Stock Note

Jay Bharat Maruti Ltd.

January 23, 2024

RETAILRESEARCH

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Jay Bharat Maruti Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 135	Buy in Rs 134-137 band & add on dips in Rs 120-122 band	Rs 150	Rs 161	2-3 quarters

HDFC Scrip Code	JAYBHAEQNR
BSE Code	520066
NSE Code	JAYBARMARU
Bloomberg	JBM IN
CMP Jan 20, 2024	135.2
Equity Capital (Rs cr)	21.7
Face Value (Rs)	2
Equity Share O/S (cr)	10.8
Market Cap (Rs cr)	1457
Book Value (Rs)	47.8
Avg. 52 Wk Volumes	149,000
52 Week High (Rs)	137.9
52 Week Low (Rs)	51.2

Share holding Pattern % (Dec, 2023)	
Promoters	59.3
Institutions	3.7
Non Institutions	37.0
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Jay Bharat Maruti Ltd. (JBML) has come a long way in its growth journey to become an industry and market leader in its niche business space. In collaboration with Maruti Suzuki India Limited (MSIL), JBML manufactures high-end auto components and assemblies such as BIW parts, exhaust systems, fuel fillers (fuel pipe), and suspension parts for passenger cars. Its ability to harness the auto industry's expanding opportunity matrix will help drive greater growth and stakeholder value creation for the Company in the coming years

Despite high competition among sheet metal component manufacturers, JBML benefits from its cost competitive manufacturing capabilities, its steady investments in setting up capacities as well as its extensive track record and favourable ownership structure, with MSIL holding a 29.3% stake as a joint venture (JV) partner in the company. The latter, apart from providing revenue visibility, also enables operational support towards facilitating technical tie-ups with Japanese suppliers for design and development of select model specific components.

Valuation & Recommendation:

We expect JBML's Revenue/PAT to grow at 7/18% CAGR over FY23-FY26E. We believe investors can buy the stock in Rs 134-137 band and add on dips in Rs 120-122 band (22.5x Dec'25E EPS) for a base case fair value of Rs 150 (28x Dec'25E EPS) and bull case fair value of Rs 161 (30x Dec'26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Operating Income	613	581	5.6	533	15.0	2,344	2,403	2,583	2,867
EBITDA	45	43	4.8	37	20.9	173	180	201	232
APAT	9	9	0.4	5	76.4	38	37	44	63
Diluted EPS (Rs)	0.8	0.8	0.4	0.5	76.4	3.5	3.4	4.0	5.8
RoE (%)						7.7	7.1	8.1	11.1
P/E (x)						38.6	39.8	33.6	23.3
EV/EBITDA (x)						10.3	9.4	8.6	7.6

(Source: Company, HDFC sec)

Q2FY24 Result Review

- JBML reported 6% YoY topline growth to Rs 613cr after de-growth in the past two quarters. On a sequential basis revenue increased by 15% YoY.
- EBITDA increased by 5% YoY to Rs 45cr even as margins remained flat at 7.4%. Gross margins expanded 75bps to 22% offset by 13% increase in employee expenses.
- Similarly, PAT remained stable at Rs 9cr while PAT margin dipped marginally to 1.5% on account of higher interest costs.

Key Triggers

Huge expansion plan of MSIL over the next 7-8 years

Maruti Suzuki India (MSI) plans a substantial capital expenditure (capex) of approximately Rs 1.25 lakh crore until 2030-31. This investment aims to expand the product lineup from 17 to 28 models and increase annual production capacity to 40 lakh units by 2030-31. The company intends to allocate around Rs 45,000 crore to achieve a production capacity of 20 lakh units, considering current costs with a margin for potential increases. Maruti Suzuki plans to introduce 10-11 new models with various fuel options during this period. The production of electric vehicles (EVs) and SUVs will require significant capital expenditures.

Recently MSIL announced plans to invest Rs 38200cr in Gujarat to increase the production capacity of internal combustion engine (ICE) vehicles and battery-powered electric vehicles (EV). In line with the expansion at MSIL, JBML is also expanding its capacities. It is looking to incur capex of ~Rs 350cr over the next 2 years to meet the increasing requirement. Over the years, JBML has benefitted out of higher content per vehicle (CPV) for the models being serviced from the new Gujarat facility.

