ICICI direct Research

Shubh Nivesh

Jamna Auto Industries (JAMAUT)

CMP: ₹ 136 | Target: ₹ 170 (25%) | Target Period: 6-12 months | BUY

July 29, 2024

Too early to right off CV cycle, proxy infra/capex play

About the stock Jamna Auto Industries Ltd (JAI), is a manufacturer of suspension products i.e. leaf & parabolic springs for Commercial Vehicles (largely M&HCV). It has 10 Manufacturing plants spread across India, in close proximity to CV OEMs.

- FY24 sales product mix: Existing Products: 53%; New Products: 47%
- FY24 sales market mix: Existing Markets :79%; New Market:21%
- Counts all major CV OEMs as clients: Tata Motors, Ashok Leyland, VECV.

Investment Rationale:

- **Government thrust on capex, ageing fleet, E-buses & revival in scrappage policy: Structural drivers for domestic M&HCV space:** Volume recovery in the domestic M&HCV space has been healthy in the post covid era with industry in close proximity to its previous peak attained in FY19 (~3.9 lakh units), with FY24 volumes pegged at ~3.7 lakh units. On a high base, industry expectation is for tapered growth over next few years with unchanged structural drivers like government thrust on capex with budget outlay for FY25E retained at ₹ 11.1 lakh crore (at 3.4% of GDP), ageing fleet driving replacement demand (average fleet size pegged at ~10-11 years vs. normal age of ~7-8 years), improved fleet operators' profitability and governments focus on revival in scrappage policy amidst its slower than anticipated take off in the current format. Government thrust on electric buses is also an added positive amidst focus on clean mobility. With these structural drivers in place, we expect the industry to report healthy growth (high single digit) over FY24-26E with Jamna Auto as a beneficiary given its leadership position in the M&HCV suspension space.
- **Topline diversification efforts bode well for growth longevity:** With the aim to diversify its business model, Jamna Auto has outlined its Lakshya 50XT vision wherein its intent is to realise sales from new products to 50% (currently 47%), sales from new markets to 50% (currently 21%), RoCE to 50% (currently ~30%) and Dividend payout to 50% (currently ~47%), all by FY27. This we believe is structurally positive and provides growth longevity at JAI, as it eyes a greater export play as well as diversifies its revenue stream. Interestingly, in recent past it has entered into MoU with CV arm at Eicher Motors i.e. VECV for increase in business and is setting up a new plant for the same at Indore (MP) at a total capex outlay of ~₹ 125 crore.
- **Healthy return ratios and lean B/S to support valuations:** Jamna Auto has a highly capital efficient business model wherein it realises healthy >=25% RoCE's, realises healthy positive Cash flow from operations & has lean B/S (Debt: Equity at ~0.2x as of FY24), thereby providing high margin of safety to our investment thesis and support valuations going forward.

Rating and Target Price

- With double digit growth in sight and Lakshay 50XT under implementation we continue to be positive on company and assign **BUY rating on Jamna Auto**. We value the company at **₹ 170 i.e. 26x PE on FY26E**.

Jamna Auto Industries Ltd.

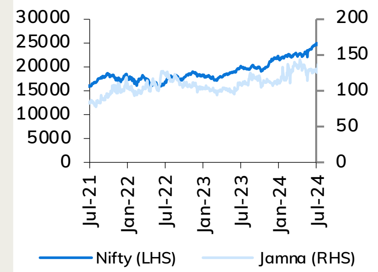
Particulars

Particulars	₹ crore
Market capitalisation	5,424
Total Debt (FY24P)	159
Cash & Investment (FY24P)	80
EV (₹ crore)	5,502
52 week H/L (₹)	144 / 102
Equity capital (₹ crore)	39.9
Face value (₹)	1.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	50.0	50.0	49.9	49.9
FII	5.8	5.7	7.7	9.0
DII	12.3	10.8	7.1	6.3
Other	32.0	33.6	35.3	34.8

Price Chart



Recent event & key risks

- Putting up new plant for VECV-Eicher Motors at Indore
- Key Risk: (i) Slower than expected diversification efforts driving sales growth, (ii) adverse metal prices limiting margin recovery over FY24-26E

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Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,129	1,079	1,718	2,325	2,427	2.6%	2,615	2,984	10.9%
EBITDA	114	132	226	261	327	3.4%	353	418	13.0%
EBITDA Margins (%)	10.1	12.3	13.2	11.2	13.5		13.5	14.0	
Net Profit	48	73	141	168	205	8.4%	220	262	12.9%
EPS (₹)	1.2	1.8	3.5	4.2	5.1		5.5	6.6	
P/E	113.2	74.3	38.5	32.2	26.4		24.7	20.7	
RoNW (%)	9.3	12.6	20.6	21.5	22.7		21.7	22.9	
RoCE (%)	10.6	13.5	21.4	26.7	26.2		25.4	28.1	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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