

# Jamna Auto Industries Ltd.



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**Industry tailwinds to aid flamboyant growth !**

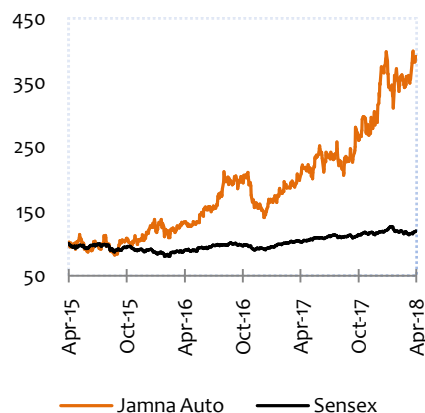
CMP <b>INR 88</b>	Target <b>INR 112</b>	Potential Upside <b>28%</b>	Market Cap (INR mn) <b>35,204</b>	Recommendation <b>BUY</b>	Sector <b>Auto ancillary</b>
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Jamna Auto Industries Ltd. (JAI) is India's largest and world's second largest manufacturer of leaf springs used in commercial vehicles (CV's), possessing production capacity of 240,000 MTPA. The company manufactures (i) multi-leaf springs, (ii) parabolic springs, (iii) air suspensions, (iv) lift axle and (v) bogie suspensions from its nine strategically located manufacturing facilities in India. JAI caters its products to OEMs (~80% revenue share) and aftermarkets (~20% revenue share) in both Indian as well as overseas markets. The company possesses a strong customer base (~73% domestic market share) which virtually includes all Indian OEMs namely Ashok Leyland, Tata Motors, Mahindra & Mahindra, VOLVO and so on. We believe that JAI should be one of the biggest beneficiaries of uptick in CV cycle (expected growth of 13.2% over FY17-FY20E) led by increase in infrastructure and agriculture activities, along with pickup in mining activities. Also rise in demand from e-commerce and logistics is likely to provide more boost to CV sales. Further, the company plans to increase its revenue share from margin lucrative non-conventional products and content per vehicle coupled with surge in after-market sales. Consequently, we expect revenues for the company to witness 20.6% CAGR over FY17-FY20E.

## MARKET DATA

Shares outs (mn)	398
Equity Cap (INR mn)	398
Mkt Cap (INR mn)	35204
52 Wk H/L (INR)	91/44
Volume Avg (3m K)	2108.7
Face Value (INR)	1
Bloomberg Code	JMNA IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	34332
NIFTY	10526

## Prolific market share; favorable industry outlook to drive growth ahead:

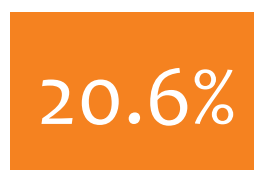
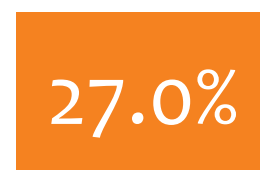
Conventionally, JAI used to only manufacture Leaf springs. However, the company has diversified its product portfolio recently by manufacturing other products such as parabolic springs and suspension products which includes lift axle, air suspension and bogie suspension. For lift axles and air suspensions, JAI has entered into a technical collaboration with Ridewell Corporation, USA. JAI's product portfolio consists of:

- 1) **Conventional Leaf Spring:** It is a form of semi-elliptical spring used for suspension in commercial vehicles. The overall purpose is to provide support to a vehicle absorbing any bumps or potholes in the road. Leaf springs are also used in farming and industrial equipments.
- 2) **Parabolic Spring:** It is a set of leaves which are tapered in a parabolic way rather than linear. JAI was the first company to introduce Parabolic springs in India. Currently, the company holds ~90% market share of parabolic springs in India.
- 3) **Lift Axle:** It is a modification to a vehicle to raise the ride height. It is usually done for the practical purpose of improving the off road performance of SUVs or trucks and other off-road vehicles.
- 4) **Air Suspension:** Air suspension is a type of vehicle suspension powered by an electric or engine-driven air pump or compressor. This compressor pumps the air into a flexible bellows, usually made from textile-reinforced rubber. The air pressure inflates the bellows, and raises the chassis from the axle.

JAI caters its products to almost all the OEMs operating in CV space, which includes Tata Motors, Ashok Leyland, Mahindra & Mahindra and also SML Isuzu, Bharat Benz, AMW, General Motors, UD trucks and Volvo. Since the commercial production of company's non-conventional products have commenced, they have witnessed a consistent uptick in demand for parabolic springs and lift axles and increasing content per vehicle. Consequently, the company currently possesses a prolific market share of 73% as against 57% in FY14. We believe that revenues from these non-conventional products should grow substantially with surging penetration and market share for the company should stand at 75% by FY20E.

## SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	47.88	47.88	47.88
FII's	5.7	5.68	4.49
DII's	7.1	6.01	5.81
Others	39.32	40.44	41.83
Total	100	100	100


 Revenue CAGR over FY17 to  
FY20E

 EBITDA CAGR over FY17 to  
FY20E

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## KRChoksey Research

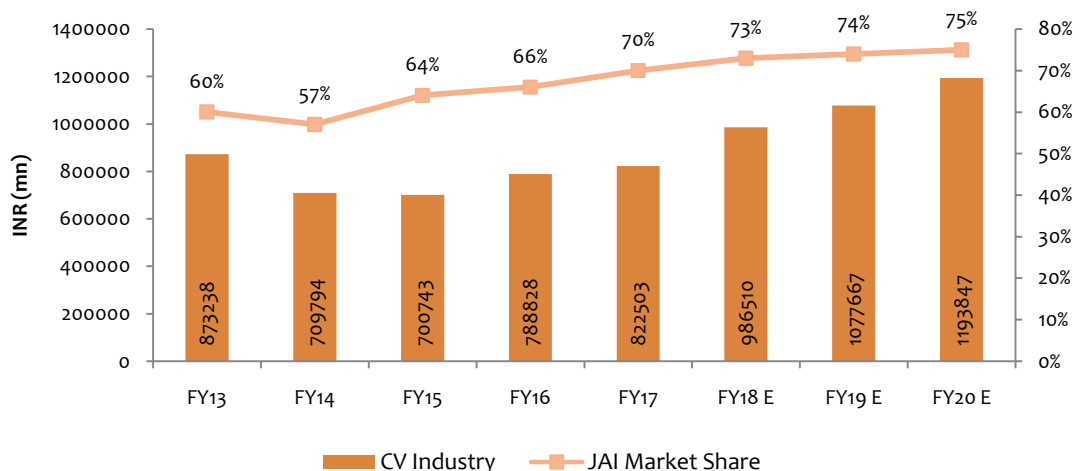
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## Jamna Auto Industries Ltd

JAI displayed a stellar performance post the turnaround in CV industry from FY14. Over FY14-FY17, JAI's top-line grew by 16.5% significantly outperforming the CV industry growth rate of 5% led by increase in market share and introduction of non-conventional products. Going ahead, we expect the CV industry to deliver robust growth owing to (i) pickup in agriculture and mining activities, (ii) rapid development of roads along with increase in government spend on infrastructure, (iii) increase in demand from e-commerce and logistics sector, (iv) ban on overloading in high tonnage vehicles, and (v) regulatory changes with shift from BS-IV to BS-VI emission norms. The much anticipated scrappage policy should also lead to stellar growth in CV industry going ahead. Consequently, we expect the CV industry to grow at 13.2% over FY17-FY20E resulting into considerable tailwinds for JAI. Further, eyeing the huge opportunity in aftermarkets post the implementation of GST due to shift from unorganized to organized players, JAI aims to increase its revenue contribution from aftermarkets and exports to 33% from current 20%.

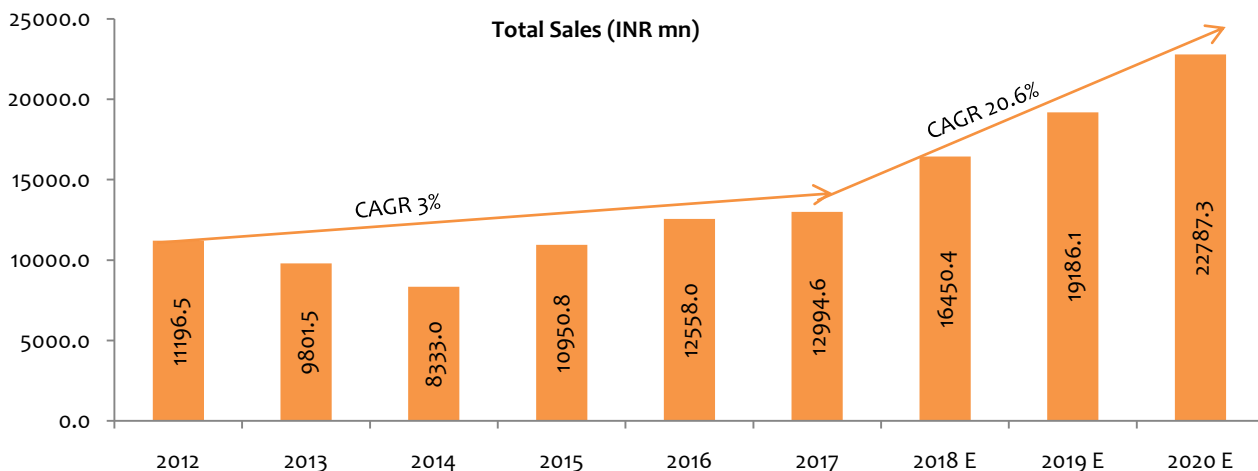
### Exhibit 1: Dominant Market share:



Source: KRChoksey Research

We believe that JAI should be one of the biggest beneficiaries of turnaround in CV space owing to a.) mammoth market share of 73% and strong client base, b.) increase in demand for its non-conventional products, c.) surge in content per vehicle, and d.) growing penetration in aftermarkets. Consequently, we believe JAI's revenue to grow from INR 12,994.6 mn in FY17 to INR 22,787.2 mn in FY20E witnessing 20.6% CAGR over FY17-FY20E.

