

## Buy

### Well poised to take off

- Jamna Auto's posted decent numbers in Q2FY21 amid challenging environment. EBITDA grew 3% YoY to Rs 166mn with expanded margin of 8.9% (+149bps YoY), led by cost control measures and richer mix (increase in mix for replacement revenue).
- Capex in H1FY21 was Rs 34mn, CFO stood at Rs 1.43bn and the company generated FCF of Rs 1.39bn driven by efficient working capital management. The company has also reduced its net debt to Rs 65mn (vs Rs 1.52bn at the end of FY20). Net DE ratio stands at 0.06 at the end of H1FY21.
- Jamna Auto is an ideal play on the ongoing revival in CV demand given its 66% market share in domestic OEMs markets. CV numbers are showing sequential improvement led by strong traction from ICV (7.5-16 tonnes) and Tipper segment. M&HCV volume is also showing recovery and expected to show growth in H2FY21.
- In order to de-risk its portfolio, company has introduced several new products in the after-market which will help to increase the content per vehicle. These include: 1) springs allied products - U-Bolt Center Bolt, Bush, Hanger Shackle and Spring Pin and 2) Lift Axle allied products - mainly Air bellow/ spring.
- The company is primarily focusing on optimizing costs by rationalizing salaries, overheads and warehouse cost management. It has also digitized the complete after-market business to improve supply chain efficiency.
- We forecast that the Revenue/EBITDA will grow at 39/80% CAGR over FY21-23E. At CMP the stock is trading at 15x for FY23E EPS and 2.7x for FY23E BV. Recommend Buy with TP Rs 62 (based on 20x FY23E EPS).

### Key beneficiary revival in CV volume

The company is an ideal play on the ongoing revival in CV demand given its 66% market share in domestic OEMs markets. We expect a sharp revival in LCV volume (especially for Ashok Leyland), and pick up in logistic activities will aid revenue growth from 2HFY21. (Contd.)

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	1,866	2,175	(14.2)	629	196.5
Total Expense	1,699	2,013	(15.6)	699	143.3
EBITDA	166	161	2.9	(69)	(340.0)
Depreciation	82	91	(10.5)	74	10.0
EBIT	84	70	20.5	(144)	(158.7)
Other Income	47	52	(8.3)	6	726.8
Interest	12	51	(77.0)	16	(27.3)
EBT	120	71	69.5	(154)	(177.9)
Tax	39	17	132.9	(35)	(212.4)
RPAT	82	54	51.9	(118)	(169.3)
APAT	82	54	51.9	(118)	(169.3)
			(bps)		(bps)
Gross Margin (%)	41.4	36.4	499	45.5	(414)
EBITDA Margin (%)	8.9	7.4	149	(11.0)	1991
NPM (%)	4.4	2.5	191	(18.8)	2323
Tax Rate (%)	32.4	23.6	881	22.4	995
EBIT Margin (%)	4.5	3.2	130	(22.8)	2735

CMP	Rs 47
Target / Upside	Rs 62 / 33%
NIFTY	12,120

### Scrip Details

Equity / FV	Rs 398mn / Rs 1
Market Cap	Rs 19bn
	USD 252mn
52-week High/Low	Rs 52/ 21
Avg. Volume (no)	22,19,550
Bloom Code	JMNA IN

Price Performance	1M	3M	12M
Absolute (%)	5	47	4
Rel to NIFTY (%)	(1)	37	1

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	48.9	49.4	50.0
MF/Banks/FIs	5.4	5.3	5.7
FIIs	8.6	7.8	7.3
Public / Others	37.0	37.5	37.0

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	84.4	23.9	15.1
EV/EBITDA	30.0	13.2	9.1
ROE (%)	4.2	13.9	19.6
RoACE (%)	5.0	12.7	17.2

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	8,105	11,834	15,627
EBITDA	654	1,460	2,124
PAT	221	779	1,236
EPS (Rs.)	0.6	2.0	3.1

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The near term catalysts are 1) pick-up in infrastructure, construction, e-commerce, and mining activities and 2) introduction of scrappage policy. As JAMNA's facilities are located close to OEM plants, the company benefits from lower logistic costs, which also makes it difficult for new entrants to garner market share from OEMs

#### Focus on aftermarket and cost rationalization

In order to de-risk its portfolio, company has introduced several new products in the after-market which will help the company to increase content per vehicle. These include: 1) springs allied products - U-Bolt Center Bolt, Bush, Hanger Shackle and Spring Pin and 2) Lift Axle allied products - mainly Air bellow/ spring.

