

SELL

TP: Rs 1,600 | ▼ 10%

SWARAJ ENGINES

| Auto Components

| 19 July 2021

Healthy Q1; cut to SELL on recent stock rally

- Above-expected volumes and higher ASP supported healthy revenue growth in Q1FY22 while limited RM cost impact further drove adj. PAT
- Recent channel checks suggest a slow pace of harvesting due to delayed monsoon arrival
- We revise FY22/FY23 EPS estimates upward by ~7%, leading to a new TP of Rs 1,600 (vs. Rs 1,500). Cut from ADD to SELL post stock rally

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Healthy volumes propel profitability: SWE's volumes grew by a strong 145% YoY to 33.7k units (25k expected) but were flattish QoQ in Q1FY22. A 10% YoY (+3% QoQ) improvement in ASP further supported revenue growth of 169% YoY to Rs 3.1bn. Gross margin contraction was limited to only 30bps QoQ (-120bps est.) led by price hikes which aided an above-estimated EBITDA margin of 15%. EBITDA grew 268% YoY to Rs 473mn and adj. PAT was up 330% YoY to Rs 337mn.

Tractor industry expected to log 5% CAGR over FY21-FY23: We expect the Indian tractor industry to grow at 5% over FY21-FY23, with SWE keeping pace, aiding a revenue/EBITDA/PAT CAGR of 10%/9%/8% for the company. Our channel checks suggest a delay in monsoon arrival in most parts of Maharashtra, Uttar Pradesh, Punjab and Haryana, which may affect the current season's harvest. We could also see a spike in crop MSPs (minimum support prices) ahead of the crucial UP elections.

Earnings revised upward: We retain our FY22/FY23 volume estimates but build in better ASPs through price hikes, leading to a ~5% increase in our revenue forecasts. This adds 20bps to EBITDA margins, resulting in upward EPS revision of ~7% each for FY22/FY23. We are now broadly in line with consensus EPS.

Cut to SELL post recent rally: SWE has been a zero-debt company, clocking healthy ROE and ROCE of ~35% each for the past three years. We expect the company to incur capex of Rs 450mn-500mn over FY22-FY23 to increase production capacity. We continue to value the stock at 18x FY23E EPS, in line with its 10-year average P/E multiple, yielding a new Mar'22 TP of Rs 1,600 (vs. Rs 1,500 earlier) post estimate revision. Given the recent rally of ~30% since the Q4FY21 results, we believe the stock is overvalued at 22x/20x FY22E/FY23E EPS and thus downgrade our rating to SELL (from ADD).

Key changes

Target	Rating
▲	▼

Ticker/Price	SWE IN/Rs 1,773
Market cap	US\$ 288.5mn
Free float	48%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 2,000/Rs 1,268
Promoter/FPI/DII	52%/1%/11%

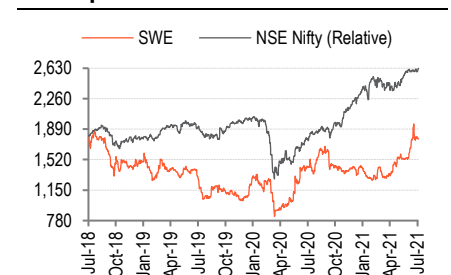
Source: NSE | Price as of 16 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	9,866	11,140	11,927
EBITDA (Rs mn)	1,357	1,488	1,602
Adj. net profit (Rs mn)	925	992	1,086
Adj. EPS (Rs)	76.3	81.7	89.6
Consensus EPS (Rs)	0.0	81.2	88.7
Adj. ROAE (%)	37.9	36.9	37.2
Adj. P/E (x)	23.2	21.7	19.8
EV/EBITDA (x)	15.7	14.0	12.9
Adj. EPS growth (%)	30.2	7.1	9.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	33,747	13,756	145.3	33,831	(0.2)	113,269	89,928	26.0
Avg. Realisation per Vehicle (Rs)	93,256	85,047	9.7	90,127	3.5	87,100	85,991	1.3
Net Revenues	3,147	1,170	169.0	3,049	3.2	9,866	7,733	27.6
Total Income (A)	3,147	1,170	169.0	3,049	3.2	9,866	7,733	27.6
Operating Expenses:								
Raw materials consumed	2,438	880	177.1	2,354	3.6	7,657	5,925	29.2
Employee Expenses	113	95	19.7	111	2.2	429	418	2.7
Other Expenses	123	67	84.4	122	0.3	423	386	9.6
Total Expenditure (B)	2,674	1,041	156.8	2,587	3.3	8,509	6,729	26.5
EBITDA (A-B)	473	129	267.5	462	2.5	1,357	1,004	35.1
Other Income	26	21	26.7	22	16.5	86	128	(33.0)
Depreciation	48	42	13.2	47	1.5	198	201	(1.8)
PBT	452	107	321.6	437	3.3	1,245	931	33.7
Tax expense	115	29	300.7	111	3.2	319	220	45.0
Reported PAT	337	78	329.2	326	3.3	925	711	30.2
Adjusted PAT	337	78	329.2	326	3.3	925	711	30.2
EPS (Rs)	27.1	6.3	329.2	26.2	3.3	48.3	44.5	8.6