### Exhibit 2: Revenue expected to grow at a CAGR of 20.6% over FY17-FY20E:



Source: KRChoksey Research

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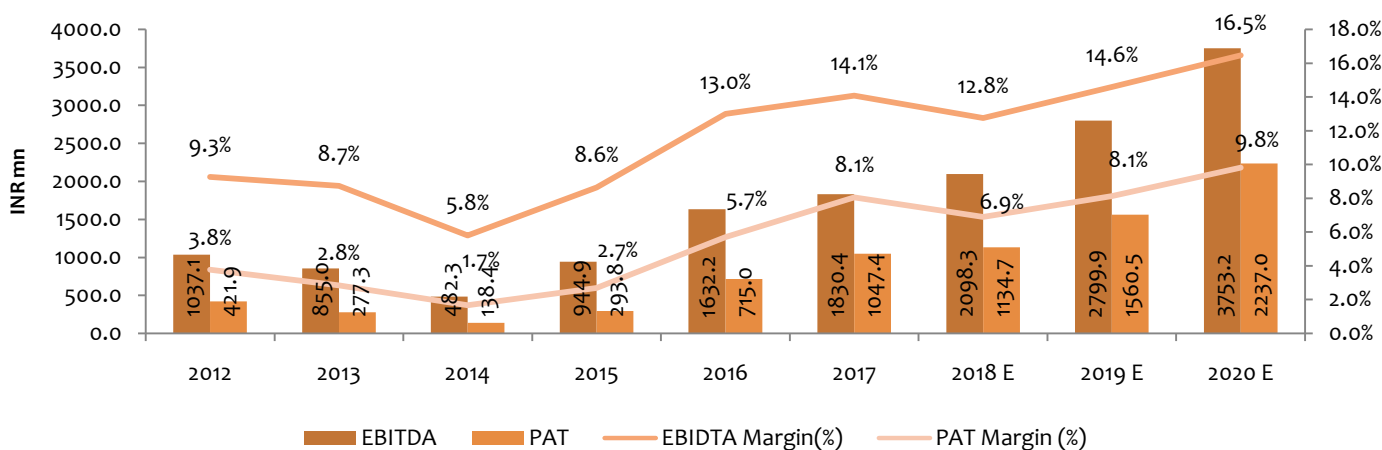
## Jamna Auto Industries Ltd

### Enhanced product mix; operating leverage to result into better margins:

During the industry downturn over FY12-FY14, JAI's EBITDA margins dropped from 9.3% in FY12 to ~5.8% in FY14 on account of lower dispatches of volumes and higher fixed costs on a per ton basis. Similarly, PAT margins declined from 3.8% to 1.7% over the same period owing to higher interest costs. However, post the turnaround in CV cycle from FY15, the company improved its operational margins on the back of enhanced business model, better realizations and operating leverage. JAI increased its revenue share of lift axles from 0.5% in FY13 to 8.8% in FY17 due to higher penetration and growing visibility of non-conventional products of the company. Consequently, EBITDA/PAT margins increased from 5.8%/1.7% to 14.1%/8.1% over FY14-FY17.

Going ahead, we believe that JAI's dominant market share should enable the company to pass on the raw material costs to clients. Further, increasing revenue share from margin lucrative non-conventional products and operating leverage should translate into EBITDA margin improvement from 14.1% to 16.5% over FY17-FY20E and operating profit surging from INR 1,830.4 mn to INR 3,753.1 mn registering a CAGR of 27% over the same period. We expect interest costs to reduce from INR 147.52 mn in FY17 to INR 130.3 mn by FY20E. Accordingly, we believe margins to improve from 8.1% to 9.8% over FY17-FY20 and we estimate PAT to increase from INR 1,047.4 mn in FY17 to INR 2,237 mn in FY20E showcasing a CAGR of 28.8% over FY17-20E.