Currently, the aftermarket segment contributes ~22% of overall sales. The Company has also digitized the complete after-market business for improve supply chain efficiency. JMNA is also taking various measures to control the cost by rationalizing salaries, overheads and warehouse cost management exercises to protect the margin.

#### Strong FCF generation trend to continue

Despite JAI's volatile earnings growth trend, the company has a history of generating robust FCFs. Even during the sharp down-cycle years for the CV industry between FY12-14, the company generated FCF of Rs 0.8bn on a cumulative basis. Capex in H1FY21 was Rs 34mn, CFO stood at Rs 1.43bn and generated FCF of Rs 1.39bn. Over FY21-23E, the company is likely to generate FCF of ~Rs 1.95bn cumulatively.

#### Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	1,866	1,977	(6)	
EBIDTA	166	217	(24)	Higher operating expenses
EBIDTA Margin (%)	8.9	11.0	(209)bps	
APAT	81	100	(19)	Higher other income

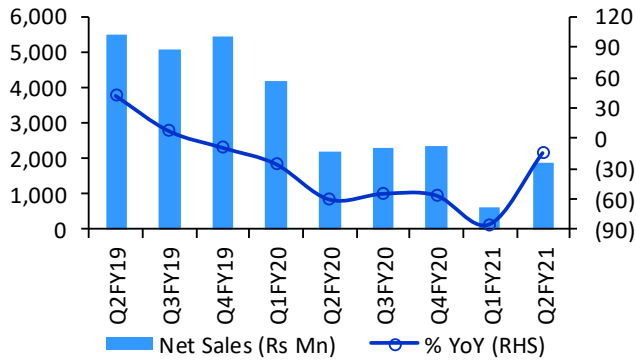
Source: DART, Company

#### Exhibit 2: Change in Estimates

Particulars (Rsmn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	11,834	10,397	13.8	15,627	13,565	15.2
EBITDA	1,460	1,152	26.8	2,124	1,776	19.6
EBITDA Margin (%)	12.3	11.1	126bps	13.6	13.1	50bps
PAT	779	471	65.5	1,236	886	39.5
EPS (Rs)	2.0	1.2	65.5	3.1	2.2	39.5