Source: Company, BOBCAPS Research

Fig 2 – Key parameters

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross Margin (%)	22.5	24.8	(225)	23.2	(26)	22.4	23.4	(100)
EBITDA Margin (%)	15.0	11.0	403	15.0	(11)	13.8	13.0	76
EBIT Margin (%)	14.3	9.2	519	14.3	1	12.6	12.0	58
PBT Margin (%)	14.3	9.2	519	14.3	1	12.6	12.0	58
Tax Rate (%)	25.5	26.8	(133)	25.3	(2)	25.7	23.7	200
Adj PAT Margin (%)	10.7	6.7	399	10.8	1	9.4	9.2	19

Source: Company, BOBCAPS Research

Valuation methodology

We retain our FY22/FY23 volume estimates but build in better ASPs through price hikes, leading to a ~5% increase in our revenue forecasts. This adds 20bps to EBITDA margins, resulting in upward EPS revision of ~7% each for FY22/FY23. We are now broadly in line with consensus EPS.

SWE has been a zero-debt company, clocking healthy ROE and ROCE of ~35% each for the past three years. We expect the company to incur capex of Rs 450mn-500mn over FY22-FY23 to increase production capacity. We continue to value the stock at 18x FY23E EPS, in line with its 10-year average P/E multiple, yielding a new Mar'22 TP of Rs 1,600 (vs. Rs 1,500 earlier) post estimate revision. Given the recent rally of ~30% since the Q4FY21 results, we believe the stock is overvalued at 22x/20x FY22E/FY23E EPS and thus downgrade our rating to SELL (from ADD).

Fig 3 – Revised estimates & Key metrics

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes	118,422	125,527	118,422	125,527	-	-
ASP (Rs)	94,071	95,011	89,712.	90,609	4.9	4.9
Revenues	11,140	11,927	10,624	11,374	4.9	4.9
EBITDA	1,488	1,602	1,398	1,506	6.4	6.4
OPM (%)	13.4	13.4	13.2	13.2	20bps	19bps
Adj. PAT	992	1,086	924	1,015	7.3	7.1
EPS (Rs)	82	90	76	84	7.3	7.1

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
VST Tillers	VSTT IN	HOLD	2,300	12	108.9	118.0	13.2	13.0	20
Escorts	ESC IN	BUY	1,350	7	77.8	89.2	16.1	15.9	15

Source: BOBCAPS Research

Key risks

Key upside/ risks to our estimates are:

- Better than expected demand
- Increase in market share
- Softening of raw material prices

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	2	231	140	SELL
Balkrishna Industries	BIL IN	6	2,385	1,550	SELL
Ceat	CEAT IN	1	1,450	840	SELL
Eicher Motors	EIM IN	10	2,617	2,200	SELL
Escorts	ESC IN	2	1,194	1,350	BUY
GNA Axles	GNA IN	0	522	450	ADD
JK Tyre & Industries	JKI IN	0	144	90	SELL
MRF	MRF IN	5	82,450	67,000	SELL
Swaraj Engines	SWE IN	0	1,773	1,600	SELL
TVS Srichakra	SRTY IN	0	2,224	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 16 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	7,733	9,866	11,140	11,927	12,769
EBITDA	1,004	1,357	1,488	1,602	1,789
Depreciation	201	198	219	237	245
EBIT	931	1,245	1,326	1,452	1,664
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	128	86	57	87	120
Exceptional items	0	0	0	0	0
EBT	931	1,245	1,326	1,452	1,664
Income taxes	220	319	334	366	419
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	711	925	992	1,086	1,245
Adjustments	0	0	0	0	0
Adjusted net profit	711	925	992	1,086	1,245

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	992	1,639	1,455	1,479	1,578
Other current liabilities	20	91	221	175	184
Provisions	91	43	43	43	43
Debt funds	0	0	0	0	0
Other liabilities	43	43	43	43	43
Equity capital	121	121	121	121	121
Reserves & surplus	2,238	2,323	2,564	2,801	3,196
Shareholders' fund	2,360	2,444	2,686	2,922	3,317
Total liab. and equities	3,506	4,259	4,448	4,662	5,165
Cash and cash eq.	182	1,080	748	665	862
Accounts receivables	41	1,134	763	817	875
Inventories	371	617	610	654	700
Other current assets	724	148	624	667	714
Investments	1,111	342	642	942	1,242
Net fixed assets	1,026	888	1,019	882	737
CWIP	40	40	30	25	25
Intangible assets	9	9	9	9	9
Deferred tax assets, net	(46)	(46)	(46)	(46)	(46)
Other assets	47	47	47	47	47
Total assets	3,506	4,259	4,448	4,662	5,165