### Exhibit 3: Margins to improve going forward



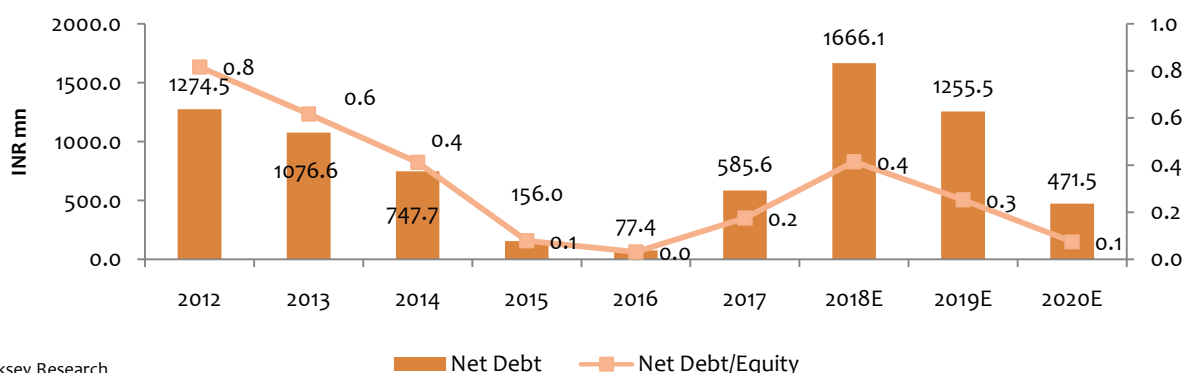
Source: KRChoksey Research

### Superior return ratios to sustain:

JAI entailed a total capex of INR 2,352 mn over FY12-FY17 to increase the manufacturing capacity of the company from 150,000 MTPA to 210,000 MTPA and enter into new product segments. Despite the capex plan, the company managed to generate FCFF to the tune of INR 2,399.2 mn over FY12-FY17, which was utilized to reduce its net debt from INR 1,275 mn to INR 586 mn over the same period. Further, return ratios for JAI witnessed superlative surge with ROE/ROCE improving from 27%/22.9% to 31.4%/31.8% over FY12-FY17. JAI's robust FCFF and exemplary return ratios was led by improvement in operating margins, superior working capital management coupled with high cash conversion cycle.

Going ahead, we factor in total capex requirement of INR 2,100 mn over FY18E-FY20E towards increase in its capacity to meet the growing demand from CV industry. Vis-à-vis, we estimate FCFF generation of INR 2609 mn over FY18-FY20 which should be utilized for debt repayment from INR 1,666 mn to INR 471 mn over the same period. Consequently, we expect ROE/ROCE to improve from 31.4%/31.8% in FY17 to 35.5%/47.8% in FY20E.

### Exhibit 4: Net debt to decline gradually



Source: KRChoksey Research

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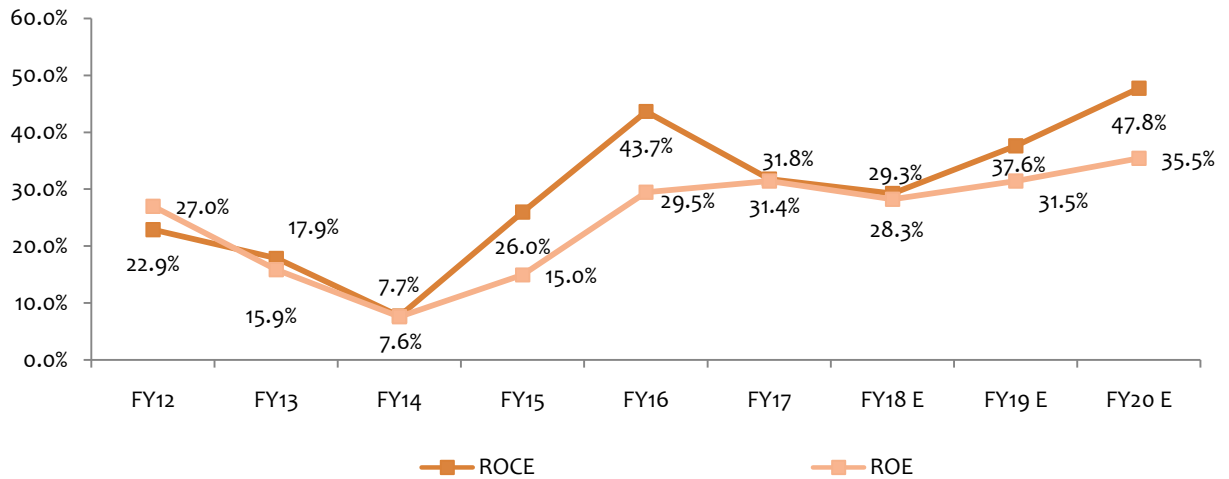
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# Jamna Auto Industries Ltd

## Exhibit 5: Healthy return ratios



Source: KRChoksey Research

## Exhibit 6: Key Financials:

Particulars (INR mn)	2016	2017	2018 E	2019 E	2020 E
Net Sales	12558.0	12994.6	16450.4	19186.1	22787.3
EBITDA	1632.2	1830.4	2098.3	2799.9	3753.2
PAT	715.0	1047.4	1134.7	1560.5	2237.0
EPS	1.8	2.6	2.8	3.9	5.6
P/E(x)	18.9	28.9	30.9	22.5	15.7
OPM	13.0%	14.1%	12.8%	14.6%	16.5%
NPM	5.7%	8.1%	6.9%	8.1%	9.8%

Source: KRChoksey Research

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## Valuation & Outlook:

