

Viewpoint

MHCV revival to spring growth; re-initiate coverage

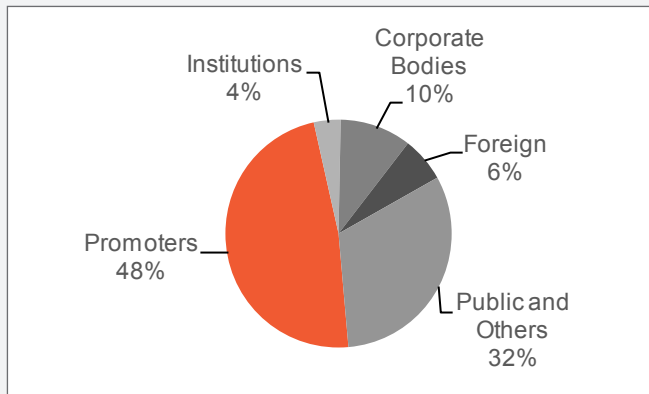
Jamna Auto Industries

View: Positive | CMP: Rs258

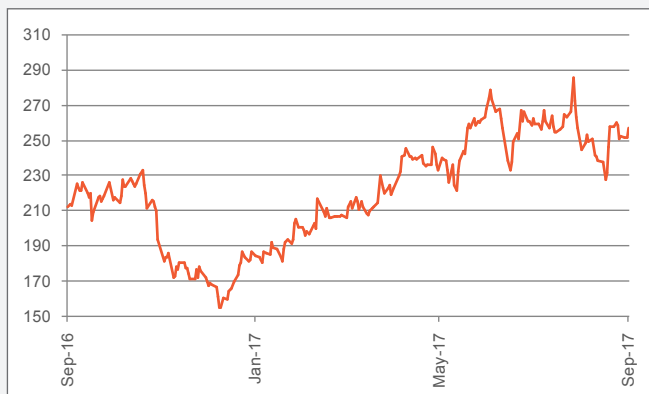
Company details

Market cap:	Rs2,056
52-week high/low:	Rs294/151
NSE volume: (No of shares)	1.51 lakh
BSE code:	520051
NSE code:	JAMNAAUTO
Sharekhan code:	JAMNAAUTO
Free float: (No of shares)	4.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	-3.9	22.2	21.0
Relative to Sensex	-5.4	-7.6	8.8	5.3

Key points

- Play on MHCV demand revival:** The past four quarters have been sluggish for the MHCV segment as the industry reported a cumulative 11% volume drop during July 2016-June 2017. Demonetisation aftermath, switchover from BS3 emission to BS4 norms coupled with transitory issues of GST regime severely impacted MHCV demand. However, the green shoots of revival in the MHCV industry are apparent with strong growth in July and August 2017 (7% and 28% growth, respectively). Businesses are gradually adapting to GST and demand for CVs is set to improve as business cycles and consumption cycles pick up. Moreover, government's focus on infrastructure spends and traction in mining activities provide comfort on growth going ahead. Economic growth traction coupled with low base of H2FY2017 (MHCV sales were flat) provides growth visibility going ahead. As per industry experts, the MHCV industry is poised to report mid single-digit growth in FY2018 as against a 32% drop reported in Q1FY2018 (implies 9MFY2018 growth of 15-17%). Jamna Auto Industries (JAI) is the market leader with 70% share in domestic OEM space and is deriving a significant chunk from the MHCV OEM segment (about 70% of revenue). The company is set to benefit significantly from demand revival.
- New product introductions and ramp up in the aftermarket space to aid growth:** JAI has been a pioneer in the introduction of parabolic springs (more load-bearing capacity compared to conventional leaf springs) in the domestic MHCV market and is virtually the only supplier commanding a market share of ~ 90%. Parabolic springs have been gaining acceptance with the share likely to increase in the next four years from the current level of 20% to 30%. Further, JAI is targeting the aftermarket segment and plans to increase the contribution from ~20% of revenue currently to 30% over the next 3-4 years. With the successful rollout of GST, the unorganised players are likely to lose pricing advantage (as they need to pay taxes under GST regime to claim input credit), leading to shift to organised players such as JAI. As per management, the size of the aftermarket segment is larger than the OEM space, which provides tremendous growth potential for the company. JAI is expanding its distribution reach in the aftermarket space and has formed a dedicated team to enhance aftermarket revenue.

