April 27, 2017

Swaraj Engines (SWAENG)

₹ 1810

Steadily inching towards fair value…

Rating matrix		
Rating	:	Hold
Target	:	₹ 1860
Target Period	:	12-18 months
Potential Upside	:	3%

What's changed?	
Target	Changed from ₹ 1565 to ₹ 1860
EPS FY18E	Changed from ₹ 60.4 to ₹ 65.8
EPS FY19E	Changed from ₹ 64.6 to ₹ 74.4
Rating	Changed from Buy to Hold

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	160.8	114.0	41.0	154.8	3.9
EBITDA	24.1	15.9	52.2	23.0	5.0
EBITDA (%)	15.0	13.9	110 bps	14.9	15 bps
PAT	15.3	11.7	31.2	15.3	-0.1

Key financials

₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	525.9	666.1	748.9	832.0
EBITDA	73.6	104.6	119.8	133.1
Net Profit	51.2	68.9	81.7	92.4
EPS (₹)	41.2	55.4	65.8	74.4

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	43.9	32.7	27.5	24.3
Target P/E	45.1	33.5	28.3	25.0
EV / EBITDA	27.9	19.2	16.8	15.0
P/BV	8.5	7.9	7.5	7.1
RoNW	19.4	24.3	27.4	29.2
RoCE	22.7	31.2	34.7	36.8

Stock data

Stock Data	₹ crore
Market Capitalization	2,248.0
Total Debt (FY17)	0.0
Cash & Investments (FY17)	235.1
EV	2,012.9
52 week H/L	1985 / 1080
Equity capital	₹ 12.4 crore
Face value	₹ 10
MF Holding (%)	12.1
FII Holding (%)	5.0

Price performance

Return %	1M	3M	6M	12M
Swaraj Engines	32.9	31.5	40.5	68.2
M & M	6.0	8.8	3.3	-0.1
Kirloskar Oil Engines	0.9	19.5	13.7	70.3

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- Swaraj Engines (SEL) reported a robust Q4FY17 performance with engine sales volume growing 42.0% YoY to 19842 units. Robust sales volume is attributable to strong tractor sales at parent M&M
- The sales volume growth at SEL vastly outpaced tractor sales at M&M largely implying build-up of inventory at the parent level
- Consequent net sales were at ₹ 160.8 crore (up 41.0% YoY)
- EBITDA for the quarter came in at ₹ 24.1 crore with corresponding EBITDA margins at 15.0%, expanding 110 bps YoY
- PAT in Q4FY17 was at ₹ 15.3 crore, up 31.2% YoY

IMD predicts normal monsoon at 96% of LPA; SEL to benefit

The Indian Meteorological Department (IMD) has forecast near normal rainfall at 96% of LPA for upcoming monsoon season 2017. According to senior officials at the IMD, although there does exist neutral El Niño conditions (30% probability) in the Pacific Ocean, positive dipole movement in the Indian Ocean is expected to counter the Pacific move and result in normal monsoon in 2017. Moreover, rainfall is expected to be healthy and spatially well distributed thereby benefiting the whole of the Indian sub-continent. This is likely to result in robust farm production and consequent increase in farm income, boosting rural demand, thereby benefiting all farm mechanisation companies including SEL.

Farmer centric Budget 2017-18; focused to double farm income by 2022

Union Budget 2017-18 delivered on its expectations with a clear focus on achieving its vision to double farm income by 2022. Due emphasis was given to both productivity and farm realisations. Total allocation towards agriculture & farmer welfare was increased 16% YoY to ₹ 41,855 crore in FY18E. Notably, a sizable increase in allocation to the insurance scheme to ₹ 9000 crore (up 64% YoY) and irrigation scheme (PMKSY) to ₹ 7377 crore (up 28% YoY) was encouraging. Moreover, the government increased allocation towards subsidy under farm mechanisation to ₹ 525 crore in FY18E (vs. ₹ 358 crore in FY17E). Furthermore, agricultural credit in 2017-18 was fixed at record levels of ₹ 10 lakh crore (up 11% YoY). This will boost farm productivity & consequent farm income thereby benefiting all agri-input companies, including SEL.

Domestic tractor industry rebounds well in FY17, volumes up 18% YoY

The domestic tractor industry has been at the forefront of farm mechanisation in India. Tractor sales in FY17 were at ~5.8 lakh units vs. ~4.9 lakh units in FY16, implying robust 18% volume growth for the industry. Tractor sales at the market leader i.e. M&M in the aforesaid period were at ~2.5 lakh units, up 23% YoY. This implies gain in market share for M&M (41.3% in FY16 to 42.8% in FY17), which will also benefit SEL, going forward (share in total tractor sales at M&M in excess of 30%).

Healthy balance sheet; getting pricey; downgrade to HOLD

SEL has an excellent balance sheet with no debt on its books, negative working capital cycle and robust return ratios amidst healthy dividend payouts (~75%). Average RoCE, RoE & RoIC over FY16-19E is expected at 25%, 31% & 180% respectively. We expect SEL to clock engine sales volume CAGR of 10.8% over FY17-19E to 101053 units in FY19E (82297 units in FY17). We expect sales and PAT to grow at a CAGR of 11.8% and 15.8%, respectively, in FY17-19E (build in 30 bps improvement in EBITDA margins). On account of recent stock price appreciation, it is currently quoting at 24.3x P/E on FY19E EPS. We, therefore, downgrade the stock to **HOLD** and value it at ₹ 1860 i.e. 25x P/E on FY19E EPS of ₹ 74.4.

