

**ADD**

TP: Rs 1,500 | ▲ 9%

**SWARAJ ENGINES**

| Auto Components

| 20 April 2021

## Better sales mix to aid earnings; upgrade to ADD

Swaraj Engines' (SWE) Q4FY21 revenue was below estimates on lower volumes. However, a better sales mix and price hikes led to a beat on EBITDA margin (15.1% vs. 12.9% est.) and earnings (+105% YoY to Rs 326mn). A successful kharif harvest, signs of healthy rabi cultivation and rising tractor financing bolster growth prospects. Given the Q4 beat, strong support from M&M, debt-free status and a growing rural economy, we raise FY22/FY23 earnings by 11%/16%. This leads to a revised Mar'22 TP of Rs 1,500 (vs. Rs 1,300) – upgrade from SELL to ADD.

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**Improved ASPs drive healthy Q4:** Below-expected volumes led to a Q4 revenue miss of ~4% at Rs 3bn (+74% YoY). However, better ASPs and gross margins took EBITDA margin 200bps above estimates to 15.1%. Adj. PAT doubled YoY to Rs 326mn. SWE announced dividend of Rs 69/sh for FY21, amounting to a ~90% payout ratio.

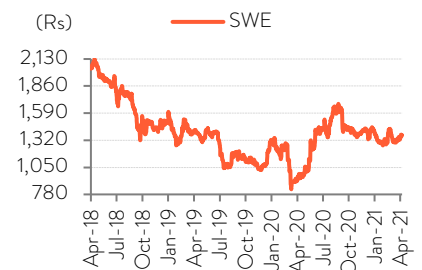
**Tractor industry expected to log 6% CAGR over FY21-FY23:** After 26% YoY growth in FY21, we expect single-digit growth in domestic tractor industry volumes off a higher base. Growth will be aided by a rising rural economy and aggressive infrastructure spends. We model for a 6% CAGR in industry volumes and expect SWE to clock a revenue/EBITDA/PAT CAGR of 7%/5%/5%.

**Upgrade to ADD:** 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 to increase production capacity. Given the Q4 EBITDA margin outperformance and steady growth prospects, we raise our FY22/FY23 earnings estimates by 11%/16% and increase our Mar'22 TP from Rs 1,300 to Rs 1,500. We continue to value the stock at 18x FY23E EPS, in line with its 10Y average P/E multiple. Considering the recent stock price correction and improving earnings outlook, we upgrade our rating from SELL to ADD.

Ticker/Price	SWE IN/Rs 1,370
Market cap	US\$ 222.0mn
Shares o/s	12mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,700/Rs 927
Promoter/FPI/DII	52%/1%/11%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	8,717	7,733	9,866	10,624	11,374
EBITDA (Rs mn)	1,317	1,004	1,357	1,398	1,506
Adj. net profit (Rs mn)	824	711	925	924	1,015
Adj. EPS (Rs)	67.9	58.6	76.3	76.2	83.6
Adj. EPS growth (%)	2.9	(13.8)	30.2	(0.1)	9.8
Adj. ROAE (%)	34.6	30.1	37.9	35.3	36.5
Adj. P/E (x)	20.2	23.4	18.0	18.0	16.4
EV/EBITDA (x)	12.3	16.2	12.1	11.4	10.4

Source: Company, BOBCAPS Research | P – Provisional

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	33,831	20,827	62.4	31,193	8.5	113,269	89,928	26.0
Avg. Realisation per Vehicle	90,127	84,088	7.2	87,324	3.2	87,100	85,991	1.3
Net Revenues	3,049	1,751	74.1	2,724	11.9	9,866	7,733	27.6
<b>Total Income (A)</b>	<b>3,049</b>	<b>1,751</b>	<b>74.1</b>	<b>2,724</b>	<b>11.9</b>	<b>9,866</b>	<b>7,733</b>	<b>27.6</b>
<b>Operating Expenses</b>								
Raw materials consumed	2,354	1,327	77.4	2,131	10.4	7,657	5,925	29.2
Employee Expenses	111	99	11.8	110	0.9	429	418	2.7
Other Expenses	122	91	33.9	117	5.1	423	386	9.6
<b>Total Expenditure (B)</b>	<b>2,587</b>	<b>1,518</b>	<b>70.5</b>	<b>2,358</b>	<b>9.7</b>	<b>8,509</b>	<b>6,729</b>	<b>26.5</b>
<b>EBITDA (A-B)</b>	<b>462</b>	<b>234</b>	<b>97.5</b>	<b>366</b>	<b>26.2</b>	<b>1,357</b>	<b>1,004</b>	<b>35.1</b>
Other Income	22	30	(24.3)	22	1.4	86	128	(33.0)
Depreciation	47	49	(3.9)	52	(8.9)	198	201	(1.8)
EBIT	437	214	103.9	336	29.9	1,245	931	33.7
PBT after excep items	437	214	103.9	336	29.9	1,245	931	33.7
Tax expense	111	56	99.3	86	29.4	319	220	45.0
Reported PAT	326	158	105.6	250	30.1	925	711	30.2
<b>Adjusted PAT</b>	<b>326</b>	<b>158</b>	<b>105.6</b>	<b>250</b>	<b>30.1</b>	<b>925</b>	<b>711</b>	<b>30.2</b>
<b>EPS (Rs)</b>	<b>26.2</b>	<b>12.8</b>	<b>105.6</b>	<b>20.1</b>	<b>30.1</b>	<b>48.3</b>	<b>44.5</b>	<b>8.6</b>