In Nov 2023, JBML has laid the foundation stone for its new plant in Kharkhoda, Sonipat, Haryana. The facility is located in the MSIL Supplier's Park, IMT Kharkhoda and spread over an area of over 6.7 acres. It will provide capacity enhancement to meet the requirements of Maruti Suzuki's new manufacturing plant at IMT Kharkhoda, which is expected to be commissioned by FY2025. The facility will be set up in phases, consistent with MSIL volume forecast of million vehicles at Kharkhoda. Further, MSIL has also allotted land on lease basis admeasuring 2.87 acres approx. at SMG Suppliers' Park in Gujarat. The Company will be setting up Weld Shop at the location for new EV models of MSIL. The new facility will start production in October 2024 as per MSIL timeline.

Strong market position in sheet metal-based components; established relationship with MSIL

JBML enjoys a healthy share of business across major models of MSIL, the largest PV manufacturer in the country with a domestic market share of ~41% in FY23. The company is a major supplier of BIW parts (such as welded sheet metal assemblies) for some of MSIL's key models that are produced at its facilities in Haryana and Gujarat, and the same provides healthy revenue visibility for the company.

Fund raising plans to meet the capex requirement

The Board of JBML at its FY23 AGM has taken an enabling resolution to raise funds by way of issue of securities in order to meet the capex requirement of expanding its facilities.

Risks & Concerns

Slowdown in automobile industry

A prolonged slowdown in automotive volumes especially in 4W segment in future may hinder company's overall performance. Company derives over 90% of revenues from MSIL which is the leading 4W manufacturer in India.

Electrification in PV

The share of EV passenger vehicles is increasing gradually which could impact the company's exhaust system business.

Concentration risk

JBML derives over 90% of its revenues from 1 client i.e. MSIL. Although MSIL holds 29.3% stake in the company, slowdown in MSIL volumes exposes JBML to concentration risk.

Raw material volatility

Since majority of the sales are to MSIL, the company has lower pricing power and cannot easily pass on the increased raw material costs.

Return ratios poor

JBML's return ratios are poor due to low PAT margin and low Sales to Fixed assets ratio. This is being rectified by the company and the effect will be seen gradually over time.

Company Background:

JBML was incorporated in 1987 as a JV between the Arya family and MSIL. It manufactures sheet metal-based BIW components, rear axle assemblies, fuel neck components and assemblies, besides designing and developing dies and moulds, automotive machines and equipment. The company has five manufacturing facilities, located in Gurgaon (Haryana), Manesar (Haryana) and Gujarat. The facilities include imported and indigenous press lines, robotic welding lines, along with plating and painting facilities. The company is also setting up two new manufacturing plants at Kharkhoda, Sonipat and Gujarat.

From starting off with making sheet metal components and assemblies for PVs, JBML has added capabilities to produce exhaust systems, rear axles, torsion beams and fuel filler necks, over the years. The Company has alliance and partnership with SNIC Co. Ltd., Japan, Daiwa Excel, Japan, Yorozu Corporation, Japan, and Ogihara Thailand Co. MSIL holds ~29.3% stake in the company.

Jay Bharat Maruti Ltd.

Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**2078**	**2344**	**2403**	**2583**	**2867**
Growth (%)	***38.6***	***12.8***	***2.5***	***7.5***	***11.0***
Operating Expenses	1928	2171	2223	2382	2635
EBITDA	**150**	**173**	**180**	**201**	**232**
Growth (%)	***10.3***	***15.6***	***4.0***	***11.8***	***15.3***
EBITDA Margin (%)	***7.2***	***7.4***	***7.5***	***7.8***	***8.1***
Depreciation	75	80	86	89	93
Other Income	0	1	1	2	2
EBIT	**75**	**95**	**96**	**115**	**141**
Interest expenses	33	37	41	54	57
PBT	**42**	**58**	**54**	**61**	**85**
Tax	15	21	19	19	24
PAT	**27**	**37**	**36**	**42**	**61**
Share of Asso./Minority Int.	1	1	1	2	2
Adj. PAT	**28**	**38**	**37**	**44**	**63**
Growth (%)	***7.3***	***34.7***	***-3.1***	***18.7***	***44.1***
EPS	2.6	3.5	3.4	4.0	5.8