Variance analysis

Standalone Numbers	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Sales	160.8	134.9	113.4	41.8	154.1	4.3	Sales in Q4FY17 came in much ahead of estimates indicating build-up of inventory at the parent level i.e. M&M
Other Operating Income	0.0	0.7	0.6	-100.0	0.7	-100.0	
Total Operating Income	160.8	135.6	114.0	41.0	154.8	3.9	
Total Raw Material Expenses	120.4	100.3	84.6	42.3	114.4	5.3	RM as a percentage of sales came in at 74.9%, marginally higher than our estimates
Employee Cost	8.1	9.2	7.8	3.9	8.1	0.1	Employee costs as a percentage of sales came in lower at 5.0%
Other operating expense	8.2	6.8	5.8	41.6	9.3	-12.5	Other operating expense came in at its usual run rate of ~5%
Total Expenditure	136.6	116.2	98.1	39.2	131.8	3.7	
EBITDA	24.1	19.3	15.9	52.2	23.0	5.0	
EBITDA Margin (%)	15.0	14.3	13.9	110 bps	14.9	15 bps	EBITDA margins for the quarter were at 15.0%
Depreciation	4.2	4.2	3.5	20.0	4.0	6.3	
Interest	0.0	0.0	0.0		0.1		
Non Operating Expenses	0.0	0.0	0.0		0.0		
Other Income	3.6	4.1	4.0	-11.2	4.4	-19.6	Other income came in a tad lower than our estimates
PBT	23.5	19.3	16.4	43.4	23.4	0.2	
Taxes	8.2	5.0	4.7	73.5	8.1	0.7	Tax rate came in higher at 34.9%
PAT	15.3	14.3	11.7	31.2	15.3	-0.1	
Key Metrics							
Engine Sales Volume (units)	19,842	16,764	13,970	42.0	19,150	3.6	Sales volume came in robust at 19842 units and was ahead of our estimates (16764 units)
Engine Realizations (₹/unit)	81,025	80,449	81,174	-0.2	80,454	0.7	Engine realisations remained largely stable at ~₹ 81000/unit

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenues	701.3	748.9	6.8	757.9	832.0	9.8	On the back of normal monsoon forecast and thrust by the central government on augmenting farm income, we have revised upward our sales estimates for FY18E & FY19E
EBITDA	112.2	119.8	6.8	121.3	133.1	9.8	
EBITDA Margin (%)	16.0	16.0	0 bps	16.0	16.0	0 bps	We have maintained our EBITDA margins estimates at ~16%.
PAT	75.0	81.7	8.9	80.2	92.4	15.1	Increase in sales estimates coupled with increase in corresponding other income resulted in increase in PAT estimates over FY18E-19E
EPS (₹)	60.4	65.8	8.9	64.6	74.4	15.1	

Source: Company, ICICIdirect.com Research

Assumptions

				Current		Earlier		
	FY15	FY16	FY17	FY18E	FY19E	FY18E	FY19E	Comments
Engine Sales Volume (units)	64595	64088	82297	91866	101053	85912	91925	On the back of expectation of increase in farm income and consequent increase in farmers purchasing power, we have upgraded our sales volume estimates over FY18E-19E. We expect sales volume growth of 12% & 10% in FY18E & FY19E, respectively.
Engine Net Sales Realization (₹/unit)	81344	79157	80449	81253	82066	81253	82066	Largely maintained our realisation estimates for FY18E-19E

Source: Company, ICICIdirect.com Research

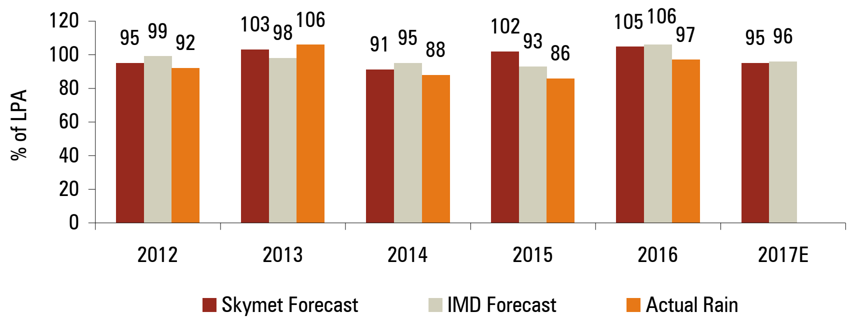
Normal monsoons are significant, more so domestically, as ~55% of the Indian population is still dependent on agriculture for livelihood amid ~45% irrigation penetration pan India

Another encouraging development is the reduction in probability of El Niño occurrence from 50% earlier to ~30% currently with its incidence only expected in the later part of the monsoon season

IMD predicts normal monsoon at 96% of LPA

In the backdrop of below normal monsoon forecasts i.e. 95% of long period average (LPA) made by private weather monitoring agency Skymet earlier in the year, the Indian Meteorological Department (IMD) overturned the ambiguity with near normal monsoon forecast (96% of LPA) for upcoming monsoon season 2017. According to senior officials at the IMD, although there does exist neutral El Niño conditions (30% probability) in the Pacific Ocean, positive dipole movement in the Indian Ocean is expected to counter the Pacific move and result in normal rainfall in monsoon 2017. This is likely to result in robust farm production and consequent increase in farm income, which will boost rural demand, thereby benefiting all agri input companies including SEL.

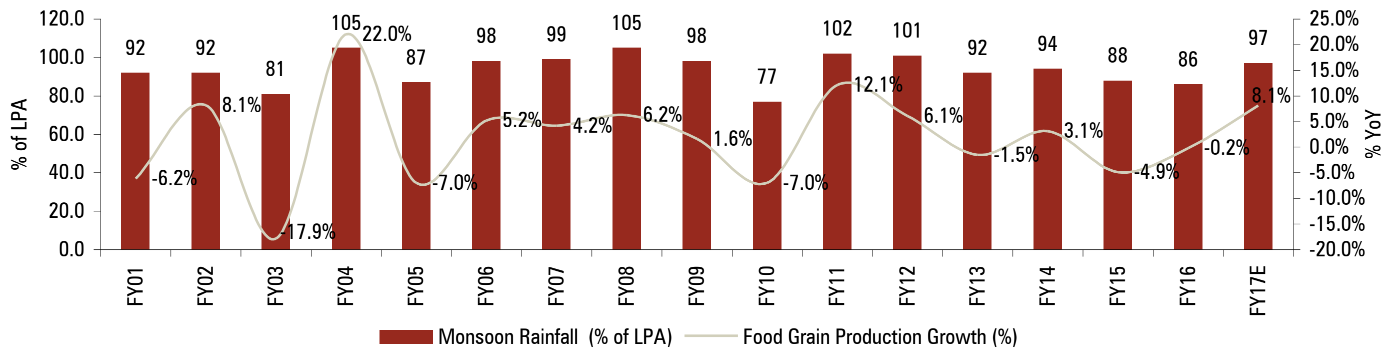
Exhibit 1: Monsoon Forecast Trend



Source: Indian Meteorological Department (IMD), Skymet, ICICIdirect.com Research

Domestically, farm income in FY17E is expected to perk up robustly tracking record food grain production, which is expected at 272 million tonne (MT), up 8.1% YoY largely driven by normal monsoon in 2016. Therefore, given the direct correlation of monsoons with food grain production and the forecast of near normal monsoon 2017, we expect domestic food grain production to further inch up in FY18E. With the government's thrust on doubling farm income by 2022 amid a series of structural reforms both at the production efficiency level and marketing farm produce level, we expect normal monsoons to act as a shot in the arm for the domestic agriculture sector, which will certainly lift farm sentiments and consequent rural demand.

