

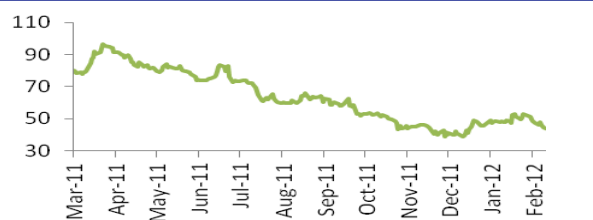
## Jay Bharat Maruti Ltd

Recommendation	BUY for Short Term
CMP (29/03/2012)	Rs. 43
Target Price	N/A
Sector	Auto Parts & Equipments

### Stock Details

BSE Code	520066
NSE Code	JAYBARMARU
Bloomberg Code	JBM IN
Market Cap (Rs crs)	94
Free Float (%)	41.43%
52- wk Hi/Lo (Rs)	101/36.50
Avg. volume BSE (Quarterly)	2,369
Face Value (Rs)	5
Dividend (FY11)	40%
Shares o/s (Crs)	2.16

Relative Performance	1Mth	3Mth	1Yr
<b>JBM</b>	-11.5%	10.0%	-42.9%
<b>Sensex</b>	1.9%	18.9%	-2.3%



Shareholding Pattern	31 <sup>st</sup> Dec. 11
Promoters Holding	58.57%
Institutional (Incl. FII)	0.06%
Corporate Bodies	20.72%
Public & others	20.65%

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### Q4FY12 Results to improve tremendously!!!

Jay Bharat Maruti Limited (JBML) is a joint venture between JBM Group and Maruti Suzuki with Maruti holding a 29.38% stake. JBML is a key supplier to Maruti Suzuki India Ltd (Maruti Suzuki) and garners around 90-92% of its total revenues from Maruti Suzuki. Its other customers are Eicher Motors and Mahindra and Mahindra.

#### ➤ Positive correlation with Maruti Suzuki

As JBML generates approximately **90% of its revenues from Maruti Suzuki**, the performance of JBML largely depends on the performance of Maruti Suzuki. We have seen a strong correlation in the volume growth between Maruti Suzuki and JBML. **JBML sales are approximately around 3% of Maruti sales.**

#### ➤ The Past: What went wrong

When Maruti was passing through a **rough phase** owing to large scale labour unrest resulting from prolonged strike which impacted the performance of the company, even JBML performance was hit as it is largely dependent on Maruti for sales.

#### ➤ The Future: Q4FY12 results expected to be good

Maruti Suzuki showed a feeble performance over the past couple of quarters which was adversely affected by the prolonged labour strike at the Manesar plant that hit the company's production. Going forward, we expect the sales of Maruti to improve and witness significant improvement in Q4FY12E. As JBML is largely dependent on Maruti (**around 90% of sales are to Maruti**), an improvement in sales of Maruti will result in an improvement of sales for JBML as well. With expected improvement in sales to Maruti, JBML will be able to leverage its fixed cost more and will be able to improve margins.

### Valuation & Recommendation

Although the stock price of Maruti has factored in the anticipated positive results, the same is not the case with JBML. The stock of Maruti has generated returns of 41% from Jan to March 2012 whereas the stock of JBML has generated return of only 11% over the same period. We believe that this was owing to small size of the company and low volume in stock. Going forward, we believe that the company will be back on growth path and demonstrate a healthy performance. At CMP of Rs 43 the stock is trading at an annualized PE of mere 3.2x based on Q4FY12E EPS of Rs. 3.4. We believe that the stock will perform in the near term resulting from **direct benefit from Maruti** and can be accumulated at current levels with **a potential upside of 15%-20% in near term.**

