

26th June 2024

Jyoti CNC Automation – BUY

CMP : Rs. 1,347.0
Target Price : Rs. 1,619.0
Upside : 20%+
Stop Loss : Rs. 1,165.0 (Closing basis)

Investment Thesis

- Jyoti CNC Automation Ltd. (Jyoti CNC) is one of the world's leading manufacturers of metal-cutting computer numerical control (CNC) machines. It offers diverse portfolio to its customers with a choice of 200 variants in 44 series across CNC turning centers, CNC turn mill centers, CNC vertical machining centers (VMCs), CNC horizontal machining centers (HMCs) CNC 3-axis machining centers and CNC 5-axis machining centers, and multi-tasking machines, serving industries such as aerospace, automotive and electronics. Its pioneering '7th Sense' solution aligns with 'Industry 4.0', automating machine diagnostics for heightened productivity. Jyoti CNC has an impressive client base from the defence sector like Space Application Centre (ISRO), BrahMos Aerospace, Turkish Aerospace, Tata Advances System, Tata Sikorsky Aerospace, Bharat Forge, Shreeram Aerospace & Defence, Harsha Engineers, Bosch Ltd., etc.
- Jyoti CNC has 2 manufacturing facilities located in Rajkot, Gujarat and 1 manufacturing facility located in France. Currently, it has total manufacturing capacity of 4,521 CNC machines P.A., out of which 4,400 CNC machines P.A. in Rajkot and 121 CNC machines P.A. in France. With growing demand from aerospace & defence and auto & auto components, Jyoti CNC is expanding its manufacturing capacity at Rajkot to take total manufacturing capacity at Rajkot to 6,000 CNC machine P.A. by Sept. 2024. Also, it is investing Rs.400mn in France facility to add capacities for manufacturing large machines.
- With three manufacturing facilities, two in India and one in France, Jyoti CNC is able to create, develop and produce its wide range of CNC products. Because of its integrated operations, it is able to produce several essential machine parts internally, including rotary tables, tool changers, pallet changers, spindles, and universal heads. This increases its operating efficiency, simplifies its production process, and lessens its reliance on other parties. It feels that its clients like the comparatively greater control it has over the production process and that its backward integration has helped it manage the wide range of series and variations that it offers to them.

Financials

- Jyoti CNC's revenue and PAT grew by CAGR of 6.8% and 52.2%, respectively during the last five years led by strong orderbook and execution in aerospace & defence and auto & auto components.

Consol. (Rs.Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,465	9,293	13,385	15,794	18,321
EBITDA	727	974	3,009	3,611	4,261
EBITDA Margin (%)	9.7%	10.5%	22.5%	22.9%	23.3%
PAT	-483	151	1,509	1,840	2,218
EPS (Rs.)	-3.3	0.9	6.6	8.1	9.8
P/E (x)	-411.1	1472.7	203.1	166.5	138.1
RoE (%)	-117.3%	18.4%	11.1%	12.3%	13.5%

Stock Data

Market Cap (Rs. Mn)	3,06,630
Market Cap (\$ Mn)	3,670.0
Shares O/S (in Mn)	227.5
Avg. Volume (3 month)	4,96,000
52-Week Range (Rs.)	1,449.95 / 331.00

Shareholding Pattern

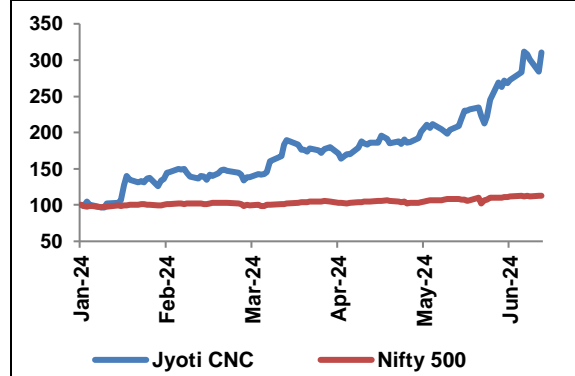
Promoters	62.55%
FII's	5.75%
Institutions	5.89%
Others (incl. body corporate)	25.81%

Key Ratios

Div Yield	0.0%
TTM PE	203.1x
ROE	11.1%
TTM EPS (Rs.)	6.6/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	52.5%	NA	NA
NIFTY 500	4.1%	NA	NA



- Jyoti CNC has reported 19.1% QoQ and 1.0% YoY growth in revenue to Rs.4,501mn in Q4FY24 led by over 40% QoQ growth in Auto & Auto Components segment.
- EBITDA of Jyoti CNC grew by 39.0% QoQ and 59.3% YoY to Rs.1,338mn. As a result, EBITDA margin also improved by 1,089bps YoY and 426bps QoQ led by better operating efficiencies. Management believe that EBITDA margin of 25-27% can be sustainable going ahead.
- In Q4FY24, Jyoti CNC's aerospace & defence segment contributed 41% of the revenue while auto & auto components contributed 25%, general engineering 18%, dies & moulds 7% and EMS 3%.

Key Business Highlights

- Jyoti CNC Automation Ltd. (Jyoti CNC) is one of the world's leading manufacturers of metal cutting computer numerical control (CNC) machines with the 3rd largest market share in India accounting for ~10% in FY23 and 12th largest globally with 0.4% market share in CY22.
- Jyoti CNC has a diverse portfolio of CNC machines including CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMCs), CNC Horizontal Machining Centers (HMCs) and simultaneous 5-axis CNC machines.
- Jyoti CNC developed strong R&D capabilities to deliver customized solutions to customers across diverse set of industries including aerospace & defence, auto & auto components, general engineering, EMS, dies & moulds and others.
- CNC machines are becoming increasingly popular in many industries due to its versatility, accuracy and ability to create complex parts. These machines can be programmed to cut, shape and create intricate designs quickly and efficiently.

