

Swaraj Engines Ltd.

Healthy engine sales & operating leverage boost the performance!

Swaraj Engines Ltd (SWL) Q1FY23 performance was better than estimates. It sold the highest ever engines (+61% QoQ) and posted best ever PAT of Rs 395mn (+81% QoQ). The company has expanded its capacity to 150K units per annum & is running at very good utilization levels. The operating leverage benefits are clearly visible. On ground momentum is healthy with positive farmers/dealers sentiments (driven by good crop prices), expecting reasonable growth in FY23e. 'Quality' is what dealers across the zones calls Swaraj brand of tractors, which has led to huge outperformance in Q1FY23 volume sales (*Swaraj Engines volumes grew by 61% QoQ in Q1FY23 vs. 50% QoQ growth in the tractor industry*). Its outperformance vs. the industry should continue going forward. Considering sound fundamentals, SWL is a strong play in the ongoing tractor cycle; we maintain Buy rating on the stock with the target price of Rs 1,940 apiece.

Performance at its best

- SWL posted its highest ever Volumes/Revenue/EBITDA/PAT in Q1FY23. It has clearly outperformed the industry growth by a wider gap of 11% (SWL volumes grew by 61% QoQ in Q1FY23 vs. 50% growth in the industry for the same period).
- The utilization levels were good and the operating leverage benefits are clearly visible. Healthy EBITDA margin level of ~14% is despite a sharp rise in input costs (RMC inched up by 131bps QoQ).

On-ground momentum is healthy

- On-ground check reveals that the momentum has further strengthened post good monsoon in July and walk-ins are good. The tractor peak season will begin from September onwards (near Navratri). So far, farmers' sentiments are reasonably all right with crop prices holding at a decent level and MSPs increased. M&M (including Swaraj) across zones have been doing well due to quality feedback received for the engines & build quality, and is a top of the mind brand. Dealer sentiments are neutral to positive and expect some growth in FY23.
- We estimate the industry to post mid single digit growth in FY23e and projected conservative 2% growth in FY24e. Dealers consider 'Swaraj' among quality names and should continue its outperformance vs. the industry.

High RoE/RoCE company available at low valuations

- SWL has increased the capacity by adding another 15,000 units at the expense of ~Rs 200mn during FY22. The company does not need to do any Greenfield projects over the next few years.
- Swaraj has been giving higher dividend (Rs 80 per share in FY22 – highest ever & ~5% yield vs. Rs 69 in FY21) and offering buyback schemes. We expect this trend to continue, as there are no major capex and hence, return ratios to improve.
- After projecting conservatively, Swaraj is attractively trading at P/E of 15.1x FY24e. We have assigned 18.0x multiple to FY24e EPS of Rs 108 to arrive at a target price of Rs 1,940 per share, which offers an upside of ~19%. Strongly recommend buy to play the ongoing tractor cycle.

Y/E Mar (Rs mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	Q1 FY23e	Var. (%)
Engine Sales (No)	38,428	33,747	13.9	23,937	60.5	36,736	4.6
Realisation (Rs)	1,03,661	93,256	11.2	1,01,245	2.4	1,03,300	0.3
Net sales	3,984	3,147	26.6	2,424	64.4	3,795	5.0
Operating costs	3,435	2,674	28.5	2,113	62.6		
EBITDA	549	473	15.9	311	76.4	532	3.1
EBITDA Margin (%)	13.8	15.0	(127) bps	12.8	94 bps	14.0	(25) bps
Depreciation	47	48	(1.7)	42	12.1		
Interest	0	-	NA	0	NA		
Other income	30	26	14.2	23	30.1		
PBT	531	452	17.7	292	82.0		
Provision for tax	136	115	18.1	73	85.5		
Effective tax rate (%)	25.6	25.5	9 bps	25.1	48 bps		
PAT (Reported)	395	337	17.5	219	80.9	387	2.3
NPM (%)	9.9	10.7	(77) bps	9.0	91 bps	10.2	(26) bps

Source: Company, SMIFS institutional research

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	7,733	(11.3)	1,004	13.0	710	(13.8)	58.6	30.0	29.3	20.7	12.8
FY21	9,866	27.6	1,357	13.8	925	30.3	76.2	35.8	35.5	17.8	10.9
FY22	11,382	15.4	1,554	13.7	1,095	18.3	90.1	37.3	37.3	18.1	11.8
FY23e	12,551	10.3	1,736	13.8	1,208	10.4	99.5	38.1	38.0	16.4	10.3
FY24e	13,298	6.0	1,864	14.0	1,309	8.3	107.8	37.8	37.8	15.1	9.5