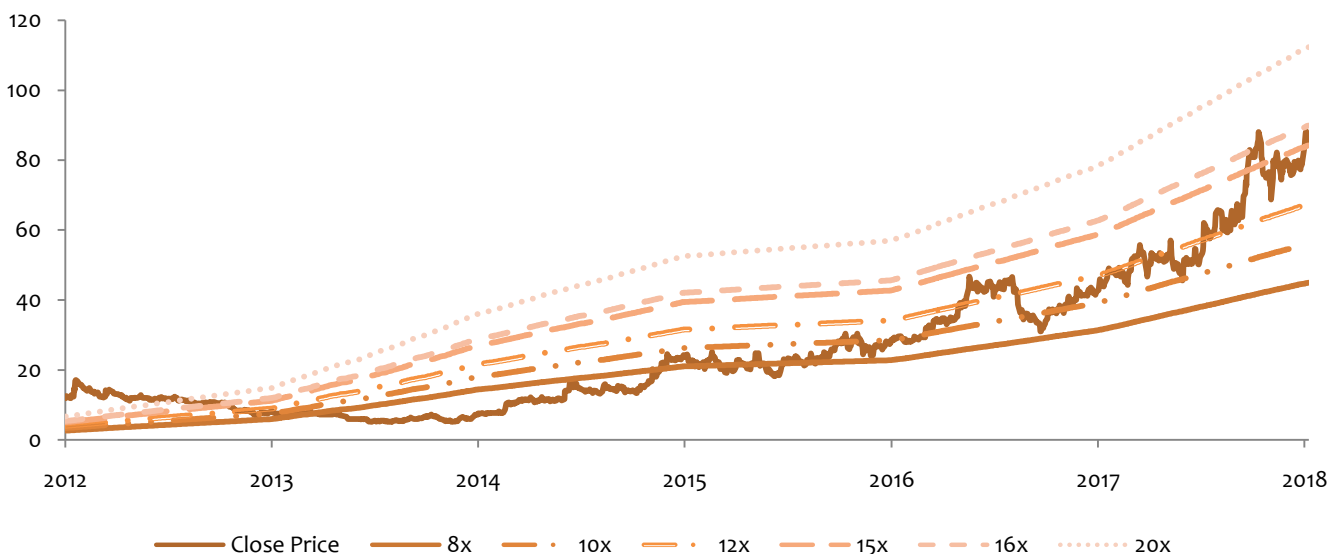
Jamna Auto Industries Ltd (JAI), incorporated in 1954, is India's largest and world's second largest manufacturer of tapered leaf springs and parabolic leaf springs with an annual production capacity of 240,000 MTPA. JAI commands a mammoth market share of 73% in the domestic leaf spring market and almost all the OEM's form its clientele including the likes of Ashok Leyland, Tata Motors, Mahindra & Mahindra, VOLVO, SML Isuzu, AMW, Bharat Benz, General Motors and so on. The company possesses nine manufacturing facilities located at Yamuna Nagar, Malanpur, Jamshedpur, Pune, Chennai, Piliapakkam, Hosure and Pant Nagar, Lucknow which are located in the vicinity of their OEM's manufacturing plants resulting into efficient supply-chain management for JAI. Since inception, leaf spring was the sole product manufactured by the company. However, with the key focus to diversify its business, JAI entered into other products namely parabolic leaf springs, lift axles and air suspension for commercial vehicle manufacturers across the world. Consequently, JAI was the first company to introduce parabolic leaf spring in India and currently enjoys ~ 90% domestic market share. The company manufactures Lift Axle and Air suspension products under technical collaboration with Ridewell Corporation, USA. This strategic shift in business model led to increase in content per vehicle for JAI opening up newer growth opportunities. The large market share that JAI enjoys enables the company to pass on the raw material price increase making the business more sustainable. Due to the aforementioned initiatives undertaken by the company along with favorable demand scenario of CV industry, JAI managed to increase its operating margins from 5.8% in FY14 to 14.1% in FY17.

Going ahead, we expect the CV industry to deliver robust growth owing to (i) pickup in agriculture and mining activities, (ii) rapid development of roads along with increase in government spend on infrastructure, (iii) increase in demand from e-commerce and logistics sector, (iv) ban on overloading in high tonnage vehicles, and (v) regulatory changes with shift from BS-IV to BS-VI emission norms. The much anticipated scrappage policy should also lead to stellar growth in CV industry going ahead. Consequently, we expect the CV industry to grow at 13.2% over FY17-FY20E resulting into considerable tailwinds for JAI. We believe JAI's revenue to grow from INR 12,994.6 mn in FY17 to INR 22,787.2 mn in FY20E witnessing 20.6% CAGR over the same period owing to increase in sales volumes and steady realization growth. We estimate JAI's EBITDA should deliver 27% CAGR over FY17-FY20E from INR 1,830.4 mn in FY17 to INR 3,753.2 mn FY20E while net profit should increase from INR 1,047.4 mn to INR 2,237 mn over the same period translating into 28.8% CAGR. We expect EBITDA/PAT margins to surge from 14.1%/8.1% in FY17 to 16.5%/9.8% by FY20E.