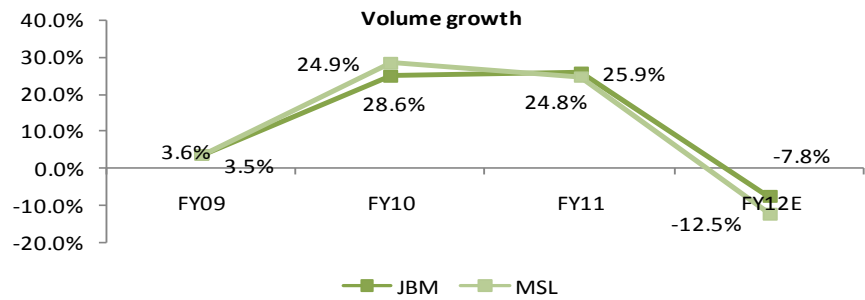
Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs crs)	Margin (%)	PAT (Rs crs)	Margin (%)	EPS (Rs.)	P/E (x)
FY 09A	691.7	5.3%	57.4	8.3%	10.4	1.5%	4.79	8.98
FY 10A	803.2	16.1%	80.9	10.1%	21.0	2.6%	9.70	4.43
FY 11A	1060.0	32.0%	100.5	9.5%	40.9	3.9%	18.90	2.28
FY 12E	1060.7	0.1%	82.2	7.8%	15.9	1.5%	7.32	5.87

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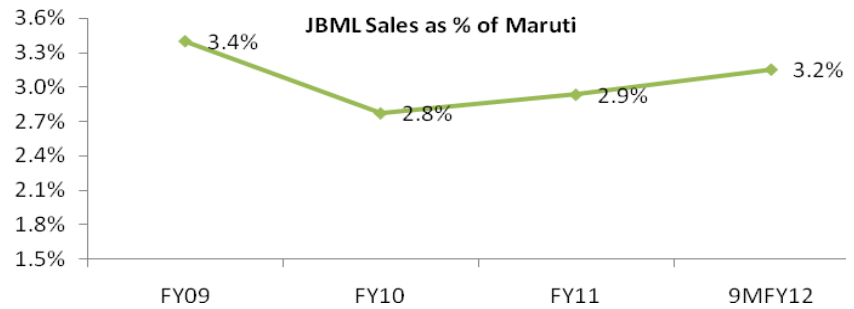
Investment Thesis

➤ Positive correlation with Maruti Suzuki

As JBML generates approximately **90% of its revenues from Maruti Suzuki**, the performance of JBML largely depends on the performance of Maruti Suzuki. We have seen a strong correlation in the volume growth between Maruti Suzuki and JBML. **JBML sales are approximately around 3% of Maruti sales.**



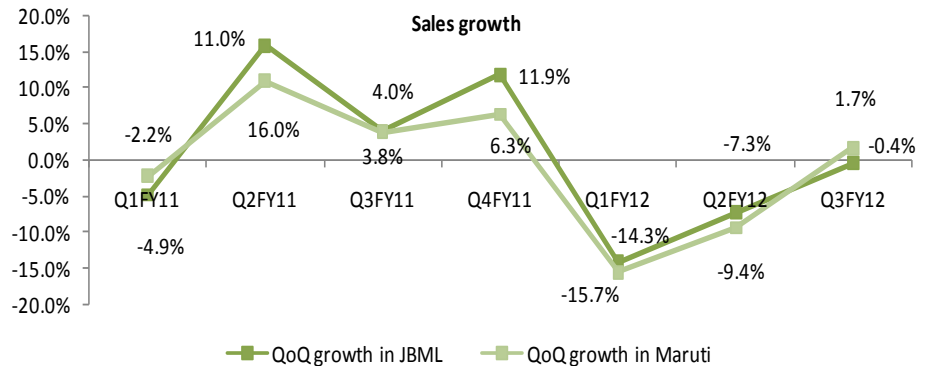
Source: Company data, Nirmal Bang Research



Source: Company data, Nirmal Bang Research

The Past: What went wrong

When Maruti was passing through a **rough phase** owing to large scale labour unrest resulting from prolonged strike which impacted the performance of the company, even JBML performance was hit as it is largely dependent on Maruti for sales. This is evident from the graph below.