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin (%)	22.8	24.2	(144)	22	105	22.4	23.4	(100)
EBITDA margin (%)	15.1	13.4	180	13	171	13.8	13.0	76
EBIT margin (%)	14.3	12.2	210	12	199	12.6	12.0	58
PBT margin (%)	14.3	12.2	210	12	199	12.6	12.0	58
Tax rate (%)	25.5	26.1	(59)	26	(11)	25.7	23.7	200
Adj PAT margin (%)	10.7	9.0	163	9	149	9.4	9.2	19

Source: Company, BOBCAPS Research

### Valuation methodology

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 to increase production capacity. Given the Q4 EBITDA margin outperformance and steady growth prospects, we raise our earnings estimates for FY22/FY23 by 11%/16% and increase our Mar'22 TP from Rs 1,300 to Rs 1,500. We continue to value the stock at 18x FY23E EPS, in line with its 10-year average P/E multiple.

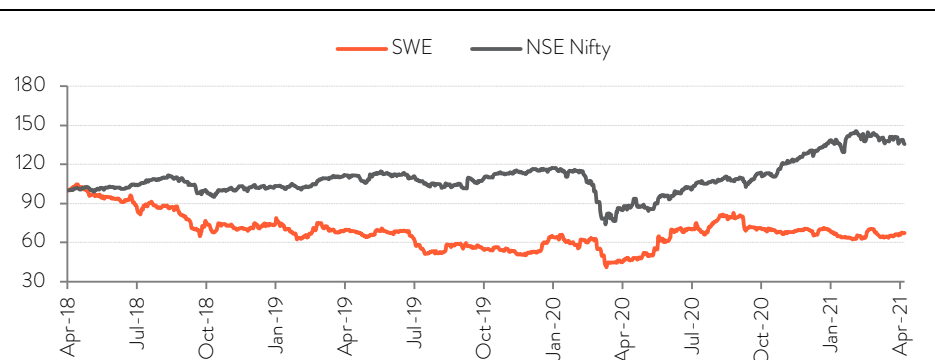
The stock has corrected ~20% in the past six months and current valuations look attractive at 16.5x FY23E EPS – upgrade from SELL to ADD on reasonable valuations and an improving earnings outlook.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes	118,422	125,527	113,915	120,750	4.0	4.0
Revenues	10,624	11,374	9,795	10,486	8.5	8.5
EBITDA	1,398	1,506	1,238	1,321	13.0	14.0
OPM (%)	13.2	13.2	12.6	12.6	52bps	65bps
Adj. PAT	924	1,015	833	875	11.0	15.9
EPS (Rs)	76	84	69	72	11.0	15.9

Source: Company, BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- Below-estimated tractor growth
- Rise in commodity prices
- Loss in market share

