

Case Study: Jamna Auto (India)

Jamna Auto's Story

When Clearwater Capital was first introduced to Jamna Auto Industries Limited, the commercial vehicle spring manufacturer existed as three separate entities. The factory plants were located in Yamuna Nagar at Jamna Auto Industries Ltd; the second company, located in southern India, was known as Jai Parabolic Springs Ltd; and the third company, the aftermarket business, was housed in a promoter-owned, company based in Delhi.

From June 2006 to August 2010, Clearwater invested US\$45–50 million into the three companies in multiple stages through a combination of debt and equity financing. Clearwater invested via senior secured loans, with equity brought in substantially by way of convertible instruments that provided a downside protected structure.



At the time of the investment, Jamna was already a top 10 manufacturer of commercial vehicle suspension parts in the world. Following Clearwater's investment, it is now within the top five in the world and the largest in India. Jamna's annual revenues have grown from roughly US\$75 million at the time of Clearwater's investment to approximately US\$220 million. Previously unprofitable, Jamna generated US\$25 million in EBITDA in FY 2011. Demonstrating Jamna's strong cash flows, the company announced an interim dividend of 10% in August 2011.

Jamna's three separate entities into one listed company: Jamna Auto Industries Limited.

Phase two involved achieving financial stability through a combination of deleveraging and improving cash flow management. These initiatives included an aggressive receivables recovery strategy, renegotiation of rates with key customers to improve EBITDA, reducing financial break-even levels through intensive cost reductions, better plant efficiencies and improved interest rates on debt through a better credit rating.

Growth in Indian Commercial Vehicle Sales

| Category | 2008–09 | 2009–10 | 2010–11 | Growth |
|--------------------|---------|---------|---------|--------|
| Medium & Heavy CVs | 192,380 | 248,977 | 344,115 | 38% |
| Light CVs | 111,247 | 159,742 | 222,278 | 39% |

Clearwater also supported the acquisition of an old Tata Motors spring unit, which ensured that Tata Motors no longer had an in-house commercial vehicle spring manufacturing capability and enabled Jamna to establish a long-term offtake agreement to be Tata's manufacturer of choice.

Now in phase three, Clearwater is focusing on increasing public and investor awareness of Jamna to build market demand for Jamna's stock. Clearwater intends to support such demand through its approximate 29% equity stake.

The Role Played by Private Equity

Prior to Clearwater's investment, Jamna was suffering from balance sheet stress. The company had overleveraged itself to finance capital expenditures during the credit bubble leading up to the Asian Financial Crisis. Then, the company faced a collapse in market demand from late 2001–2005.

Despite these headwinds, Clearwater saw a clear case for investment: first, there was a positive outlook in demand for commercial vehicle parts manufacturers (which was borne out by the growth statistics for commercial vehicle (CV) sales in subsequent years—see adjacent chart); second, Clearwater saw value in the strong engineering capability and managerial skills of Jamna's management team; and finally, there was a strong competitive advantage in Jamna's scale and geographic footprint, which placed its manufacturing facilities in close proximity to key customers, including Tata Group and Ashok Leyland.

For its turnaround strategy, Clearwater undertook a three-phase process spread over five years. In phase one, it set out to achieve operational turnaround by plant, product and strategy. To streamline the business and achieve economies of scale, Clearwater helped merge

The Company



Essentials

Company: Jamna Auto Industries Limited, www.jaispring.org

Country: India

Sector: Industrials & Manufacturing

Business focus: Commercial vehicle components manufacturer

Size: Consolidated turnover, approximately US\$220 million (FY 2010–2011)

GP: Clearwater Capital Partners, LLC invests in special situations and distressed or otherwise undervalued assets and securities located in Asia, excluding Japan (www.clearwatercp.com)

Date of investment: 2006–present

Investment: US\$45–50 million (of which approximately 50% was debt, 50% equity); Clearwater currently holds a 29% equity stake in Jamna Auto and all debt from the transaction has been paid down

Impact Highlights

Jamna Auto has transformed from a loss-making business to a company generating US\$25 million in EBITDA, and growing each year

Clearwater helped consolidate Jamna's three corporate entities into one core business, streamlining operations and capturing economies of scale

Strategic asset purchase negotiations have ensured a long-term offtake agreement with Tata Group, the Indian multinational conglomerate, for the manufacture of commercial vehicle springs

Clearwater has helped professionalize Jamna's business, while strengthening its Board of Directors and improving corporate governance

The Company View

“In 2006, when we began looking for investors, our sole goal was to raise capital. Clearwater’s proposition was not solely a financial one: they brought international best practices to our corporate governance and auditing processes. Our Board meetings have become more structured, and our growth strategy has become more clearly articulated to our stakeholders. With Clearwater’s guidance, we continue to evaluate several opportunities for further expansion—whether by adding to Jamna’s product portfolio or by looking to secure synergistic businesses in Europe where there is a clear value-add proposition.”

“When we began the search for an investment partner, we were only really looking for an equity provider. The success of Clearwater’s added value through its corporate governance advice, in addition to the financial restructuring, was a very welcome surprise. As a result of Clearwater’s expertise, Jamna is no longer a family-run company; it is a family-driven, professionalized one.”

Mr. Pradeep Singh Jauhar,
COO of Jamna Auto



“Jamna Auto is a great market example of the growing global leadership position of low-cost manufacturing and engineering businesses from India. On the market facing side, Jamna has rapidly built global scale and efficiencies with a dominant market share in perhaps one of the fastest growing commercial vehicle markets. It is also of pride to Clearwater that Jamna has managed to re-establish significant credibility in the Indian credit and capital markets with one of the best balance sheets in the business. We believe Jamna will be a flagship case study within the rapidly maturing Indian restructuring market and look forward to realizing its true value over the next few years.”

Karthik Athreya, Director for India, Clearwater Capital

Beyond the Bottom Line

A key component of Clearwater’s turn-around strategy has been to improve transparency and corporate governance practices at Jamna, and to subsequently help the manufacturer articulate its business strategy on a quarterly basis to investors, analysts and the market. Amidst other initiatives, it supported shareholder-friendly efforts such as dividends and bringing in international auditors to move toward international accounting practices.

Under Clearwater’s recommendation, Jamna’s merger facilitated the firm’s ability to combine all synergistic businesses under one roof and eliminate any potential conflicts of interest. This action ensured that these businesses’ equity was solely invested in Jamna, and that all interests were fully aligned with those of Jamna’s shareholders.

Clearwater also supported Jamna in restructuring and strengthening the experience of its Board of Directors. It appointed Dr. Pierre Jean Everaert, Honorary Chairman at InBev and former Managing Director of Phillips Worldwide, to the Board in 2007 to provide strategic growth advice to the company.

In addition to its corporate governance improvements, Jamna has been an active corporate citizen. Jamna has sensitized employees to environmental conservation issues and encouraged them to reduce and reuse waste; and in 2010, Jamna organized a health check-up facility in Karnidi village, located in Jamshedpur, which provided free examinations to over 120 patients.