Going ahead, we factor in total capex requirement of INR 2,100 mn over FY18E-FY20E towards increase in its capacity to meet the growing demand from CV industry. Vis-à-vis, we estimate FCFF generation of INR 2609 mn over FY18-FY20 which should be utilized for debt repayment from INR 1,666 mn to INR 471 mn over the same period. Consequently, we expect ROE/ROCE to improve from 31.4%/31.8% in FY18 to 35.5%/47.8% in FY20E.

The company is currently trading at two year forward P/E multiple of 15.7X as against an average of 12X over FY11-FY17. Going forward, we believe that JAI should fetch premium valuations on account of (i) robust growth expected in CV industry, (ii) dominant market share (73%) which is further estimated to grow gradually, (iii) surging return ratios, (iv) increase in penetration of JAI's products and (v) financial deleveraging. **We have valued the company at a P/E multiple of 20x on FY20E EPS of INR 5.62 to arrive at a target price of 112/share resulting into an upside of 28% from CMP of INR 88/share. We have assigned a "BUY" rating on the stock.**

## Exhibit 7: Two year forward P/E band



Source: KRChoksey Research

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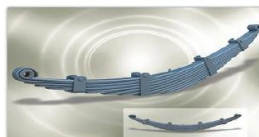
## Exhibit 8: Strong Cliental Base

### Customers



### Products

#### 1) Conventional Leaf Spring



#### 2) Parabolic Leaf Spring



### Diversifying Products

#### 3) Air Suspension



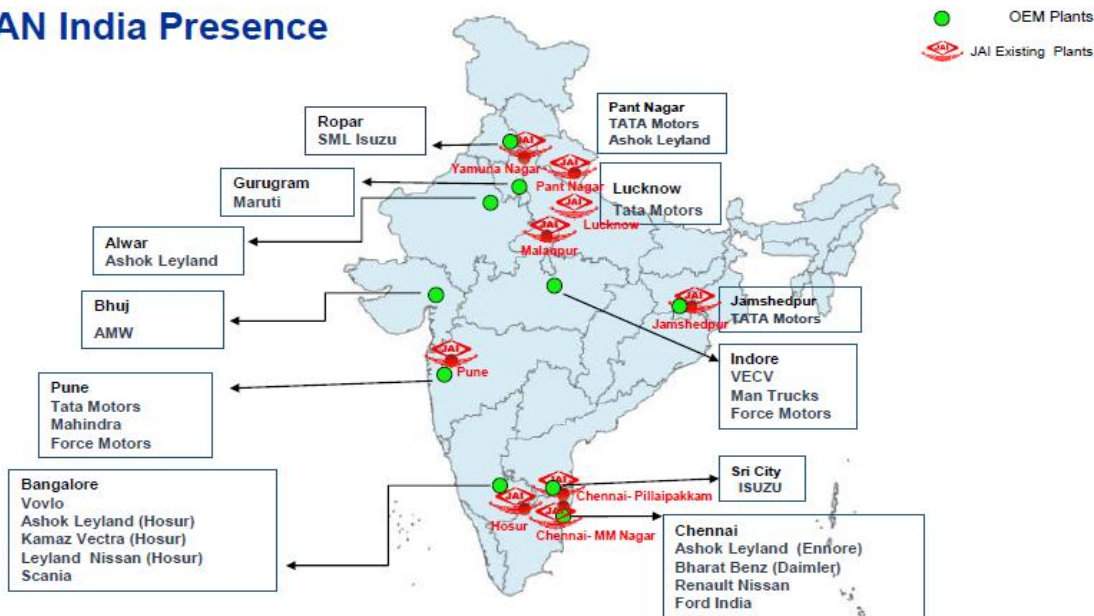
#### 4) Lift Axle



Source: KRChoksey Research

## Exhibit 9: Strategically located manufacturing facilities

### PAN India Presence



Source: KRChoksey Research

## Exhibit 10: Second largest capacity in world

### 1980's

Leaf Spring Manufacturer	Base Country	Capacity
NHK Spring Co. Ltd	Japan	200,000
Delphi	USA	100,000
Eaton/Oxford	Canada	100,000
Krupp	Germany	40,000
Hendrickson	USA	40,000
DSP	USA	40,000
Rejna	Europe	40,000
Hoesh	Germany	30,000
Sarfedern	Germany	20,000

Source: KRChoksey Research

### FY18

Leaf Spring Manufacturer	Base Country	Capacity
Rassini	Mexico	250,000
<b>Jamna Auto</b>	<b>India</b>	<b>240,000</b>
Hendrickson	Canada &	216,000
NHK Springs	Japan & Thailand	150,000
Dong Feng	China	105,000
FAW	China	100,000
MBHA	Spain	60,000
Olgen	Turkey	40,000
LPDN	Europe	26,500