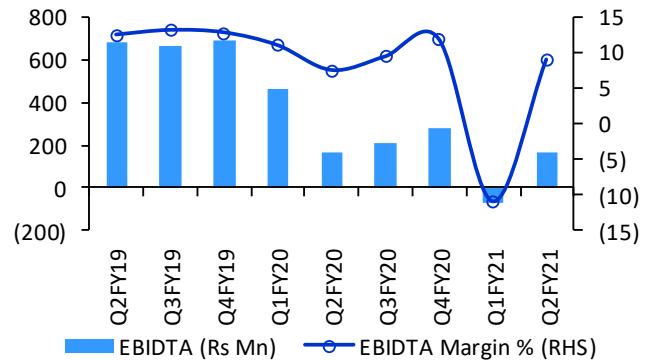
Source: DART, Company

**Exhibit 3: Revenue improved on sequential basis**



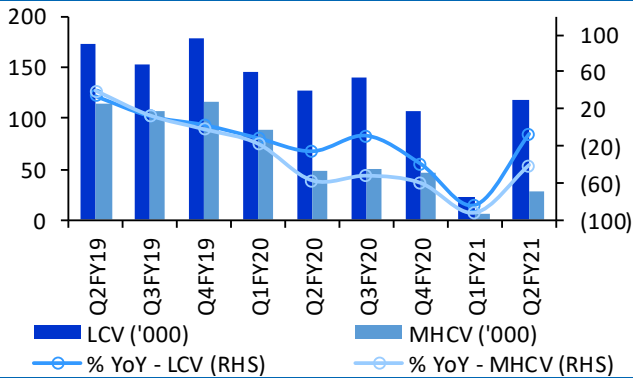
Source: DART, Company

**Exhibit 4: EBITDA margin improved on product mix**



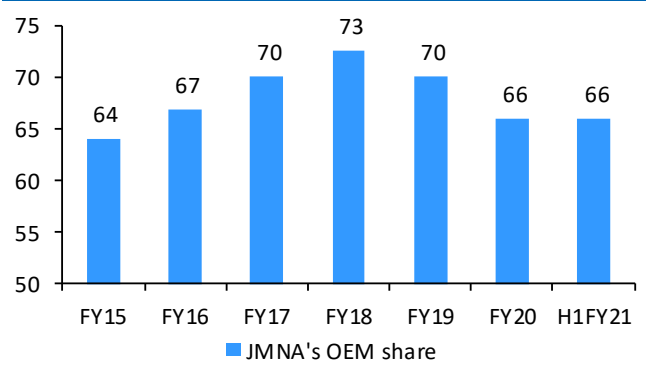
Source: DART, Company

**Exhibit 5: CV segment on the recovery path**



Source: DART, Company

**Exhibit 6: Jamna market share remain strong(%)**



Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>11,290</b>	<b>8,105</b>	<b>11,834</b>	<b>15,627</b>
<b>Total Expense</b>	<b>10,148</b>	<b>7,450</b>	<b>10,374</b>	<b>13,503</b>
COGS	7,123	4,822	7,337	9,767
Employees Cost	1,129	1,016	1,199	1,439
Other expenses	1,896	1,612	1,837	2,297
<b>EBIDTA</b>	<b>1,141</b>	<b>654</b>	<b>1,460</b>	<b>2,124</b>
Depreciation	414	371	450	491
<b>EBIT</b>	<b>728</b>	<b>283</b>	<b>1,010</b>	<b>1,634</b>
Interest	173	119	117	136
Other Income	161	132	152	161
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>716</b>	<b>296</b>	<b>1,046</b>	<b>1,659</b>
Tax	238	76	267	423
RPAT	479	221	779	1,236
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>479</b>	<b>221</b>	<b>779</b>	<b>1,236</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	398	398	398	398
Minority Interest	0	0	0	0
Reserves & Surplus	4,768	4,946	5,490	6,354
<b>Net Worth</b>	<b>5,167</b>	<b>5,344</b>	<b>5,889</b>	<b>6,753</b>
Total Debt	1,557	1,007	1,207	1,407
Net Deferred Tax Liability	285	306	330	357
<b>Total Capital Employed</b>	<b>7,009</b>	<b>6,657</b>	<b>7,426</b>	<b>8,517</b>