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>8,717</b>	<b>7,733</b>	<b>9,866</b>	<b>10,624</b>	<b>11,374</b>
EBITDA	1,317	1,004	1,357	1,398	1,506
Depreciation	195	201	198	219	237
EBIT	1,275	931	1,245	1,236	1,356
Net interest income/(expenses)	(1)	0	0	0	0
Other income/(expenses)	154	128	86	57	87
Exceptional items	(9)	0	0	0	0
EBT	1,265	931	1,245	1,236	1,356
Income taxes	450	220	319	311	342
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>815</b>	<b>711</b>	<b>925</b>	<b>924</b>	<b>1,015</b>
Adjustments	9	0	0	0	0
<b>Adjusted net profit</b>	<b>824</b>	<b>711</b>	<b>925</b>	<b>924</b>	<b>1,015</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	1,092	992	1,639	1,420	1,410
Other current liabilities	38	20	91	180	169
Provisions	42	91	43	43	43
Debt funds	0	0	0	0	0
Other liabilities	40	43	43	43	43
Equity capital	121	121	121	121	121
Reserves & surplus	2,259	2,238	2,323	2,497	2,662
Shareholders' fund	2,380	2,360	2,444	2,619	2,783
<b>Total liabilities and equities</b>	<b>3,591</b>	<b>3,506</b>	<b>4,259</b>	<b>4,305</b>	<b>4,448</b>
Cash and cash eq.	186	182	1,080	697	549
Accounts receivables	187	41	1,134	728	779
Inventories	475	371	617	582	623
Other current assets	690	724	148	596	637
Investments	839	1,111	342	642	942
Net fixed assets	1,100	1,026	888	1,019	882
CWIP	20	40	40	30	25
Intangible assets	0	9	9	9	9
Deferred tax assets, net	(72)	(46)	(46)	(46)	(46)
Other assets	166	47	47	47	47
<b>Total assets</b>	<b>3,591</b>	<b>3,506</b>	<b>4,259</b>	<b>4,305</b>	<b>4,448</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	1,010	912	1,123	1,143	1,251
Interest expenses	1	0	0	0	0
Non-cash adjustments	(154)	(128)	(86)	(57)	(87)
Changes in working capital	(178)	269	(93)	(136)	(154)
Other operating cash flows	(125)	0	0	0	0
<b>Cash flow from operations</b>	<b>555</b>	<b>1,053</b>	<b>944</b>	<b>951</b>	<b>1,010</b>
Capital expenditures	(336)	(156)	(60)	(340)	(95)
Change in investments	(78)	(272)	769	(300)	(300)
Other investing cash flows	154	128	86	57	87
<b>Cash flow from investing</b>	<b>(260)</b>	<b>(300)</b>	<b>795</b>	<b>(583)</b>	<b>(308)</b>
Equities issued/Others	2	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(1)	0	0	0	0
Dividends paid	(606)	(731)	(841)	(750)	(850)
Other financing cash flows	13	(26)	0	0	0
<b>Cash flow from financing</b>	<b>(592)</b>	<b>(758)</b>	<b>(841)</b>	<b>(750)</b>	<b>(850)</b>
<b>Changes in cash and cash eq.</b>	<b>(297)</b>	<b>(5)</b>	<b>898</b>	<b>(382)</b>	<b>(148)</b>
<b>Closing cash and cash eq.</b>	<b>186</b>	<b>182</b>	<b>1,080</b>	<b>697</b>	<b>549</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	67.9	58.6	76.3	76.2	83.6
Adjusted EPS	67.9	58.6	76.3	76.2	83.6
Dividend per share	50.0	60.3	69.3	61.8	70.1
Book value per share	196.2	194.5	201.5	215.9	229.4

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	1.9	2.1	1.7	1.5	1.4
EV/EBITDA	12.3	16.2	12.1	11.4	10.4
Adjusted P/E	20.2	23.4	18.0	18.0	16.4
P/BV	7.0	7.0	6.8	6.3	6.0

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	65.2	76.3	74.3	74.8	74.8
Interest burden (PBT/EBIT)	99.2	100.0	100.0	100.0	100.0
EBIT margin (EBIT/Revenue)	14.6	12.0	12.6	11.6	11.9
Asset turnover (Revenue/Avg TA)	367.8	320.7	403.5	412.7	414.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	35.3	30.0	38.5	36.5	37.6

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	13.0	(11.3)	27.6	7.7	7.1
EBITDA	8.2	(23.7)	35.1	3.1	7.7
Adjusted EPS	2.9	(13.8)	30.2	(0.1)	9.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.1	13.0	13.8	13.2	13.2
EBIT margin	14.6	12.0	12.6	11.6	11.9
Adjusted profit margin	9.5	9.2	9.4	8.7	8.9
Adjusted ROAE	34.6	30.1	37.9	35.3	36.5
ROCE	34.7	29.5	37.9	35.9	37.0
<b>Working capital days (days)</b>					
Receivables	7	5	22	32	24
Inventory	17	20	18	21	19
Payables	59	64	63	67	58
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	1.3	1.2	1.7	1.6	1.6
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

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

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

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