

November 1, 2017

Rating matrix		
Rating	:	Buy
Target	:	₹ 2570
Target Period	:	12-18 months
Potential Upside	:	25%

What's changed?		
Target		Unchanged
EPS FY18E		Unchanged
EPS FY19E		Unchanged
Rating		Unchanged

Quarterly performance					
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Revenue	208.7	178.9	16.7	194.0	7.6
EBITDA	35.1	29.2	20.4	32.3	8.9
EBITDA (%)	16.8	16.3	52 bps	16.6	20 bps
PAT	23.5	19.3	21.9	21.5	9.4

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	525.9	666.2	789.7	919.7
EBITDA	73.6	104.6	129.3	151.7
Net Profit	51.2	68.8	85.7	99.6
EPS (₹)	41.2	55.4	69.0	80.2

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	50.0	37.2	29.8	25.7
Target P/E	62.3	46.3	37.2	32.0
EV / EBITDA	32.2	22.2	18.1	15.1
P/BV	9.7	9.0	8.5	8.0
RoNW	19.4	24.3	28.4	31.2
RoCE	22.7	31.2	37.2	41.2

Stock data	
Stock Data	₹ crore
Market Capitalization	2,558.5
Total Debt (FY17)	0.0
Cash & Investments (FY17)	235.0
EV	2,323.5
52 week H/L	2545 / 1215
Equity capital	₹ 12.4 crore
Face value	₹ 10
MF Holding (%)	12.2
FII Holding (%)	5.2

Price performance				
Return %	1M	3M	6M	12M
Swaraj Engines	2.9	-0.4	16.3	53.2
M & M	7.2	(4.2)	0.7	2.1
Kirloskar Oil Engines	-2.4	-11.8	-9.9	4.1

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## Swaraj Engines (SWAENG)

₹ 2060

### Steady performance; buy to reap rich gains...

- Swaraj Engines (SEL) reported a steady Q2FY18 performance with the company reporting new high EBITDA margins of 16.8%
- Engine sales for the quarter came in at 24984 units, up 11.6% YoY with consequent net sales at ₹ 208.9 crore, up 16.7% YoY
- Engine sales for the quarter, as a percentage of tractor sales at parent i.e. M&M, were at a normalised level of 32.4%
- EBITDA in Q2FY18 was at ₹ 35.1 crore (EBITDA margins at 16.8%, up 50 bps YoY) with consequent PAT at ₹ 23.5 crore, up 21.9% YoY
- The expansion in EBITDA margins was primarily tracking lower other expenses, partly compensated by higher employee costs

#### Monsoon 2017 satisfactory; ends at near normal (-5% of LPA)

Monsoon 2017 began with bright and widespread distribution across the country with rainfall in June coming in at +4% LPA and July at +2% of LPA before slowing down in August (-13% of LPA) & September (-12% of LPA) to finally end the season at -5% of LPA. On the spatial distribution front, monsoon 2017 was normal in southern & eastern India and below normal in northern & central India. However, the impact of near normal monsoon on farm income is expected to be limited, given the high irrigation penetration in key rainfall deficient agrarian states like Punjab (99%), Haryana (86%) and Uttar Pradesh (76%). This augurs well for agri input companies, including SEL.

#### Poised to gain amid government's aim to double farm income by 2022

The central government has time and again reiterated its aim to double farm income by 2022. The same is envisaged to be attained through better productivity and enhanced farm realisations. Given the limitations of available land, better productivity is quite essential for augmenting farm income. Farm mechanisation is a most sought after technique in augmenting farm productivity, which is more significant in the present times of reducing availability of cost effective farm labour. SEL is a leading supplier of engines for the tractors to market leader i.e. M&M. The company is one of the key players to benefit from this transition, given tractors have been at the forefront of farm mechanisation in India.

#### Domestic tractor industry firmly placed to scale new highs in FY18E

The domestic tractor industry recorded tractor sales volume of 5.8 lakh units in FY17 with peak sales in FY14 at 6.3 lakh units. Given the current momentum in tractor sales (up 20% YoY in H1FY18 at 3.6 lakh units), we expect the domestic industry to surpass previous highs and clock sales volume in excess of 6.5 lakh units in FY18E. M&M being the market leader (market share ~44%) is poised to gain with benefits flowing down to SEL. Key factors aiding domestic tractor sales are robust food grain production in FY17, near normal monsoon 2017, farm loan waiver in certain key states like Uttar Pradesh (constitutes ~15% demand) and robust pay-out to sugarcane farmers amid improved sugar cycle (prices).