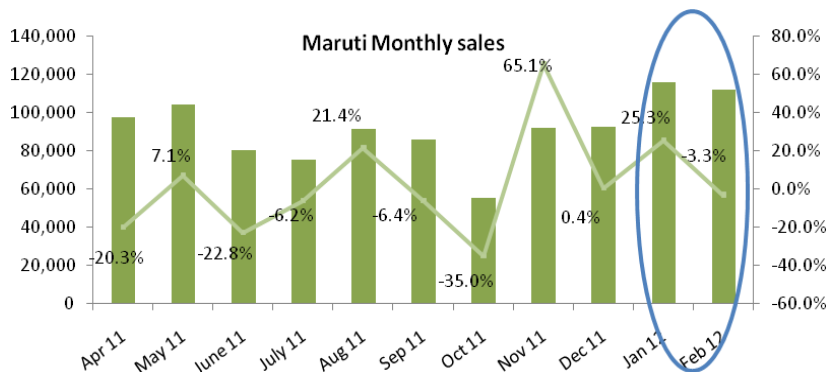


Source: Company data, Nirmal Bang Research

**Jay Bharat Maruti Ltd**

**The Present: Back on track**

Going forward, as we have seen a revival in the sales of Maruti in the month of January and February 2012 which has been the highest sales month for the company in FY12, although lower from FY11 levels we believe that JBML will also benefit from this revival and witness an improvement in the sales.



Source: Company data, Nirmal Bang Research

**The Future- What lies ahead**

➤ **Q4FY12 results expected to be good**

Maruti Suzuki showed a feeble performance over the past couple of quarters which was adversely affected by the prolonged labour strike at the Manesar plant that hit the company’s production. Higher royalty and R/M costs further aggravated the problem which impacted the overall performance. Going forward we expect the sales of Maruti to improve and witness significant improvement in Q4FY12E. Consequently the margins of Maruti are also set to improve drastically from the historic lows of 5.4% in Q3FY12. We expect conditions to improve from Q4FY12E onwards with ramping up of production, higher capacity, price hike, stable interest rates and new launches.

As JBML is largely dependent on Maruti (**around 90% of sales are to Maruti**), an improvement in sales of Maruti will result in an improvement of sales for JBML as well. With expected improvement in sales to Maruti, JBML will be able to leverage its fixed cost more and will be able to improve margins.

**Our rationale for better Q4FY12E results is based on the following points:**

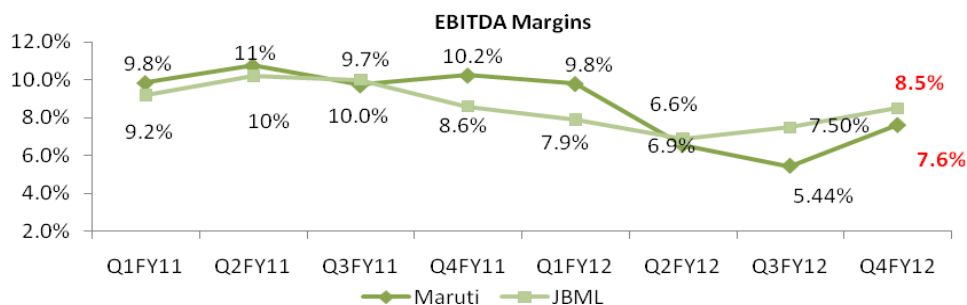
- Historically we have observed that JBML sales have been broadly around 3% of total sales of Maruti in the last 8 quarters.
- Therefore we have considered a similar range and pattern for Q4FY12E and **expect that the sales of JBML should be around 3.1% of Maruti sales.**
- Considering 3.1% of Maruti sales we are likely to see a tremendous improvement in the sales of JBML (**32.9% QoQ improvement and 5.1% YoY improvement**).
- Resulting from leverage in the fixed cost of the company, we foresee a considerable improvement in JBML’s margins (**+100 bps improvement on QoQ basis**). Even after assuming the improvement in EBITDA margin in Q4FY12E, it will remain below the historical level which provides scope for further improvement in near to medium term.
- We believe that the interest expense can further increase based on higher working capital and debt burden.