Source: Company, SMIFS institutional research estimates



Rating: Buy Upside/(Downside): 19.1%
Current Price: 1,629 Target Price: 1,940

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 1,922

Market data

Bloomberg:	SWE IN
52-week H/L (Rs):	1,900/1,293
Mcap (Rs bn/USD mn):	19.8/248
Shares outstanding (mn):	12.1
Free float:	47.0%
Avg. daily vol. 3mth ('000):	8.5
Face Value (Rs):	10
Group:	BSE Smallcap

Source: Bloomberg, SMIFS institutional research

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	52.1%	52.1%	52.2%	52.2%
FII	1.9%	1.8%	1.9%	1.5%
DII	8.9%	8.9%	8.9%	9.1%
Public/others	37.1%	37.2%	37.0%	37.2%

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE Smallcap	9%	-7%	1%	105%
Swaraj Engines	1%	15%	-10%	42%

*as on 25th July, 2022; Source: AceEquity, SMIFS research

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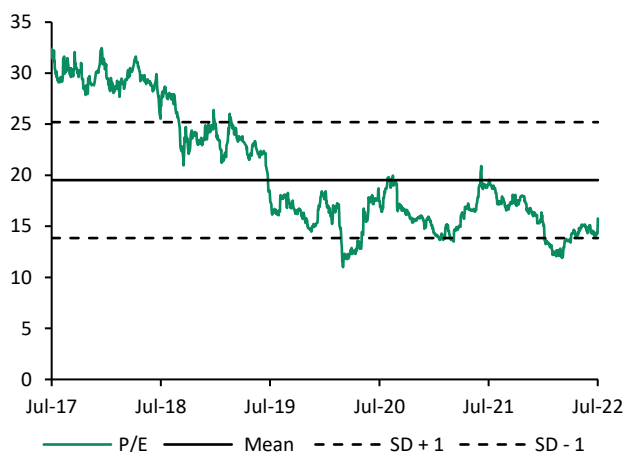
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Outlook and Valuations

- ✓ Swaraj Engines Ltd (SWL) Q1FY23 performance was better than estimates. It sold the highest ever engines (+61% QoQ) and posted best ever PAT of Rs 395mn (+81% QoQ). The company has expanded its capacity to 150K units per annum & is running at very good utilization levels. The operating leverage benefits are clearly visible.
- ✓ On ground momentum is healthy with positive farmers/dealers sentiments (driven by good crop prices), expecting reasonable growth in FY23e. 'Quality' is what dealers across the zones calls Swaraj brand of tractors, which has led to huge outperformance in Q1FY23 volume sales (Swaraj Engines volumes grew by 61% QoQ in Q1FY23 vs. 50% QoQ growth in the tractor industry). Its outperformance vs. the industry should continue going forward.
- ✓ SWL has increased the capacity by adding another 15,000 units at the expense of ~Rs 200mn during FY22. The company does not need to do any Greenfield projects over the next few years.
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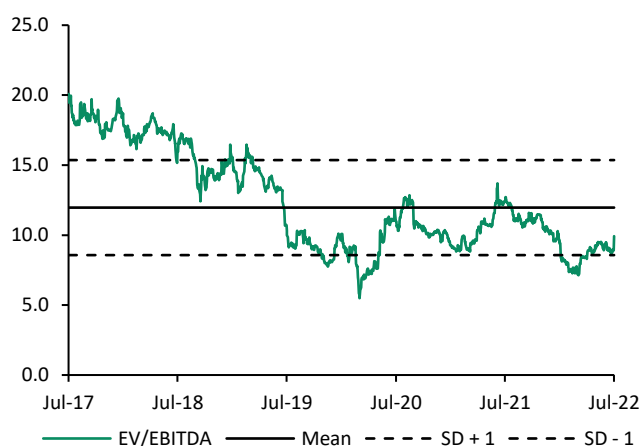
After projecting conservatively, Swaraj is attractively trading at P/E of 15.1x FY24e. We have assigned 18.0x multiple to FY24e EPS of Rs 108 to arrive at a target price of Rs 1,940 per share, which offers an upside of ~19%. Strongly recommend buy to play the ongoing tractor cycle.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS institutional research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS institutional research