Valuation

Jyoti CNC has bagged new order worth Rs.636Cr in Q4FY24 with aerospace and defence contributing 21% and general engineering 35%. Strong new order takes total orderbook to Rs.3,438Cr (2.6x FY24 revenue) by the end of FY24 from Rs.3,242Cr in Q3FY24 led by strong order book in aerospace & defence, auto & auto components and EMS.

Since 2004, Jyoti CNC has delivered over 30,000 CNC machines globally including 8,400+ in the past year and a half. It has entered the EMS industry with dedicated assembly lines and a promising order book, solidifying its position as a versatile and expanding force in CNC manufacturing. As on March 31, 2024, its order book in EMS industry was at Rs.260Cr, which was ~ 7.0% of its total order book of Rs.3,438Cr. Accordingly, Jyoti CNC has set up 2 dedicated assembly lines for manufacturing of machines for EMS segment.

Capitalizing on its extensive experience and expertise in CNC machine manufacturing, encompassing a spectrum from basic models to sophisticated 5-Axis solutions, Jyoti CNC intends to leverage its technical capabilities to enhance its market share in both India and globally. Jyoti CNC's consistent focus on developing technologically relevant and highly customized solutions has facilitated the acceptance of its machines across diverse sectors. Further, it plans to utilize its strengths in manufacturing up to 5-Axis CNC machining centers to exploit the anticipated 18.4% growth in the 4-6-Axis machining center segment globally and in India during FY23-27.

With one of the world's leading manufacturers of CNC machines, capacity addition plan at both Rajkot and France facilities, orderbook to Rs.3,438Cr (2.6x FY24 revenue) and 2 dedicated assembly lines for EMS segment, we are assigning **BUY** rating to Jyoti CNC Automation Ltd. (Jyoti CNC) and value at 166.0x FY26E EPS of Rs.9.80 to arrive at target price of Rs.1,619.00, an upside of ~20.0%+.

Risk & Concern

- CNC machines are not consumer products, so Jyoti CNC does not generally have repeat customers. Also, it does not enter into long term contracts with its customers, which exposes it to a significant risk of customer attrition.
- Business of Jyoti CNC is capital intensive and it is required to maintain high levels of net working capital as well as a large fixed asset base to operate its business.
- Jyoti CNC does not have long-term agreements with suppliers for raw materials, any shortfall in the availability or deterioration in the quality may have an adverse effect on the business of the company.

Graphs & Charts

Figure 1: Net Sales Trend

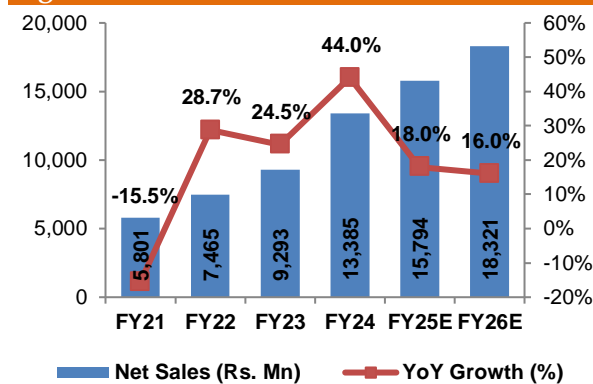


Figure 2: EBITDA & EBITDA Margin Trend

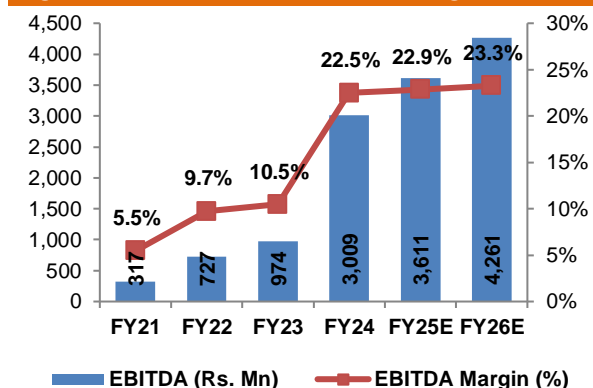


Figure 3: PAT Trend

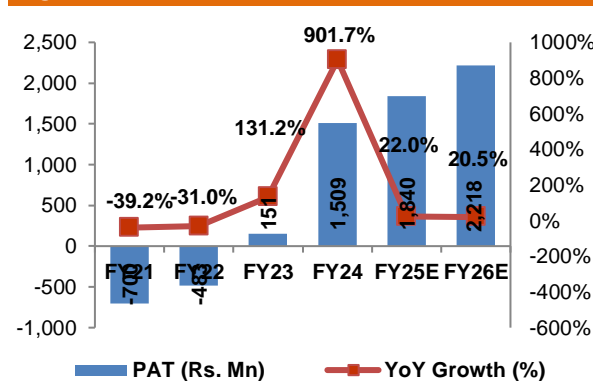
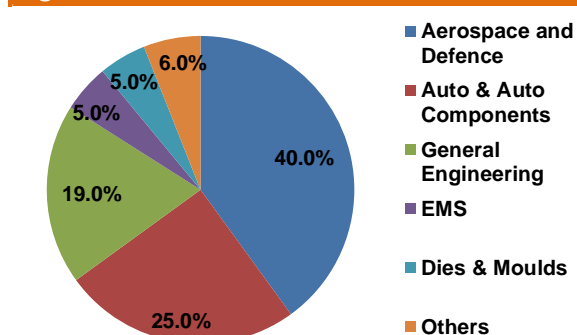


Figure 4: Sector-wise Revenue (FY24)



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