**Jay Bharat Maruti Ltd**

- However, other factors like depreciation and other income are expected to be stable and no major surprise is expected.
- A sharp improvement in top line performance coupled with operating efficiency is likely to result into a PBT of Rs 10.9 crs which is the **highest in any quarter for FY12E**.
- Driven by better performance we expect the company to report PAT of Rs 7.3 crs in Q4FY12E. We expect the company to report EPS of Rs 3.4 in Q4FY12E
- Based on our Q4FY12E annualized EPS the **stock is trading at a P/E of 3.2x** which we believe is very attractive.

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12E
Maruti Sales	8,051	8,937	9,277	9,864	8,320	7,537	7,664	10,294
JBML Sales	225	261	271	304	260	241	240	319
% of Maruti sales	2.8%	2.9%	2.9%	3.1%	3.1%	3.2%	3.1%	3.1%
<b>EBITDA</b>	<b>20.6</b>	<b>26.5</b>	<b>27.1</b>	<b>26.3</b>	<b>20.6</b>	<b>16.6</b>	<b>17.9</b>	<b>27.1</b>
EBITDA margins	9.2%	10.2%	10.0%	8.6%	7.9%	6.9%	7.5%	8.5%
Interest	3.4	3.7	3.5	3.7	4.7	5.6	7.0	7.5
Depreciation	8.8	9.0	8.2	9.1	8.4	9.2	8.9	8.9
Other income	0.8	0.8	0.6	3.4	0.6	0.5	0.1	0.1
PBT	9.3	14.6	16.0	16.8	8.2	2.2	2.2	10.9
Tax	3.8	4.3	5.5	4.8	2.6	0.7	0.7	3.6
PAT	5.5	10.3	10.5	12.0	5.5	1.5	1.5	7.3
EPS	2.6	4.8	4.8	5.5	2.6	0.7	0.7	3.4

Source: Company data, Nirmal Bang Research



Source: Company data, Nirmal Bang Research

➤ **Capacity expansion**

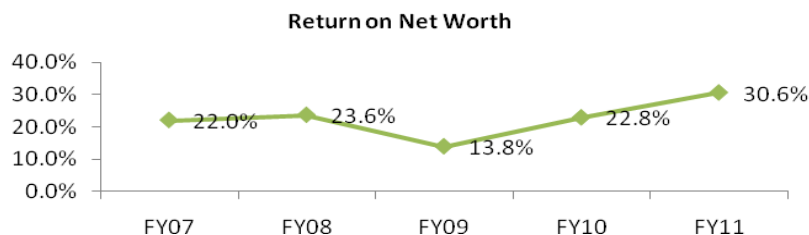
JBML has expanded its capacity from time to time in order to meet the demand of Maruti. JBML has invested around Rs 100 crs over last two years in order to match up with the needs of Maruti. Maruti intends to expand its current capacity from 1.6 mn cars to 1.85 mn at the Manesar plant. We believe that this will provide strong growth opportunities to JBML going forward.



## Jay Bharat Maruti Ltd

➤ **Other factors which are likely to benefit the company**

- **Return on net worth:** Apart from the factors like revival in sales growth of the company, we also feel that the stock has always maintained a very decent return on net worth.



Source: Company data, Nirmal Bang Securities

- **Healthy dividend track record:**

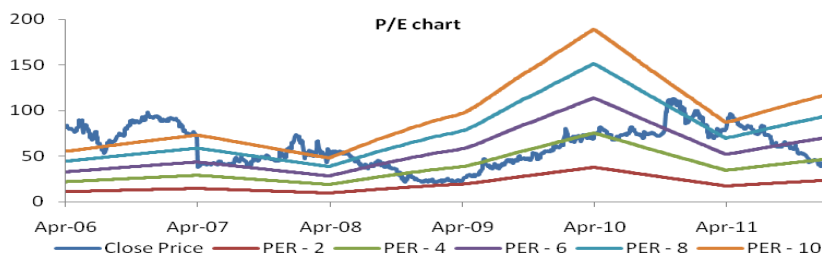
The company has declared a **healthy dividend track record** over the last few years. JBML's dividend payout ratio has increased steadily from 20% in FY09 to 40% in FY11. Consequently, dividend yield also increased from 2.4% to 5%. Although we believe that the company may not be able to declare attractive dividend this year considering not so good financial year, we believe that once the company is back on growth track, the investors will surely benefit from the dividend policy of the company.