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	1,053	944	1,002	1,074	1,327
Capital expenditures	(156)	(60)	(340)	(95)	(100)
Change in investments	(272)	769	(300)	(300)	(300)
Other investing cash flows	128	86	57	87	120
Cash flow from investing	(300)	795	(583)	(308)	(280)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(731)	(841)	(750)	(850)	(850)
Other financing cash flows	(26)	0	0	0	0
Cash flow from financing	(758)	(841)	(750)	(850)	(850)
Chg in cash & cash eq.	(5)	898	(331)	(83)	197
Closing cash & cash eq.	182	1,080	748	665	862

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	58.6	76.3	81.7	89.6	102.6
Adjusted EPS	58.6	76.3	81.7	89.6	102.6
Dividend per share	60.3	69.3	61.8	70.1	70.1
Book value per share	194.5	201.5	221.4	240.9	273.4

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.7	2.2	1.9	1.7	1.6
EV/EBITDA	21.1	15.7	14.0	12.9	11.6
Adjusted P/E	30.3	23.2	21.7	19.8	17.3
P/BV	9.1	8.8	8.0	7.4	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.3	74.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	100.0	100.0	100.0	100.0	100.0
EBIT margin (EBIT/Revenue)	12.0	12.6	11.9	12.2	13.0
Asset turnover (Rev./Avg TA)	320.7	403.5	427.2	418.9	403.8
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	30.0	38.5	38.7	38.7	39.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(11.3)	27.6	12.9	7.1	7.1
EBITDA	(23.7)	35.1	9.7	7.7	11.7
Adjusted EPS	(13.8)	30.2	7.1	9.6	14.6
Profitability & Return ratios (%)					
EBITDA margin	13.0	13.8	13.4	13.4	14.0
EBIT margin	12.0	12.6	11.9	12.2	13.0
Adjusted profit margin	9.2	9.4	8.9	9.1	9.7
Adjusted ROAE	30.1	37.9	36.9	37.2	37.5
ROCE	29.5	37.9	38.0	38.2	39.4
Working capital days (days)					
Receivables	5	22	31	24	24
Inventory	20	18	20	19	19
Payables	64	63	65	58	56
Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.2
Current ratio	1.2	1.7	1.6	1.7	1.7
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

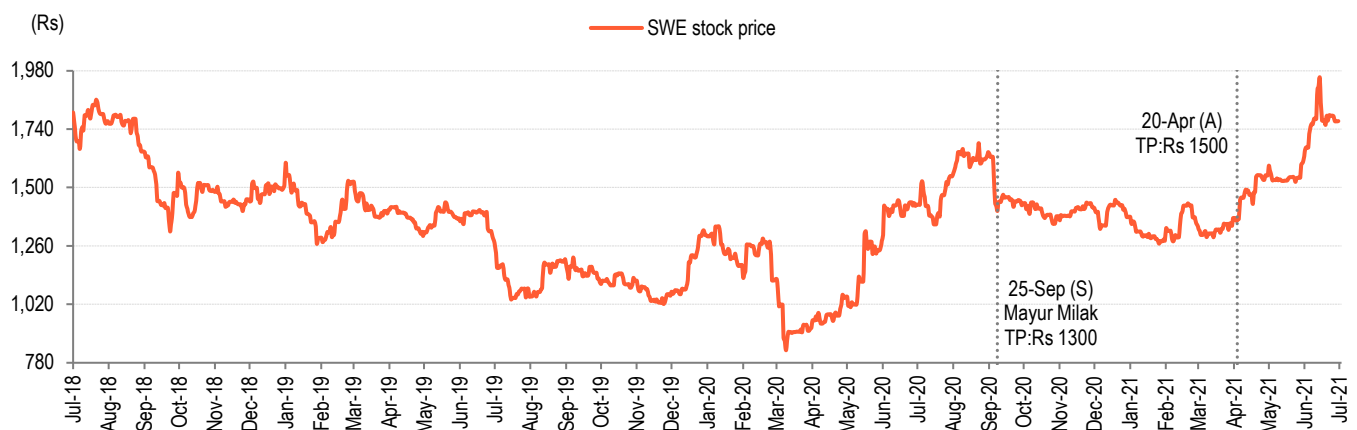
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SWARAJ ENGINES (SWE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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