Exhibit 2: Food grain production vs. Monsoon



Source: Reuters, ICICIdirect.com Research

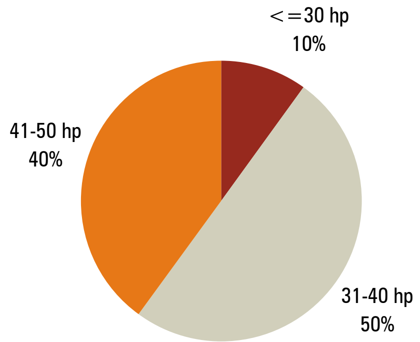
Going forward, the next monsoon forecast by IMD in June 2017 would be keenly watched as it will provide more clarity on the upcoming monsoon season 2017 and month wise distribution of upcoming rainfall. This will help analyse its subsequent effect on the domestic agriculture sector and the overall domestic economy.

Company Analysis

SEL is a joint holding of Kirloskar Industries (17.4% stake) and M&M (33.2% stake) with M&M the main promoter consequent to its acquisition of Punjab Tractors in 2007-08. The Government of India originally set up the company in 1985 for manufacturing diesel engines for Punjab Tractors, which marketed their products under the Swaraj brand. SEL commenced production at its facility in Mohali in 1988 and has been a profitable entity since then. Since inception, the company also had a technical collaboration with Kirloskar Industries (KIL) that also bought ~17% stake in SEL, thereby partnering with SEL in all its technical, designing and functional needs. However, from 2005-06, the company ended its technical collaboration with KIL and developed in-house capability and facilities for modernisation and technological up gradation of its products.

SEL serves the engine requirements of the Swaraj brand of tractors, owned by M&M. The company manufactures engines catering to tractors in the 20-50 hp segment and caters to ~85% of the total engine requirement at M&M's Swaraj tractor division. SEL has a current installed capacity to manufacture 105,000 units of engines. The company is in the midst of expanding its capacity to 120,000 units (to be commissioned by Q4FY18). The company also manufactures hi-tech engine components for commercial vehicles for SML Isuzu (erstwhile Swaraj Mazda). The contribution to the topline, however, remains limited (<3%).

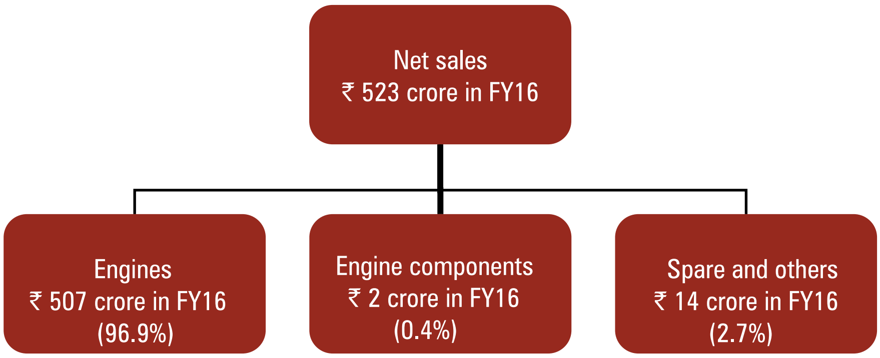
Exhibit 3: Engine sales; hp break-up



Source: Company, ICICIdirect.com Research

As far as segmental sales are concerned, SEL manufactures ~10% engines catering to the <=30 hp tractor segment, ~50% engines catering to the 31-40 hp tractor segment and ~40% engines catering to the 41-50 hp tractor segment. SEL's margins vary across the hp segment with margins more accretive in the higher hp segment.

Exhibit 4: Sales segmentation (FY16)



Source: Company, ICICIdirect.com Research

Domestic tractor market on strong footing; penetration set to increase

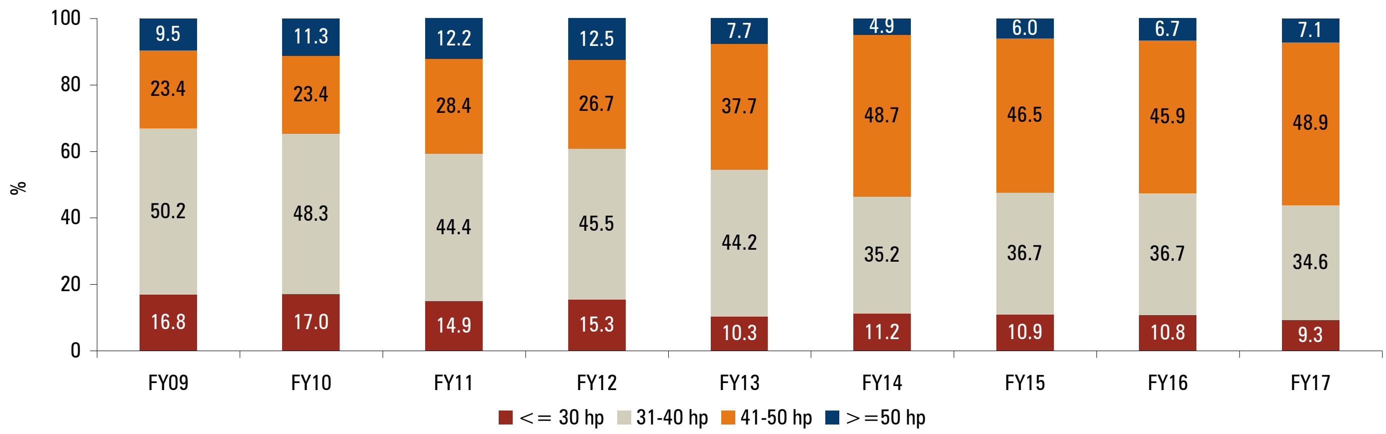
The domestic tractor industry has been at the forefront of farm mechanisation in India with tractor sales increasing at a CAGR of 8.4% in FY09-17 to ~5.8 lakh units in FY17 (~3.0 lakh units in FY09). Within segments, main growth was witnessed in the segment of 41-50 hp, which has grown at a CAGR of 18.9% to 2.9 lakh units over FY09-17 (71 thousand units in FY09). This reflects the preference towards tractors for farming as well as other allied services like haulage of construction material and personnel. On the other hand, sales of small hp tractors i.e. <= 30 hp & 31-40 hp, which are primarily meant for agricultural activities, have grown at a CAGR of 0.7% & 3.5%, respectively, in FY09-17.