- **Price movement: Jan-Mar 12 performance**

Moreover, although the stock price of Maruti has factored in the anticipated positive results, the same is not the case with JBML. If we see the stock performance of JBML we will see that there still exists gap in the movement of both the stocks. We believe that this was owing to small size of the company and low volume in the stock. **The stock of Maruti has generated return of 41% from Jan to March 2012 whereas the stock of JBML has generated return of only 11% over the same period.**

### Valuation and Recommendation

Going forward, we believe that the company will be back on growth path and demonstrate a healthy performance. At CMP of Rs 43 the stock is trading at an annualized PE of mere 3.2x based on Q4FY12E EPS of Rs. 3.4. We believe that the stock will perform in the near term in **expectation of better Q4FY12 results** resulting from **direct benefit from Maruti** and can be accumulated at current levels for a potential upside of **15%-20%** in near term.



Source: Company data, Nirmal Bang Research

## Jay Bharat Maruti Ltd

### Company Profile

Jay Bharat Maruti Limited (JBML) is a joint venture between JBM Group and Maruti Suzuki with Maruti holds a 29.38% stake. The company manufactures Body in White (BIW) parts & Skins panels; Welded assemblies; rear axles and fuel neck fillers. 65% of the company's revenues come from the BIW segment consisting of sheet metal components and assemblies. JBML is a key supplier to Maruti Suzuki India Ltd (Maruti Suzuki) and garners around 90-92% of its total revenues from Maruti Suzuki. Its other customers are Eicher Motors and Mahindra and Mahindra.

Product range of the company includes:

- Exhaust systems
- Axles
- Fuel neck fillers
- Sheet metal components
- Axles painting and plating
- Assemblies and sub assemblies
- Others

### Risks and Concerns

- Any slowdown in the auto industry will impact the performance of the company.
- A significant increase in the cost of raw material will adversely affect the company's margins.
- Higher dependence on Maruti Suzuki poses a significant risk to the company.
- Low trading volume of the stock poses a concern.

## Jay Bharat Maruti Ltd

### Financial Table: Snapshot

Particulars	FY06	FY07	FY08	FY09	FY10	FY11	9MFY12	FY12E
Sales	428.9	519.4	657.1	691.7	803.2	1060.0	741.55	1060.7
EBIDTA	41.01	42.61	49.62	57.39	80.86	100.46	55.2	82.28
Margin	9.60%	8.20%	7.60%	8.30%	10.10%	9.50%	7.40%	7.76%
PAT	9.5	11.97	15.8	10.4	21.0	40.9	8.6	15.86
EPS (FV:Rs5)	8.82	5.53	7.31	4.79	9.7	18.90	3.95	7.32

Source: Company data, Nirmal Bang Research

### Balance sheet: Snapshot

Particulars	FY06	FY07	FY08	FY09	FY10	FY11	1HFY12
Share Capital	5.41	10.83	10.83	10.83	10.83	10.83	10.83
Reserves and Surplus	39.25	43.28	56.22	64.05	81.26	114.53	121.58
Total shareholders fund	44.66	54.11	67.05	74.88	92.09	125.36	132.41
Total debt	55.47	77.3	75.37	79.46	58.8	107.83	183.26
Fixed assets and CWIP	107.26	139.26	156.03	191.82	202.28	273.2	331.09
Cash	1.33	1.27	1.37	0.52	1.13	0.63	0.73
Net current assets	-0.64	0.26	-4.32	-27.24	-39.82	-25.8	1.36

Source: Company data, Nirmal Bang Research

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