Source: KRChoksey Research

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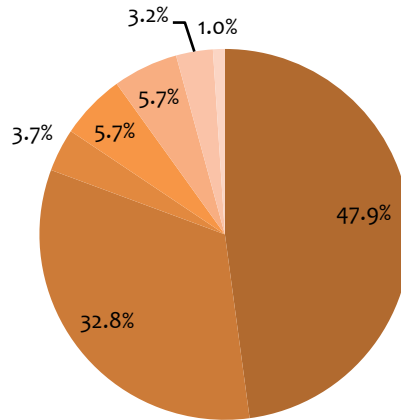
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## Exhibit 11: Share holding pattern



Source: KRChoksey Research

## Exhibit 12: Key managerial personnel

Name	Designation
Mr. Randeep Singh Jauhar	Vice Chairman & Executive Director
Mr. Pradeep Singh Jauhar	Managing Director & CEO
Mr. Surinder Pal Singh Kohli	Executive Director
Mr. Sunil Laroia	Vice President (International Business) and Head R&D
Mr. Pankaj Gupta	Chief Financial Officer

Source: KRChoksey Research

## Exhibit 13: Fund Holdings

Fund Name	Market Value (in Mn)	No. of shares
Birla Sun Life Mutual Fund	536.1	6828861
L&T Mutual Fund	664.3	8461900
LIC Mutual Fund	136.1	1734277
UTI Mutual Fund	180.4	2297874

Source: KRChoksey Research

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## Exhibit 14: KEY FINANCIALS

Income Statement (INR Millions)	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Total Sales</b>	<b>10950.8</b>	<b>12558.0</b>	<b>12994.6</b>	<b>16450.4</b>	<b>19186.1</b>	<b>22787.3</b>
COGS	7352.1	7926.2	7939.9	10363.7	12087.2	14356.0
Employee expenses	691.4	940.6	1082.5	1274.0	1401.4	1541.5
Other cost	1962.4	2059.0	2141.9	2714.3	2897.5	3136.6
<b>EBITDA</b>	<b>944.9</b>	<b>1632.2</b>	<b>1830.4</b>	<b>2098.3</b>	<b>2799.9</b>	<b>3753.2</b>
EBITDA Margin(%)	8.6%	13.0%	14.1%	12.8%	14.6%	16.5%
Depreciation	311.0	452.3	477.8	369.8	404.4	439.0
EBIT	633.9	1179.9	1352.6	1728.5	2395.5	3314.1
EBIT Margin (%)	5.8%	9.4%	10.4%	10.5%	12.5%	14.5%
Interest/Finance cost	180.2	203.4	147.5	190.0	221.3	130.3
EBT (without other income)	453.8	976.4	1205.1	1538.5	2174.2	3183.8
Other Income	20.1	83.5	238.7	155.0	155.0	155.0
EBT	473.8	1049.8	1443.8	1693.5	2329.2	3338.8
EBT Margin(%)	4.3%	8.4%	11.1%	10.3%	12.1%	14.7%
Tax Expenses	180.0	334.8	396.4	558.9	768.6	1101.8
<b>PAT</b>	<b>293.8</b>	<b>715.0</b>	<b>1047.4</b>	<b>1134.7</b>	<b>1560.5</b>	<b>2237.0</b>
PAT Margin (%)	2.7%	5.7%	8.1%	6.9%	8.1%	9.8%
EPS	0.7	1.8	2.6	2.8	3.9	5.6

Source: KRChoksey Research

Cash Flow Statement (INR Millions)	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>PBT</b>	<b>473.8</b>	<b>1049.8</b>	<b>1443.8</b>	<b>1693.5</b>	<b>2329.2</b>	<b>3338.8</b>
Depreciation	311.0	452.3	477.8	369.8	404.4	439.0
<b>(Inc) / Dec in Working Capital</b>	<b>1087.7</b>	<b>1577.5</b>	<b>1388.4</b>	<b>1018.9</b>	<b>2619.3</b>	<b>3502.8</b>
Taxes	-107.1	-198.3	-569.8	-558.9	-768.6	-1101.8
<b>Cash from Operations</b>	<b>980.6</b>	<b>1379.2</b>	<b>818.6</b>	<b>460.1</b>	<b>1850.7</b>	<b>2401.0</b>
Changes in Fixed Assets	-231.5	-681.4	-894.2	-901.3	-600.8	-600.8
Interest received	1.9	4.0	3.3	-	-	-
<b>Cash from Investing</b>	<b>-220.7</b>	<b>-751.1</b>	<b>-891.9</b>	<b>-901.3</b>	<b>-600.8</b>	<b>-600.8</b>
Proceeds from issue of shares	6.5	9.1	2.0	-	-	-
Borrowings (Net)	-355.6	-519.0	76.4	1100.0	-500.0	-800.0
Others	-371.0	-38.1	446.8	-190.0	-221.3	-130.3
<b>Cash from Financing</b>	<b>-784.2</b>	<b>-655.0</b>	<b>124.7</b>	<b>460.7</b>	<b>-1339.3</b>	<b>-1816.2</b>
Net Change in Cash	-24.4	-26.9	49.0	19.5	-89.4	-16.0
<b>Cash at beginning of the year</b>	<b>110.9</b>	<b>86.5</b>	<b>59.6</b>	<b>145.4</b>	<b>164.9</b>	<b>75.4</b>
<b>Cash at the end of the year (incl bank balances)</b>	<b>86.5</b>	<b>59.6</b>	<b>145.4</b>	<b>164.9</b>	<b>75.4</b>	<b>59.4</b>