Exhibit 5: Domestic tractor sales

Category	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY 09-17 CAGR
<= 30 hp	51214	68477	71721	82224	54506	70811	59866	53136	54114	0.7
31-40 hp	152941	194488	214348	244431	233397	223302	202497	180972	201856	3.5
41-50 hp	71414	94183	137180	143102	199130	308810	256270	226818	285261	18.9
>=50 hp	29053	45438	59037	67134	40735	31228	32830	32838	41613	4.6
Total	304622	402586	482286	536891	527768	634151	551463	493764	582844	8.4

Source: Crisil, ICICIdirect.com Research

Exhibit 6: Domestic tractor sales (segmental share)



Source: Crisil, ICICIdirect.com Research

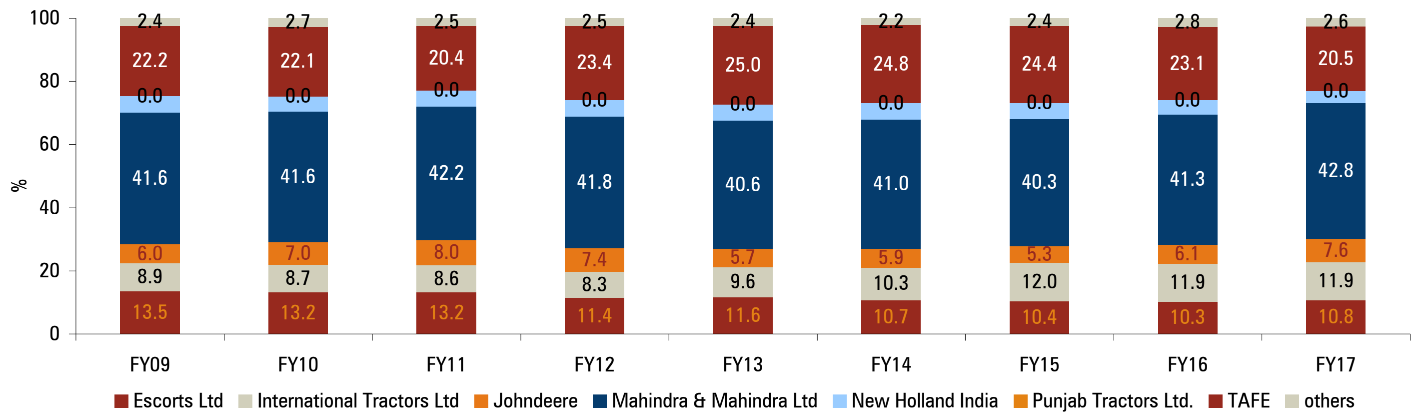
In terms of composition, robust growth was seen in the 41-50 hp segment leading to significant market share gains of 2550 bps to 48.9% in FY17 from 23.4% in FY09. On the other hand, a maximum drop in market share was observed in the 31-40 hp segment wherein the percentage share dropped 1560 bps to 34.6% in FY17 from 50.2% in FY09.

Going forward, on the back of forecast of normal monsoon 2017 and the central government's thrust on augmenting the farm income through both increases in productivity and better farm realisations, we expect the domestic tractor industry to witness healthy double digit growth over FY18-19E. Long term growth of the domestic tractor industry is, however, pegged at 8-10% (as per industry estimates) till FY19E primarily on the back of the government's thrust on increasing crop yields through greater farm mechanisation, increasing penetration of tractors in low tractor density states mainly southern & western regions, replacement demand from high tractor density states (mainly the northern region) and a pick-up expected in domestic construction industry. This will increase tractor demand for haulage/commercial usages (non-farm usage comprises ~30% of tractor demand domestically).

Mahindra & Mahindra leader domestically with dominant market share

Mahindra & Mahindra (M&M) is the market leader in the domestic tractor market with a market share in excess of 40% in FY17. M&M has grown its domestic tractor portfolio both organically as well as inorganically with market share gains of ~1300 bps from 29.7% in FY08 to 42.8% in FY17. As far as segmental market share is concerned, M&M is also the market leader in all segments (<= 30 hp, 31-40 hp, 41-50 hp & >= hp segment).

Exhibit 7: Domestic tractor market share - Players



Source: Crisil, ICICIdirect.com Research

On the inorganic front, M&M had acquired Punjab Tractors (PTL) way back in FY08. The erstwhile PTL owned the Swaraj brand, which was ultimately acquired by M&M.

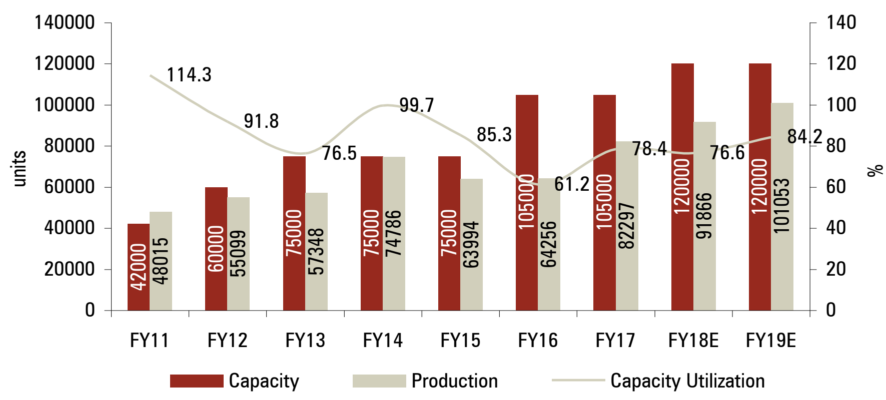
SEL: expanding capacity; sales & profitability to follow

All capacity additions were undertaken under the supervision of the main promoter group i.e. M&M as and when M&M sensed the greater demand for the Swaraj brand of tractors.

Post acquisition by M&M (i.e. post FY08); SEL has always operated at optimal capacity utilisation levels with utilisation level at 96.2% (average) in FY10-15. During the aforesaid period, the company has undertaken three expansion programmes wherein it first increased its capacity from 36,000 units to 42,000 units in FY11, then to 60,000 units in FY12 and then finally to 75,000 units in FY13.

