q4FY17	Q4FY16	%change	Q3FY17	%change
Net sales	385	366	5%	275	40%
Raw material consumed	245	228	-17%	190	29%
Gross Profits	140	139	1%	86	63%
Employee Expenses	26	30	-10%	38	-30%
Other Expenses	58	51	13%	50	15%
EBITDA	56	58	-4%	35	60%

## Common size metrics- as % of net revenues

Year to March	Q4FY17	Q4FY16	%change	Q3FY17	%change
Net sales	100%	100%	0	100%	0
Raw material consumed	64%	62%	152	69%	-524
Gross Profits	36%	38%	-152	31%	524
Employee Expenses	7%	8%	-119	14%	-684
Other Expenses	15%	14%	100	18%	-317
EBITDA	14%	16%	-133	13%	182



# Financial Overview



## Income statement (Standalone)

Year to March	(INR cr)				
	FY15	FY16	FY17	FY18E	FY19E
Income from operations	1,095	1,256	1,300	1,365	1,488
Direct costs	815	856	864	914	992
Employee costs	69	93	108	109	119
Other expenses	185	244	255	253	277
Total operating expenses	1,001	1,100	1,119	1,168	1,269
EBITDA	94	156	181	197	218
Depreciation and amortisation	31	45	48	57	64
EBIT	63	110	133	140	154
Interest expenses	18	15	14	23	3
Other income	2	8	23	41	37
Profit before tax	47	104	142	159	188
Provision for tax	18	33	37	52	62
Core profit	29	71	105	106	126
Extraordinary items	0	1	1	1	1
Profit after tax	29	72	106	107	127
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	29	72	106	107	127
Equity shares outstanding (mn)	8	8	8	8	8
EPS (INR) basic	4	9	13	14	16
Diluted shares (Cr)	8	8	8	8	8
EPS (INR) fully diluted	4	9	13	14	16
Dividend per share	1.1	2.8	4.1	4.2	5.0
Dividend payout (%)	30	31	31	31	31

## Common size metrics- as % of net revenues

Year to March	(INR cr)				
	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	91	88	86	86	85
Depreciation	3	4	4	4	4
Interest expenditure	2	1	1	2	0
EBITDA margins	9	12	14	14	15
Net profit margins	3	6	8	8	9

## Growth metrics (%)

Year to March	(INR cr)				
	FY15	FY16	FY17	FY18E	FY19E
Revenues	31	15	3	5	9
EBITDA	113	65	16	9	11
PBT	184	120	36	12	19
Net profit	112	140	49	2	19
EPS	121	145	48	2	18

## Balance sheet (Standalone)

As on 31st March	(INR Cr)				
	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	40	39	39	39	39
Preference Share Capital	0	0	0	0	0
Reserves & surplus	157	202	276	350	438
Shareholders funds	196	242	316	390	478
Secured loans	61	14	0	0	0
Unsecured loans	3	2	0	0	0
Borrowings	64	16	78	68	68
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>261</b>	<b>258</b>	<b>394</b>	<b>458</b>	<b>546</b>
Gross block	479	488	588	668	748
Depreciation	237	277	326	382	446
Net block	242	211	262	286	302
Capital work in progress	8	65	35	20	20
Total fixed assets	250	276	297	306	322
Unrealised profit	0	0	0	0	0
Investments	0	0	0	0	0
Inventories	109	107	107	123	134
Sundry debtors	56	38	43	52	57
Cash and equivalents	11	8	21	72	134
Loans and advances	29	14	42	44	48
Other current assets	0	0	0	0	0
Total current assets	205	167	212	292	373
Sundry creditors and others	201	170	89	112	122
Provisions	11	44	22	22	22
Total CL & provisions	213	214	111	134	144
Net current assets	-8	-47	101	157	229
Net Deferred tax	-16	-5	-5	-5	-5
Misc expenditure	35	34	0	0	0
<b>Uses of funds</b>	<b>261</b>	<b>258</b>	<b>393</b>	<b>458</b>	<b>546</b>
Book value per share (INR)	25	31	40	50	61
	54	8	57	-4	-66

## Cash flow statement

Year to March	(INR Cr)				
	FY15	FY16	FY17	FY18E	FY19E
Net profit	29	69	104	105	125
Add: Depreciation	31	45	48	57	64
Add: Misc expenses written off	-6	0	34	0	0
Add: Deferred tax	1	-10	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	55	104	187	162	189
Less: Changes in W. C.	-37	-36	135	5	10
Operating cash flow	92	141	51	157	179
Less: Capex	19	72	70	65	80
<b>Free cash flow</b>	<b>73</b>	<b>69</b>	<b>-18</b>	<b>92</b>	<b>99</b>

## Ratios

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	16	32	38	30	29
ROACE adj cash and invt (%)	22	42	42	36	38
Debtors (days)	19	11	12	14	14
Current ratio	1	1	2	2	3
Debt/Equity	0.3	0.07	0.25	0.2	0.1
Inventory (days)	36	31	30	33	33
Payable (days)	67	49	25	30	30
Cash conversion cycle (days)	-12	-7	17	17	17
Debt/EBITDA	1	0	0	0	0
Adjusted debt/Equity	0	0	0	-0	-0

## Valuation parameters

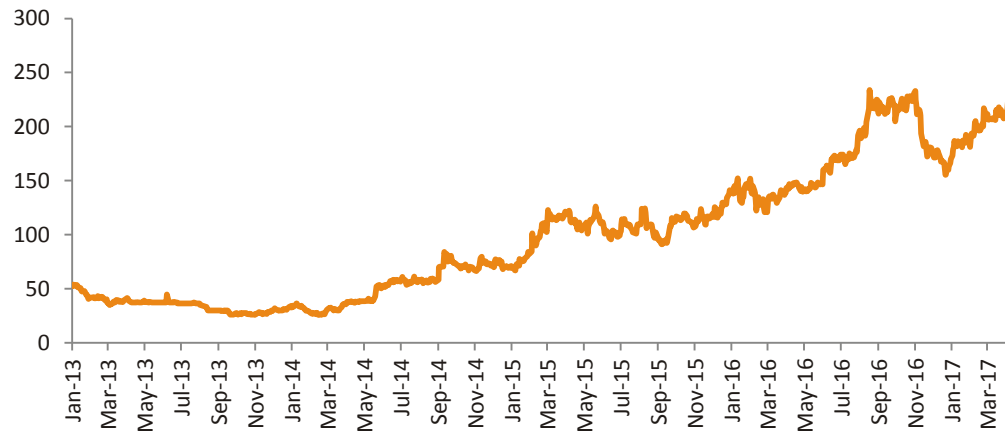
Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	4	9	13	14	16
Y-o-Y growth (%)	121	145	48	2	18
CEPS (INR)	8	15	19	21	24
Diluted P/E (x)	64.5	26.3	17.8	17.5	14.8
Price/BV(x)	9.6	7.8	6.0	4.8	3.9
EV/Sales (x)	2	2	1	1	1
EV/EBITDA (x)	20.6	12.1	10.7	9.5	8.3
Diluted shares O/S	8	8	8	8	8
Basic EPS	4	9	13	14	16
Basic PE (x)	64.5	26.3	17.8	17.5	14.8
Dividend yield (%)	0	1	2	2	2

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

**Jamna Auto 5 years price chart**



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