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs Mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	2,923	2,724	3,049	3,147	3,436	2,375	2,424	3,984
Raw Materials	2,292	2,131	2,354	2,438	2,707	1,861	1,897	3,170
Employee Costs	113	110	111	113	114	111	100	118
Other Expenditure	118	117	122	123	139	110	116	148
EBITDA	400	366	462	473	477	292	311	549
Depreciation	56	52	47	48	48	44	42	47
Interest	-	-	-	-	0	1	0	-
Other Income	21	22	22	26	23	24	23	30
PBT	364	336	437	452	453	272	292	531
Tax	93	86	111	115	115	70	73	136
Tax rate (%)	25.6	25.6	25.5	25.5	25.5	25.8	25.1	25.6
Reported PAT	271	250	326	337	338	202	219	395
YoY Growth (%)								
Revenue	31.2	60.2	74.1	169.0	17.6	(12.8)	(20.5)	26.6
EBITDA	33.3	85.9	97.5	267.5	19.3	(20.2)	(32.7)	15.9
PAT	6.8	94.1	105.6	329.2	24.5	(19.3)	(32.9)	17.5
QoQ Growth (%)								
Revenue	149.8	(6.8)	11.9	3.2	9.2	(30.9)	2.0	64.4
EBITDA	210.6	(8.5)	26.2	2.5	0.9	(38.8)	6.5	76.4
Adj. PAT	245.9	(7.7)	30.1	3.3	0.4	(40.2)	8.3	80.9
Margin (%)								
RMC/revenue (%)	78.4	78.2	77.2	77.5	78.8	78.4	78.3	79.6
Gross margin (%)	21.6	21.8	22.8	22.5	21.2	21.6	21.7	20.4
Employee cost/revenue (%)	3.9	4.0	3.6	3.6	3.3	4.7	4.1	3.0
Other expenses/revenue (%)	4.0	4.3	4.0	3.9	4.0	4.6	4.8	3.7
EBITDA margin (%)	13.7	13.4	15.1	15.0	13.9	12.3	12.8	13.8
PAT margin (%)	9.3	9.2	10.7	10.7	9.8	8.5	9.0	9.9
Key Drivers								
Engine Sales (in Units)	34,489	31,193	33,831	33,747	35,291	23,836	23,937	38,428

Source: Company, SMIFS institutional research

Fig 4: Key Assumptions

Operating Details	FY19	FY20	FY21	FY22	FY23e	FY24e
Capacity (in units)	1,20,000	1,35,000	1,35,000	1,50,000	1,50,000	1,65,000
Engine Sales (in units)	99,638	89,928	1,13,269	1,16,811	1,24,929	1,28,863
Capacity Utilization (%)	83.0	66.6	83.9	77.9	83.3	78.1
Engine Realization (Rs)	84,804	83,449	84,975	95,149	98,003	1,00,453
Engine Revenues (Rs mn)	8,450	7,504	9,625	11,114	12,243	12,945
Component Revenues (Rs mn)	31	14	0	0	0	0
Total (Rs mn)	8,481	7,519	9,625	11,115	12,244	12,945
Other operating Income (Rs mn)	237	214	240	267	307	353
Total Operating income (Rs mn)	8,717	7,733	9,866	11,382	12,551	13,298

Source: Company, SMIFS institutional research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Net Sales	7,733	9,866	11,382	12,551	13,298
Raw Materials	5,925	7,657	8,902	9,802	10,359
% of sales	76.6	77.6	78.2	78.1	77.9
Personnel	418	429	439	469	502
% of sales	5.4	4.3	3.9	3.7	3.8
Manufact. & Other Exp.	386	423	487	543	573
% of sales	5.0	4.3	4.3	4.3	4.3
EBITDA	1,004	1,357	1,554	1,736	1,864
EBITDA Margin (%)	13.0	13.8	13.7	13.8	14.0
Depreciation & Amortisation	201	198	181	218	233
EBIT	803	1,159	1,373	1,518	1,631
Interest Expenses	0	0	1	-	-
EBT	803	1,159	1,372	1,518	1,631
Other Income	128	86	97	97	118
PBT	931	1,245	1,469	1,615	1,749
Tax-Total	220	319	374	406	440
Effective tax rate (%)	23.7	25.7	25.5	25.2	25.2
Extraord. items - Adj.	-	-	-	-	-
Reported PAT	710	925	1,095	1,208	1,309