SEL also undertakes continuous innovation and technology upgradation to meet the changing engine requirements at the Swaraj division at M&M. The company is also developing engines in the >50 hp segment that will further help augment sales at SEL. All expenses for the aforesaid expansion were undertaken from internal accruals.

Exhibit 8: SEL: Capacity, production & capacity utilisation trend



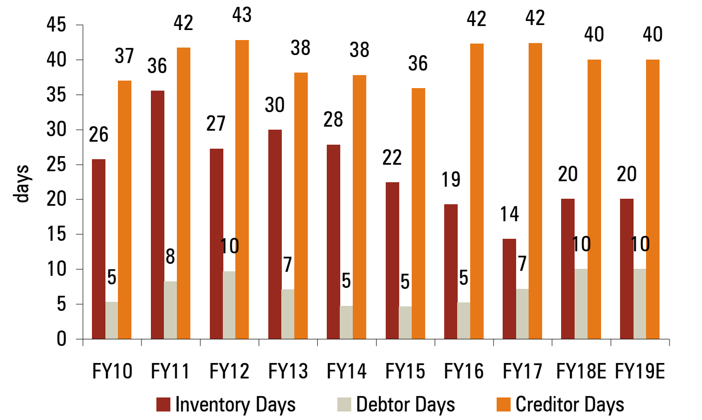
Source: Company, ICICIdirect.com Research

Going forward, we expect sales volumes at SEL to grow at a CAGR of 10.8% in FY17-19E to 101053 units in FY19E vs. 82997 units in FY17. The company has further expressed its intent to augment capacity from 105,000 units to 120,000 units by FY18 end. We expect SEL to incur a capex of ~₹ 20 crore in this regard (funded through internal accruals).

Working capital - key hallmark of SEL!

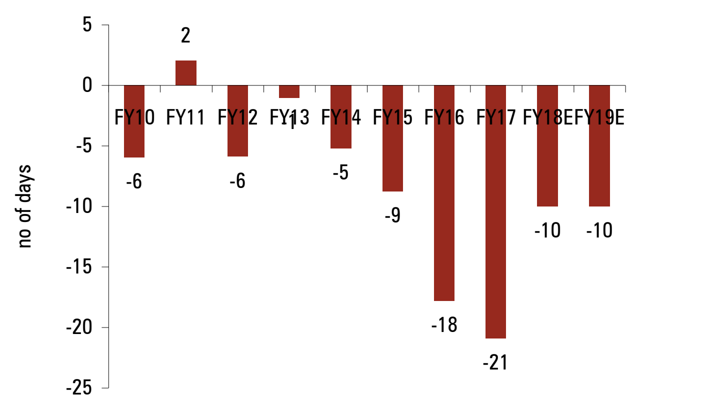
SEL, after being acquired by M&M, has drastically improved its working capital cycle with net working capital days reducing from 42 days in FY08 to four days in FY09. Thereafter, the net working capital has either been marginally negative or zero, thereby implying prudent capital management at SEL. This has resulted in strong cash flow generation for the company with five year average CFO: EBITDA at 1.0x in FY12-16.

Exhibit 9: SEL: Net working capital days (break-up)



Source: Company, ICICIdirect.com Research

Exhibit 10: SEL: Net working capital days



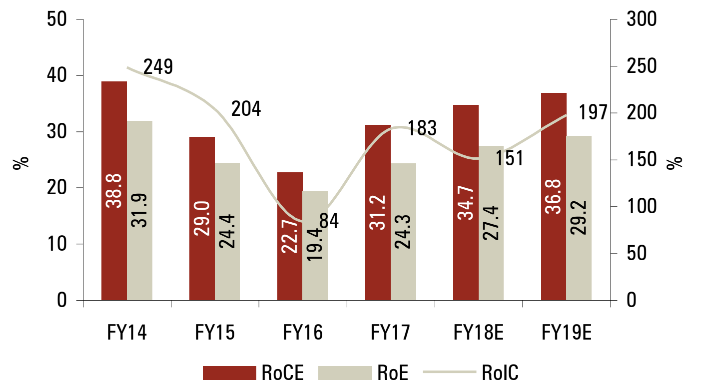
Source: Company, ICICIdirect.com Research

Going forward, we have built in a negative working capital cycle of 10 days over FY18-19E (negative 21 days in FY17).

Superior return ratios; excellent dividend yield!

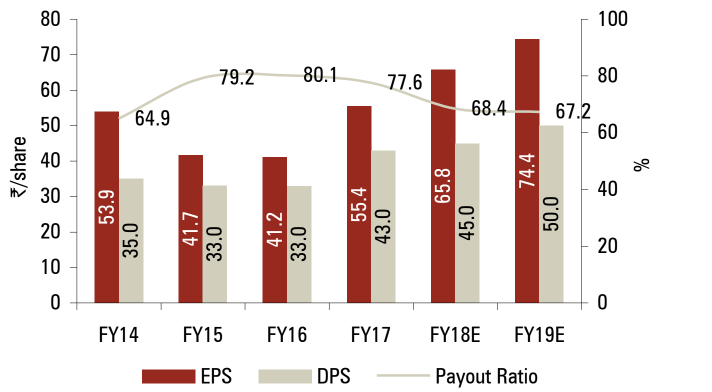
The return ratio profile for SEL has been superior with five year average RoCEs and RoEs at 31% and 26%, respectively in FY13-17. Going forward, post the blip in FY16 (volume de-growth of 1%) on the back of a pick-up in tractor (Swaraj) demand/capacity expansion and consequent engine sales at SEL, we expect return ratios to inch up in FY17-19E. The core return ratio i.e. ROICs have, however, been above 100% post acquisition by M&M with five year average RoICs at 177% in FY13-16.