- ◆ **Outlook - Topline and earnings to gain momentum:** Demand outlook from the domestic MHCV industry is encouraging as key transitory concerns (BS3 to BS4 emissions and GST) are beginning to settle down. The MHCV industry is expected to grow in strong double digits for 9MFY2018, thus translating into a sharp upsurge in revenue. We expect JAI to report a healthy 11% earnings CAGR over the next two years.
- ◆ **Valuation: Reinitiate viewpoint coverage with a Positive view:** We had initiated a book profit note on JAI dated 3rd October 2016 at a CMP of Rs.219 with stellar 30% gains within a short period of three months, due to expectations of weakness in the MHCV industry and higher valuations. In the last few quarters, demonetisation, transition to the new emission norms and uncertainties around GST rollout impacted the CV industry's performance and that of JAI. However, we expect the growth trend to pick up going ahead. Consequently, JAI's revenue and earnings are expected to report a 9%/11% CAGR over the next two years. JAI is a quality auto ancillary company having strong cash flows with return ratio in excess of 27%. JAI is the best stock to play the MHCV industry revival. We reinitiate our viewpoint coverage on JAI and expect 15% returns over the next 3-6 months.

Valuations (Consolidated)					Rs cr
Particulars	FY15	FY16	FY17	FY18E	FY19E
Revenues	1095.1	1255.8	1299.5	1390.4	1543.4
Growth (%)	31.4	14.7	3.5	7.0	11.0
EBIDTA	94.5	162.2	183.0	183.5	213.0
OPM (%)	8.6	12.9	14.1	13.2	13.8
Net Profit	28.9	71.0	104.2	108.9	128.5
Growth (%)	NA	145.9	46.8	4.5	18.0
EPS	3.6	8.9	13.1	13.7	16.2
P/E (x)	71.0	28.9	19.7	18.8	16.0
P/BV (x)	10.4	8.5	6.2	5.1	4.2
EV/EBIDTA (x)	22.3	12.7	11.5	10.7	9.1
ROE (%)	14.7	29.3	31.3	27.0	26.4
ROCE (%)	23.2	46.4	38.1	38.6	37.4

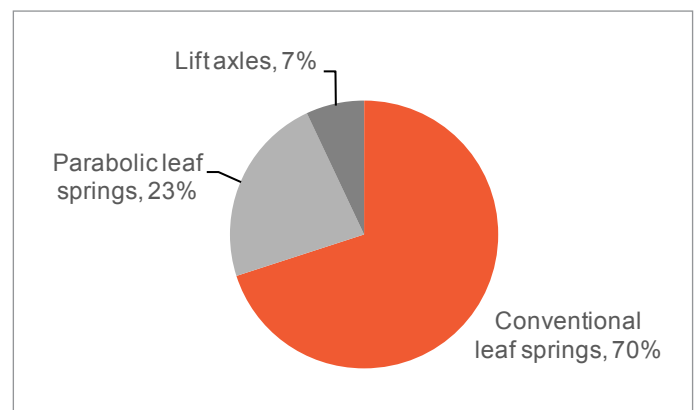
Company background

Jamna Auto Industries (JAI) is India's largest and the world's third largest manufacturer of multi-leaf springs and parabolic springs for automobiles and is a pioneer of parabolic springs in India. JAI is a trusted and preferred supplier of leaf springs and

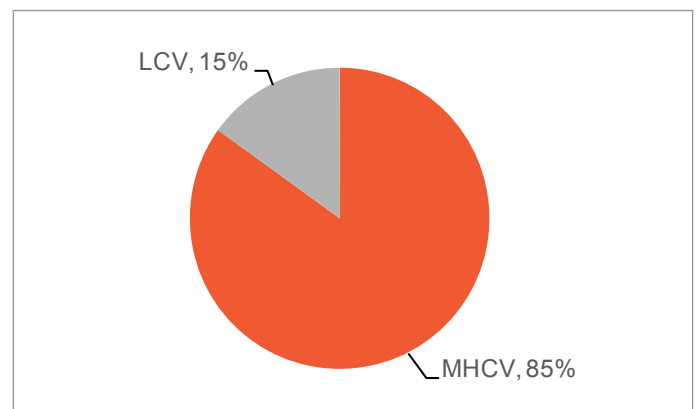
parabolic springs to all major CV manufacturers, with business relationships for over 50 years. JAI is the market leader with 70% market share in India's OEM segment and produces over 493 parts for OEMs. Tata Motors and Ashok Leyland are the company's major clients. JAI has nine strategically located manufacturing facilities pan-India situated close to OEM manufacturing facilities at Yamuna Nagar, Malanpur (near Gwalior), Chennai, Jamshedpur, Hosur, Lucknow, Pune and Pantnagar (under subsidiary entity). Domestic after-market operations are being looked after by the subsidiary entity i.e., Jai Suspension Systems LLP (LLP). At 70%, the conventional leaf springs account for bulk of the company's revenue. Parabolic springs constitute 23% of the topline, while lift axles form 7%. MHCV is the biggest segment for JAI, accounting for 85% of its topline, while LCV accounts for the balance 15%.

Further, JAI derives majority of its revenue from the OEM segment, contributing ~80% to the topline. Replacement and exports account for 20% and 1% share of the topline, respectively.

Product-wise revenue mix (%)



Segment-wise revenue mix (%)



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