Source: KRChoksey Research

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## Jamna Auto Industries Ltd

Balance Sheet (INR Millions)	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Share Holders Funds</b>						
Share Capital	396.2	397.2	398.3	398.3	398.3	398.3
Reserves & Surplus	1568.0	2024.6	2932.3	3617.6	4560.2	5911.3
<b>Total Share Holders Funds</b>	<b>1964.2</b>	<b>2425.4</b>	<b>3330.5</b>	<b>4015.9</b>	<b>4958.4</b>	<b>6309.6</b>
Total Loans	263.3	157.6	730.9	1830.9	1330.9	530.9
Defered Tax Liability (Net)	158.4	53.7	-32.3	-32.3	-32.3	-32.3
Long Term Provisions	44.3	57.3	77.1	82.9	96.7	114.8
Other Long Term Liability	9.0	7.0	146.9	10.4	12.1	14.4
<b>Capital Employed</b>	<b>2439.2</b>	<b>2701.1</b>	<b>4253.1</b>	<b>5907.7</b>	<b>6365.8</b>	<b>6937.4</b>
<b>Application Of Funds</b>						
Net Block	2409.8	2100.1	2831.9	3362.1	3557.7	3718.6
Intangible assets	9.7	6.5	7.7	9.0	9.9	10.7
Capital Work in Progress	77.7	654.9	199.3	199.3	199.3	199.3
Longterm Loans and advances	394.4	401.5	572.2	510.0	614.0	683.6
other non-current assets	5.0	5.9	0.5	3.8	3.4	2.6
<b>Current Assets:</b>						
Inventories	1091.2	1074.5	1127.5	1727.3	1986.9	2359.9
Trade Receivable	563.7	376.1	325.7	1352.1	1576.9	1872.9
Cash and Bank	107.3	80.2	145.4	164.9	75.4	59.4
Loans and Advances	204.4	136.3	249.8	316.2	368.8	438.0
Other Current Assets	82.3	0.3	88.2	82.3	95.9	113.9
<b>Total Current Assets</b>	<b>2048.9</b>	<b>1667.3</b>	<b>1936.6</b>	<b>3642.7</b>	<b>4104.0</b>	<b>4844.2</b>
<b>Less: Current Liabilities &amp; Provisions</b>						
Trade Payables	1827.4	1316.7	772.7	1135.8	1324.6	1573.3
Other Current Liability	564.2	151.5	233.0	304.1	354.7	421.3
Short Term Provisions	114.7	667.0	294.1	383.9	447.8	531.8
Total Current Liability	2506.2	2135.1	1299.8	1823.8	2127.1	2526.3
Net Current Assets	-457.3	-467.8	636.8	1818.9	1977.0	2317.9
<b>Capital Deployed</b>	<b>2439.3</b>	<b>2701.1</b>	<b>4253.1</b>	<b>5907.8</b>	<b>6365.8</b>	<b>6937.4</b>

Source: KRChoksey Research

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## Jamna Auto Industries Ltd

Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth (%)</b>						
Total Sales	31.4%	14.7%	3.5%	26.6%	16.6%	18.8%
EBITDA	95.9%	72.7%	12.1%	14.6%	33.4%	34.0%
APAT	112.3%	143.3%	46.5%	8.3%	37.5%	43.3%
<b>Profitability (%)</b>						
EBITDA Margin	8.6%	13.0%	14.1%	12.8%	14.6%	16.5%
Adj. Net Profit Margin	2.7%	5.7%	8.1%	6.9%	8.1%	9.8%
ROCE	26.0%	43.7%	31.8%	29.3%	37.6%	47.8%
ROE	15.0%	29.5%	31.4%	28.3%	31.5%	35.5%
<b>Per Share Data (Rs.)</b>						
EPS	0.7	1.8	2.6	2.8	3.9	5.6
BVPS	5.0	6.1	8.4	10.1	12.5	15.8
<b>Valuations (x)</b>						
P/E(x)	37.6	18.9	28.9	30.9	22.5	15.7
P/BV (x)	5.6	5.6	9.1	8.7	7.1	5.6
<b>Turnover days</b>						
Debtor Days	18.8	10.9	9.1	30.0	30.0	30.0
Payable Days	121.2	78.0	48.1	40.0	40.0	40.0
Inventory Days	52.1	49.9	50.6	60.8	60.0	60.0
<b>Gearing Ratio</b>						
D/E	0.1	0.1	0.2	0.5	0.3	0.1

Source: KRChoksey Research

# Jamna Auto Industries Ltd

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