Exhibit 11: RoIC, RoCE & RoE trend



Source: Company, ICICIdirect.com Research

Exhibit 12: EPS, DPS & dividend payout



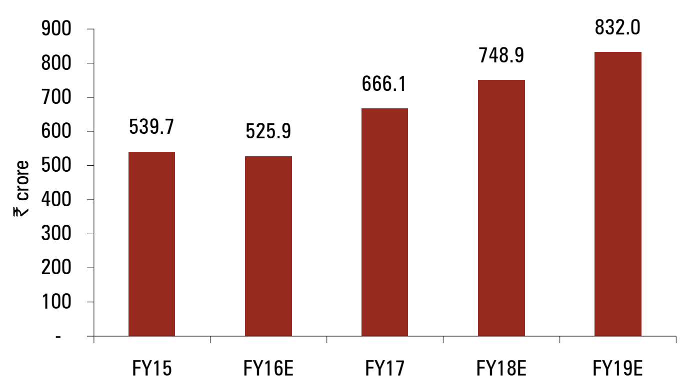
Source: Company, ICICIdirect.com Research

Dividend payout at SEL has been excellent with the company's average dividend payout in the last five years (FY13-17) at ~75%. Since FY13, SEL has been paying dividend per share in the range of ₹ 33-35/share. In FY17, the DPS was at ₹ 43/share. We expect this healthy dividend to continue, going forward. Dividend/share is expected at ₹ 45/share & ₹ 50/share over FY18E-19E, thereby offering a remunerative dividend yield of ~2.5%.

Revenues to grow at 11.8% CAGR in FY17-19E

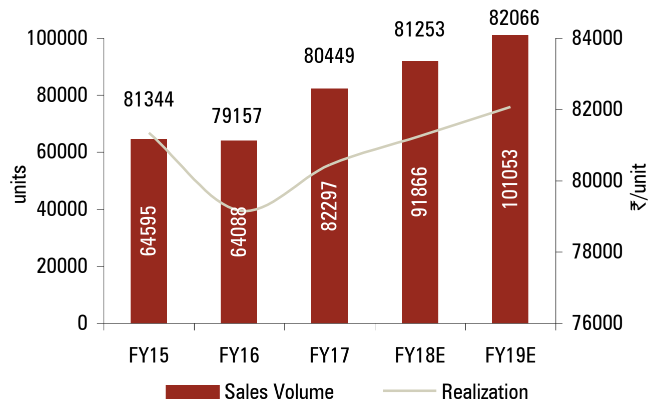
We expect SEL to clock modest revenue growth at 11.8% CAGR in FY17-19E to ₹ 832.0 crore in FY19E (₹ 666.1 crore in FY17). We expect sales volumes of engines at SEL to grow at a CAGR of 10.8% in FY17-19E to 101053 units in FY19E (82297 units in FY17). On the realisations front, we expect realisations to be largely flat over FY17-19E.

Exhibit 13: Sales trend



Source: Company, ICICIdirect.com Research

Exhibit 14: Sales volume and realisation trend



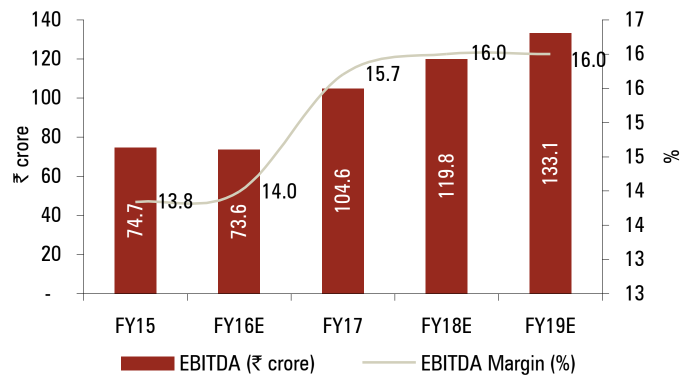
Source: Company, ICICIdirect.com Research

For full year FY17, SEL reported the volume growth of 28% at 82297 units. Going forward, amid positive monsoon expectations, we expect sales volume growth of 10.8% CAGR in FY17-19E. This would primarily be on the back of increasing sales of Swaraj Tractor in low tractor density regions domestically and new product launches by parent (M&M) under the Swaraj brand.

EBITDA, PAT to grow 12.8%, 15.8% CAGR, respectively, in FY17-19E

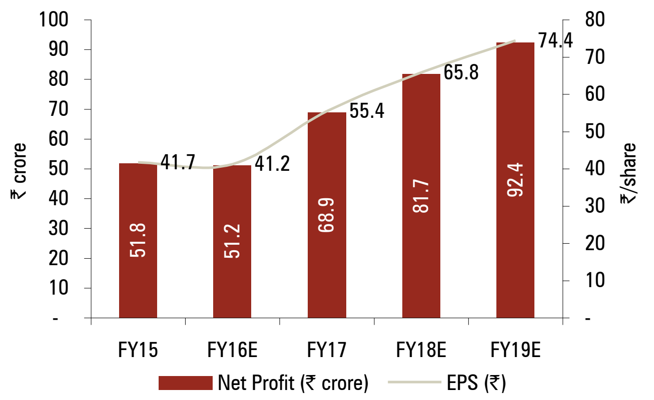
We expect EBITDA to grow at a CAGR of 12.8% in FY17-19E to ₹ 133.1 crore in FY19E (₹ 104.6 crore in FY17), primarily on the back of sales growth (11.8% CAGR) and improvement in EBITDA margins to the tune of 30 bps to 16.0% in FY19E (15.7% in FY17). On the PAT front, we expect PAT to grow at a CAGR of 15.8% in FY17-19E to ₹ 92.4 crore in FY19E (₹ 68.9 crore in FY17). We expect EPS at ₹ 65.8/share & ₹ 74.4/share in FY18E & FY19E, respectively.