Source: Company, SMIFS institutional research estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
Growth ratios (%)					
Net sales	(11.3)	27.6	15.4	10.3	6.0
EBITDA	(23.7)	35.1	14.5	11.7	7.3
Reported PAT	(13.8)	30.3	18.3	10.4	8.3
Margin Ratio (%)					
EBITDA Margin	13.0	13.8	13.7	13.8	14.0
EBIT Margin	10.4	11.7	12.1	12.1	12.3
PBT Margin	12.0	12.6	12.9	12.9	13.2
PAT Margin	9.2	9.4	9.6	9.6	9.8
Return Ratio (%)					
ROE	30.0	35.8	37.3	38.1	37.8
ROCE	29.3	35.5	37.3	38.0	37.8
ROIC	86.7	99.0	72.5	72.6	81.8
Turnover Ratio days (days)					
Gross Block Turnover (x)	3.1	3.9	4.3	4.6	4.6
Inventory Period	17	23	20	18	18
Debtors Period	2	42	33	32	31
Creditors	47	61	44	45	45
Cash Conversion Cycle	(27)	4	9	5	4
Solvency Ratio (%)					
Debt-equity (x)	-	-	-	-	-
Net Debt-equity (x)	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)
Liquidity ratio (x)	2.1	2.0	2.1	2.2	2.3
Interest coverage ratio (%)	5,655	39,963	1,797	NA	NA
Per share (Rs)					
Adjusted EPS	58.6	76.2	90.1	99.5	107.8
CEPS	75.2	92.5	105.1	117.5	127.0
Book value	194.4	231.1	251.7	271.2	299.0
Dividend per share	40.0	69.0	80.0	80.0	85.0
Dividend Payout (%)	68.3	90.5	88.7	80.4	78.9
Dividend Yield (%)	2.5	4.2	4.9	4.9	5.2
Valuation					
P/E	20.7	17.8	18.1	16.4	15.1
P/BV	6.2	5.9	6.5	6.0	5.4
EV/EBITDA	12.8	10.9	11.8	10.3	9.5
EV/Sales	1.7	1.5	1.6	1.4	1.3

Source: Company, SMIFS institutional research estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	121	121	121	121	121
Reserves & Surplus	2,238	2,684	2,935	3,172	3,510
Shareholders' Funds	2,359	2,806	3,057	3,294	3,631
Minority Interest	-	-	-	-	-
Total Debt	-	-	-	-	-
Deferred Tax Liabilities	46	6	1	1	1
Total Liabilities	2,405	2,812	3,058	3,295	3,632
Application of funds					
Gross Block	2,518	2,594	2,678	2,774	3,054
Accumulated Dep.	(1,483)	(1,677)	(1,729)	(1,947)	(2,180)
Capital WIP	40	13	16	0	0
Non-current Asset	47	59	369	407	431
Net Fixed Assets	1,122	990	1,334	1,234	1,305
Investments	1,111	342	362	402	442
Goodwill	-	-	-	-	-
Inventories	370	617	621	619	656
Sundry Debtors	41	1,134	1,036	1,100	1,129
Other Current Assets	192	192	227	250	265
Cash & Bank Balances	714	1,309	1,034	1,423	1,674
Total Current Assets	2,428	3,594	3,280	3,794	4,167
Creditors	992	1,639	1,381	1,547	1,639
Other Current Liabilities	63	48	70	70	77
Provisions	91	85	106	117	124
Total Current Liabilities	1,145	1,772	1,556	1,734	1,840
Net Current Assets	1,283	1,821	1,723	2,061	2,327
Total assets	2,405	2,812	3,058	3,295	3,632

Source: Company, SMIFS institutional research estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes	762	1,005	1,179	1,330	1,424
Net change in working capital	234	(725)	(145)	54	1
Cash flow from operating activities (a)	996	280	1,034	1,384	1,425
Adjusted Operating Cash flow	996	280	1,033	1,384	1,425
Capital expenditure	(158)	(56)	(222)	(80)	(280)
Adjusted FCF	838	224	811	1,304	1,145
Cash flow from investing activities (b)	(269)	563	(514)	(23)	(202)
Cash flow from financing activities (c)	(731)	(487)	(840)	(948)	(957)
Net change in cash (a+b+c)	(5)	355	(320)	412	267
Opening cash balance	27	22	378	58	470
Ending cash balance	22	378	58	470	737
Other bank balances	691	931	976	952	938
Cash on balance sheet	714	1,309	1,035	1,423	1,674

Source: Company, SMIFS institutional research estimates

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Analyst holding in stock: **NO**

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