**Applications of Funds**

Net Block	<b>3,687</b>	<b>4,415</b>	<b>4,666</b>	<b>4,675</b>
CWIP	1,322	700	500	500
Investments	5	5	5	5
<b>Current Assets, Loans &amp; Advances</b>	<b>2,888</b>	<b>2,844</b>	<b>4,132</b>	<b>5,641</b>
Inventories	1,300	933	1,264	1,713
Receivables	810	888	1,297	1,969
Cash and Bank Balances	36	10	494	812
Loans and Advances	451	710	760	814
Other Current Assets	291	303	317	332
<b>Less: Current Liabilities &amp; Provisions</b>	<b>892</b>	<b>1,307</b>	<b>1,877</b>	<b>2,304</b>
Payables	379	777	1,297	1,713
Other Current Liabilities	513	530	580	591
<i>sub total</i>				
Net Current Assets	1,996	1,537	2,255	3,337
<b>Total Assets</b>	<b>7,009</b>	<b>6,657</b>	<b>7,426</b>	<b>8,517</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	36.9	40.5	38.0	37.5
EBIDTA Margin	10.1	8.1	12.3	13.6
EBIT Margin	6.4	3.5	8.5	10.5
Tax rate	33.2	25.5	25.5	25.5
Net Profit Margin	4.2	2.7	6.6	7.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	63.1	59.5	62.0	62.5
Employee	10.0	12.5	10.1	9.2
Other	16.8	19.9	15.5	14.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.3	0.2	0.2	0.2
Interest Coverage	4.2	2.4	8.7	12.0
Inventory days	42	42	39	40
Debtors days	26	40	40	46
Average Cost of Debt	21.5	9.2	10.5	10.4
Payable days	12	35	40	40
Working Capital days	65	69	70	78
FA T/O	3.1	1.8	2.5	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	1.2	0.6	2.0	3.1
CEPS (Rs)	2.2	1.5	3.1	4.3
DPS (Rs)	0.5	0.1	0.5	0.8
Dividend Payout (%)	40.0	25.0	25.0	25.0
BVPS (Rs)	13.0	13.4	14.8	17.0
RoANW (%)	9.3	4.2	13.9	19.6
RoACE (%)	10.5	5.0	12.7	17.2
RoAIC (%)	12.0	4.2	14.9	22.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	47	47	47	47
P/E	38.9	84.4	23.9	15.1
Mcap (Rs Mn)	18,632	18,632	18,632	18,632
MCap/ Sales	1.7	2.3	1.6	1.2
EV	20,153	19,628	19,345	19,227
EV/Sales	1.8	2.4	1.6	1.2
EV/EBITDA	17.7	30.0	13.2	9.1
P/BV	3.6	3.5	3.2	2.8
Dividend Yield (%)	1.0	0.3	1.0	1.7
<b>(F) Growth Rate (%)</b>				
Revenue	(47.1)	(28.2)	46.0	32.1
EBITDA	(58.7)	(42.7)	123.1	45.5
EBIT	(68.4)	(61.1)	257.1	61.7
PBT	(66.7)	(58.6)	253.0	58.7
APAT	(65.1)	(53.9)	253.0	58.7
EPS	(65.1)	(53.9)	253.0	58.7
<b>Cash Flow</b>				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	41	1,165	1,135	1,126
CFI	(1,023)	(478)	(500)	(500)
CFF	772	(735)	(151)	(308)
FCFF	(1,011)	686	635	626
Opening Cash	246	37	10	494
Closing Cash	37	10	494	812

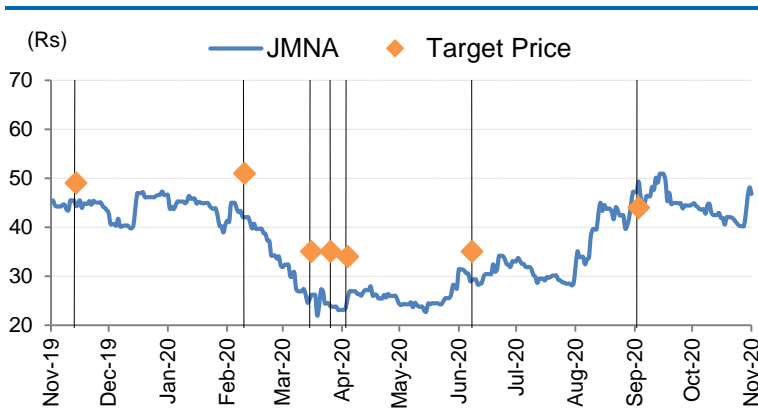
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	49	44
Feb-20	Accumulate	51	42
Mar-20	Buy	35	26
Mar-20	Buy	35	24
Apr-20	Buy	34	26
Jun-20	Accumulate	35	29
Sep-20	Accumulate	44	49

\*Price as on recommendation date

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