Exhibit 15: EBITDA & EBITDA margins



Source: Company, ICICIdirect.com Research

Exhibit 16: PAT & EPS trend

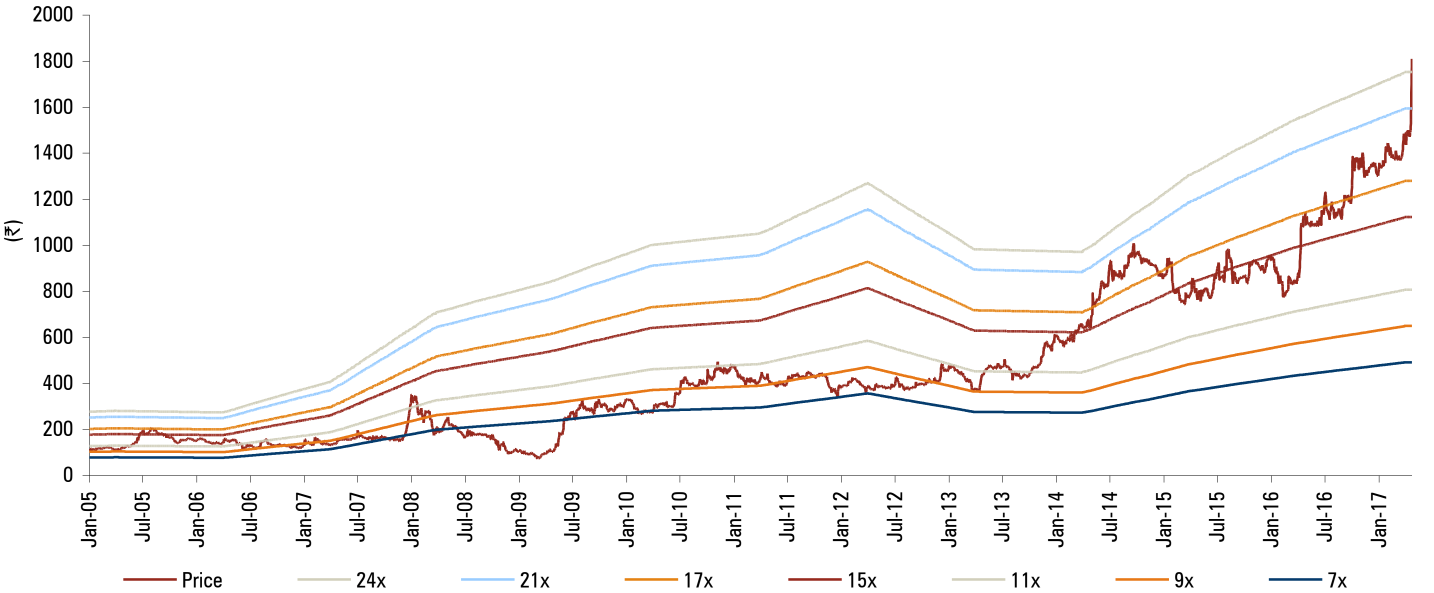


Source: Company, ICICIdirect.com Research

Outlook and valuation

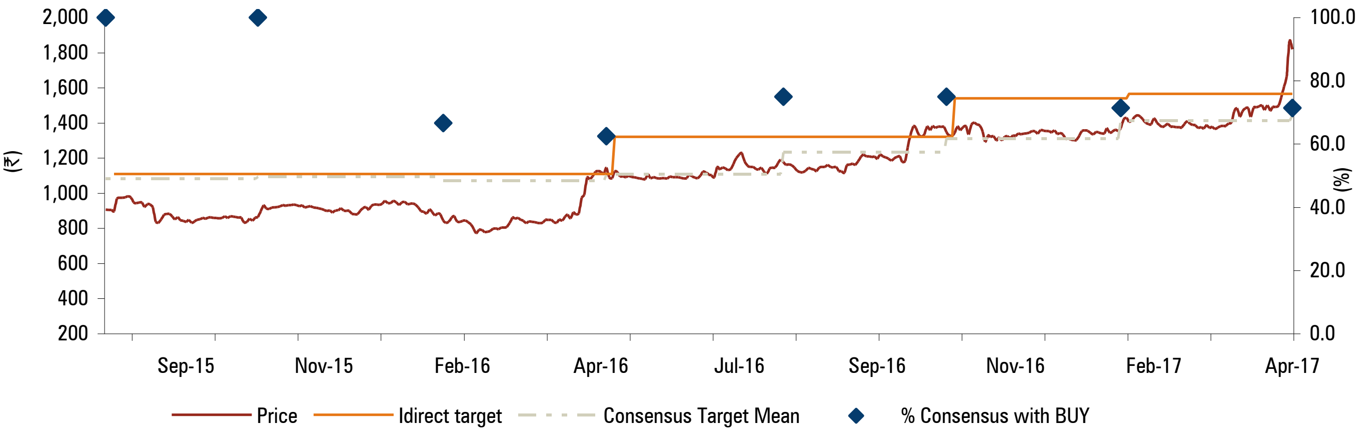
SEL has an excellent balance sheet with no debt on its books, negative working capital cycle and robust return ratios amidst healthy dividend payouts (~75%). Average RoCE, RoE & RoIC over FY16-19E is expected at 25%, 31% & 180% respectively. We expect SEL to clock engine sales volume CAGR of 10.8% in FY17-19E to 101053 units in FY19E (82297 units in FY17). We expect sales and PAT to grow at a CAGR of 11.8% and 15.8%, respectively, in FY17-19E (build in 30 bps improvement in EBITDA margins). On account of recent stock price appreciation, it is currently quoting at 24.3x P/E on FY19E EPS. We therefore, downgrade the stock to **HOLD** and value it at ₹ 1860 i.e. 25x P/E on FY19E EPS of ₹ 74.4.

Exhibit 17: Two year forward P/E (SEL currently trading at 24.3x)



Source: Reuters, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date/Year	Event
2008	The company got indirectly acquired by Mahindra & Mahindra (M&M) on account of its acquisition of Punjab Tractors (erstwhile promoters of Swaraj Engines). M&M also launches an open offer for minority shareholders as per the rules prescribed by Sebi
2009	Working capital drastically improves at SEL, net working capital days reduced from 42 days in FY08 to four days in FY09
2010	SEL operates at >100% capacity utilisation levels. Production in FY10 at 39254 units on a capacity of 36000 units, implying utilisation levels of 109%
2011	SEL undertakes and commissions a capacity expansion programme. Capacity increased from 36000 units annually to 42000 units. Engine production in FY11 was at ~48000 units, implying a capacity utilisation of ~114%
2012	Company further increases its capacity from 42000 units in FY11 to 60000 units in FY12. Production in FY12 was at 55099 units
2013	SEL further increases its capacity from 60000 units in FY12 to 75000 units in FY13. Production in FY13 stood at 57348 units. Judging the surplus cash on books and good cash flow generating ability of SEL, the SEL management increases the dividend payout (75%) with absolute dividend at ₹ 33/share
2014	Maintains higher dividend payout ratio at 65% with absolute dividend per share at ₹ 35/share. Production in FY14 stood at 74786 units, implying capacity utilisation levels of ~100%
2015	SEL to implement capacity expansion programme wherein the company intends to increase its current capacity from 75000 units annually to 105000 units annually. The total capex spend would be ~ ₹ 38 crore (to be met by internal accruals) while it is expected to be commissioned by Q2FY16
2016	SEL ends the year with 64088 units of engine sales (down 1% YoY). Monsoon 2016 season ends with rainfall at 97% of LPA thereby being normal in nature. Tractor industry witnesses robust volume growth of 20% in H1FY17