Balance Sheet

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	22	22	22	22	22
Reserves & Surplus	453	486	506	528	559
Shareholders' Funds	**474**	**508**	**528**	**549**	**581**
Total Debt	375	331	456	566	501
Net Deferred Taxes	90	100	100	100	100
Other Non-curr. Liab.	17	6	6	7	7
Total Sources of Funds	**955**	**946**	**1090**	**1222**	**1190**
APPLICATION OF FUNDS					
Net Block & Goodwill	856	881	882	909	953
CWIP	62	23	12	6	3
Investments	26	27	217	287	212
Other Non-Curr. Assets	65	8	8	9	10
Total Non Current Assets	**1010**	**940**	**1119**	**1211**	**1179**
Inventories	211	203	232	251	277
Debtors	90	82	105	120	141
Cash & Equivalents	4	6	37	39	18
Other Current Assets	12	68	31	41	55
Total Current Assets	**317**	**360**	**405**	**451**	**491**
Creditors	270	257	302	314	341
Other Current Liab & Provisions	102	97	132	125	138
Total Current Liabilities	**372**	**354**	**434**	**439**	**479**
Net Current Assets	-55	6	-29	12	11
Total Application of Funds	**955**	**946**	**1090**	**1222**	**1190**

Cash Flow Statement

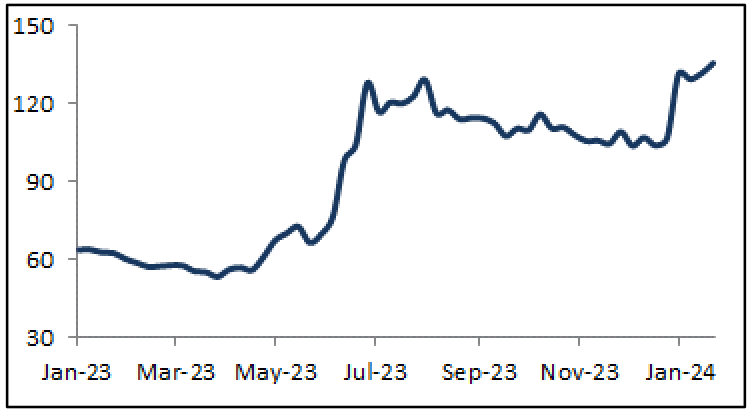
(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	43	58	55	62	86
Non-operating & EO items	-1	-2	0	0	0
Interest Expenses	33	37	41	54	57
Depreciation	75	80	86	89	93
Working Capital Change	-14	-4	65	-38	-21
Tax Paid	-31	-15	-19	-19	-24
OPERATING CASH FLOW (a)	**106**	**154**	**229**	**148**	**192**
Capex	-76	-66	-75	-110	-135
Free Cash Flow	29	88	154	38	57
Investments	0	1	-190	-70	75
Non-operating income	0	0	0	0	0
INVESTING CASH FLOW (b)	**-76**	**-65**	**-265**	**-180**	**-60**
Debt Issuance / (Repaid)	11	-44	125	110	-65
Interest Expenses	-33	-37	-41	-54	-57
FCFE	7	9	48	24	10
Share Capital Issuance	0	0	0	0	0
Dividend	-5	-5	-17	-22	-31
Others	-1	-1	0	0	0
FINANCING CASH FLOW (c)	**-28**	**-86**	**66**	**35**	**-153**
NET CASH FLOW (a+b+c)	**2**	**4**	**30**	**2**	**-21**

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	7.2	7.4	7.5	7.8	8.1
EBIT Margin	3.6	4.0	4.0	4.4	4.9
APAT Margin	1.4	1.6	1.5	1.7	2.2
RoE	6.1	7.7	7.1	8.1	11.1
RoCE	9.0	11.2	10.5	10.9	12.9
Solvency Ratio (x)					
Net Debt/EBITDA	2.5	1.9	2.3	2.6	2.1
Net D/E	0.8	0.6	0.8	1.0	0.8
PER SHARE DATA (Rs)					
EPS	2.6	3.5	3.4	4.0	5.8
CEPS	9.6	10.9	11.4	12.2	14.4
BV	43.8	46.9	48.7	50.8	53.7
Dividend	1.3	1.8	1.6	2.0	2.9
Turnover Ratios (days)					
Debtor days	13	13	14	16	17
Inventory days	32	32	33	34	34
Creditors days	42	41	42	44	42
VALUATION (x)					
P/E	52.0	38.6	39.8	33.6	23.3
P/BV	3.1	2.9	2.8	2.7	2.5
EV/EBITDA	12.2	10.3	9.4	8.6	7.6
EV / Revenues	0.9	0.8	0.7	0.7	0.6
Dividend Yield (%)	0.9	1.3	1.2	1.5	2.1
Dividend Payout (%)	48.1	50.0	47.1	49.7	50.0

(Source: Company, HDFC sec)

Price chart



HDFC Sec Retail Research Rating description

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Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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