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (mn)	Position Change (%)
1	Mahindra Group	31-Dec-16	33.2	4.1	0.0
2	Kirloskar Group of Companies	31-Dec-16	17.4	2.2	0.0
3	DSP BlackRock Investment Managers Pvt.	31-Dec-16	3.2	0.4	0.0
4	L&T Investment Management Limited	28-Feb-17	3.0	0.4	0.0
5	PineBridge Investments Asia Limited	30-Jun-16	2.7	0.3	0.3
6	PineBridge Investments Asset Manageme	31-Dec-16	2.7	0.3	0.0
7	Parikh (Reeta Keyur)	31-Dec-16	1.4	0.2	0.0
8	Jupiter Asset Management Ltd.	31-Dec-16	1.4	0.2	0.0
9	Shah (Vikram Chinubhai)	31-Dec-16	1.4	0.2	0.0
10	SBI Funds Management Pvt. Ltd.	31-Dec-16	1.3	0.2	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	50.6	50.6	50.6	50.6	50.6
FII	5.0	5.0	5.0	5.0	5.0
DII	9.5	10.0	10.5	12.1	12.1
Others	35.0	34.4	33.9	32.3	32.3

Recent Activity

Buys			Sells		
Investor Name	Value (US$ million)	Shares (million)	Investor Name	Value (US$ million)	Shares (million)
L&T Investment Management Limited	+0.0M	+0.0M	Franklin Templeton Asset Mgmt (India)	-0.2M	-0.0M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17P	FY18E	FY19E
Net Sales	525.9	666.1	748.9	832.0
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	525.9	666.1	748.9	832.0
Growth (%)	-2.6	26.7	12.4	11.1
Raw Material Expenses	395.7	495.6	558.0	619.8
Employee Expenses	31.9	31.0	33.7	37.4
Other Operating Expense	24.7	35.0	37.4	41.6
Total Operating Expenditure	452.3	561.6	629.1	698.9
EBITDA	73.6	104.6	119.8	133.1
Growth (%)	-1.5	42.2	14.6	11.1
Depreciation	13.8	16.3	16.4	16.7
Interest	0.0	0.1	0.0	0.0
Other Income	16.3	17.2	18.6	19.5
PBT	76.0	105.4	122.0	135.9
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	24.9	36.5	40.2	43.5
PAT	51.2	68.9	81.7	92.4
Growth (%)	-1.2	34.6	18.7	13.1
EPS (₹)	41.2	55.4	65.8	74.4

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17P	FY18E	FY19E
Profit after Tax	51.2	68.9	81.7	92.4
Add: Depreciation	13.8	16.3	16.4	16.7
(Inc)/dec in Current Assets	16.6	-2.9	-22.7	-7.1
Inc/(dec) in CL and Provisions	-41.4	16.9	6.1	9.8
Others	0.0	0.1	0.0	0.0
CF from operating activities	40.2	99.3	81.6	111.9
(Inc)/dec in Investments	31.6	-38.5	0.0	-10.0
(Inc)/dec in Fixed Assets	-27.2	-6.4	-20.0	-10.0
Others	-2.9	-1.0	0.0	0.0
CF from investing activities	1.6	-45.9	-20.0	-20.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-49.3	-64.1	-67.1	-74.5
Inc/(dec) in Share Cap	0.1	0.0	0.0	0.0
Others	49.4	15.0	0.0	0.0
CF from financing activities	0.2	-49.0	-67.1	-74.5
Net Cash flow	42.0	4.3	-5.5	17.3
Opening Cash	139.9	181.8	186.2	180.7
Closing Cash	181.8	186.2	180.7	198.0

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17P	FY18E	FY19E
Liabilities				
Equity Capital	12.4	12.4	12.4	12.4
Reserve and Surplus	251.1	271.0	285.6	303.5
Total Shareholders funds	263.5	283.4	298.0	315.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	7.6	6.3	6.3	6.3
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	271.1	289.7	304.3	322.2
Assets				
Gross Block	193.5	183.1	203.9	213.9
Less: Acc Depreciation	91.8	91.8	108.3	125.0
Net Block	101.7	91.3	95.7	88.9
Capital WIP	0.3	0.8	0.0	0.0
Total Fixed Assets	102.0	92.1	95.7	88.9
Investments	10.4	48.9	48.9	58.9
Inventory	27.8	26.1	41.0	45.6
Debtors	7.5	13.1	20.5	22.8
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	3.0	2.0	2.2	2.5
Cash	181.8	186.2	180.7	198.0
Total Current Assets	220.0	227.3	244.5	268.9
Current Liabilities	60.9	77.4	82.1	91.2
Provisions	4.7	5.2	6.6	7.3
Current Liabilities & Prov	65.6	82.5	88.6	98.5
Net Current Assets	154.5	144.8	155.9	170.4
Others Assets	4.2	3.8	3.8	3.8
Application of Funds	271.1	289.7	304.3	322.2

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17P	FY18E	FY19E
Per share data (₹)				
EPS	41.2	55.4	65.8	74.4
Cash EPS	52.3	68.6	79.0	87.8
BV	212.1	228.2	240.0	254.3
DPS	33.0	43.0	45.0	50.0
Cash Per Share (Incl Invst)	154.8	189.3	184.9	206.9
Operating Ratios (%)				
EBITDA Margin	14.0	15.7	16.0	16.0
PAT Margin	9.7	10.3	10.9	11.1
Inventory days	19.3	14.3	20.0	20.0
Debtor days	5.2	7.2	10.0	10.0
Creditor days	42.3	42.4	40.0	40.0
Return Ratios (%)				
RoE	19.4	24.3	27.4	29.2
RoCE	22.7	31.2	34.7	36.8
RoIC	103.2	216.3	175.1	225.8
Valuation Ratios (x)				
P/E	43.9	32.7	27.5	24.3
EV / EBITDA	27.9	19.2	16.8	15.0
EV / Net Sales	3.9	3.0	2.7	2.4
Market Cap / Sales	4.3	3.4	3.0	2.7
Price to Book Value	8.5	7.9	7.5	7.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	0.5	0.7	0.7
Quick Ratio	0.2	0.2	0.3	0.3

Source: Company, ICICIdirect.com Research

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