#### Best in class capital efficiency; premium valuations to stay; retain BUY!

SEL has a superlative business model wherein it realises core return ratios in excess of 200% largely on account of negative working capital cycle, steady margin trajectory and high dividend payout (~75%). We believe this will continue to drive premium valuations for SEL. Going forward, incorporating the H1FY18 results and tweaking our estimates, we now expect SEL to clock engine sales volume CAGR of 15.3% in FY17-19E. We expect sales and PAT to grow at a CAGR of 17.5% and 20.3%, respectively, in FY17-19E. We continue to value SEL at ₹ 2570 i.e. 32x P/E on FY19E EPS of ₹ 80.2 and assign **BUY** rating on the stock.

### Variance analysis

Standalone Numbers	Q2FY18	Q2FY18E	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Comments
Sales	208.7	218.4	178.1	17.2	194.0	7.6	Net sales for the quarter came in lower largely tracking lower-than-expected sales volume
Other Operating Income	0.0	0.8	0.8	-100.0	0.0		
Total Operating Income	208.7	219.3	178.9	16.7	194.0	7.6	
Total Raw Material Expenses	155.8	163.4	132.8	17.3	142.9	9.0	RM as a percentage of sales came in steady at 75% of sales
Employee Cost	8.9	8.3	7.6	17.3	8.1	9.5	Employee costs as a percentage of sales came in a tad higher at 4.3% of sales
Other operating expense	8.9	12.1	9.4	-4.9	10.7	-16.9	Other operating expense came in lower at 4.3% vs. the usual trend of ~5%
Total Expenditure	173.6	183.7	149.7	15.9	161.7	7.3	
EBITDA	35.1	35.5	29.2	20.4	32.3	8.9	
EBITDA Margin (%)	16.8	16.2	16.3	52 bps	16.6	20 bps	EBITDA margins for the quarter were at 16.8% and were ahead of our estimates of 16.2%. Margins expanded 50 bps YoY
Depreciation	4.2	4.5	4.2	0.7	4.2	0.7	
Interest	0.0	0.0	0.0		0.0		
Non Operating Expenses	0.0	0.0	0.0		0.0		
Other Income	5.1	4.7	4.5	13.3	4.8	5.8	Other income largely came in on expected lines
PBT	36.0	35.7	29.5	22.1	32.9	9.5	
Taxes	12.5	11.8	10.2	22.5	11.4	9.6	Tax rate came in at 35%
PAT	23.5	23.9	19.3	21.9	21.5	9.4	

### Key Metrics

Engine Sales Volume (units)	24,984	26,874	22,395	11.6	23,287	7.3	Sales volume for the quarter came in lower than our estimates
Engine Realizations (₹/unit)	83,533	81,281	79,513	5.1	83,300	0.3	Realisations came in higher than our estimates primarily tracking pass through effect of increase in raw material prices mainly steel

Source: Company, ICICIdirect.com Research

### Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	797.2	789.7	-0.9	915.5	919.7	0.5	Marginally tweaked our estimates; lowered the volume estimates and upgraded the realisations tracking H1FY18
EBITDA	127.5	129.3	1.4	148.3	151.7	2.3	
EBITDA Margin (%)	16.0	16.4	38 bps	16.2	16.5	30 bps	Upgraded the margin estimates largely tracking upbeat margins in H1FY18
PAT	85.6	85.7	0.1	99.6	99.6	0.0	
EPS (₹)	69.0	69.0	0.1	80.2	80.2	0.0	Improved margin trajectory coupled with marginal lower sales volume estimates results in same numbers at the PAT level

Source: Company, ICICIdirect.com Research

### Assumptions

	Current			Earlier		Comments
	FY15	FY16	FY17	FY18E	FY19E	
Engine Sales Volume (units)	64595	64088	82297	95061	109321	Marginally revised downward our sales volume estimates for FY18E & FY19E. Expect volumes to grow at a CAGR of 15.3% over FY17-19E
Engine Net Sales Realization (₹/unit)	81344	79157	78363	80713	82328	Increased the realisations estimates tracking upbeat H1FY18. Expect realisations to improve 2.5% CAGR over FY17-19E largely tracking uptick in metal prices (key raw material)

Source: Company, ICICIdirect.com Research

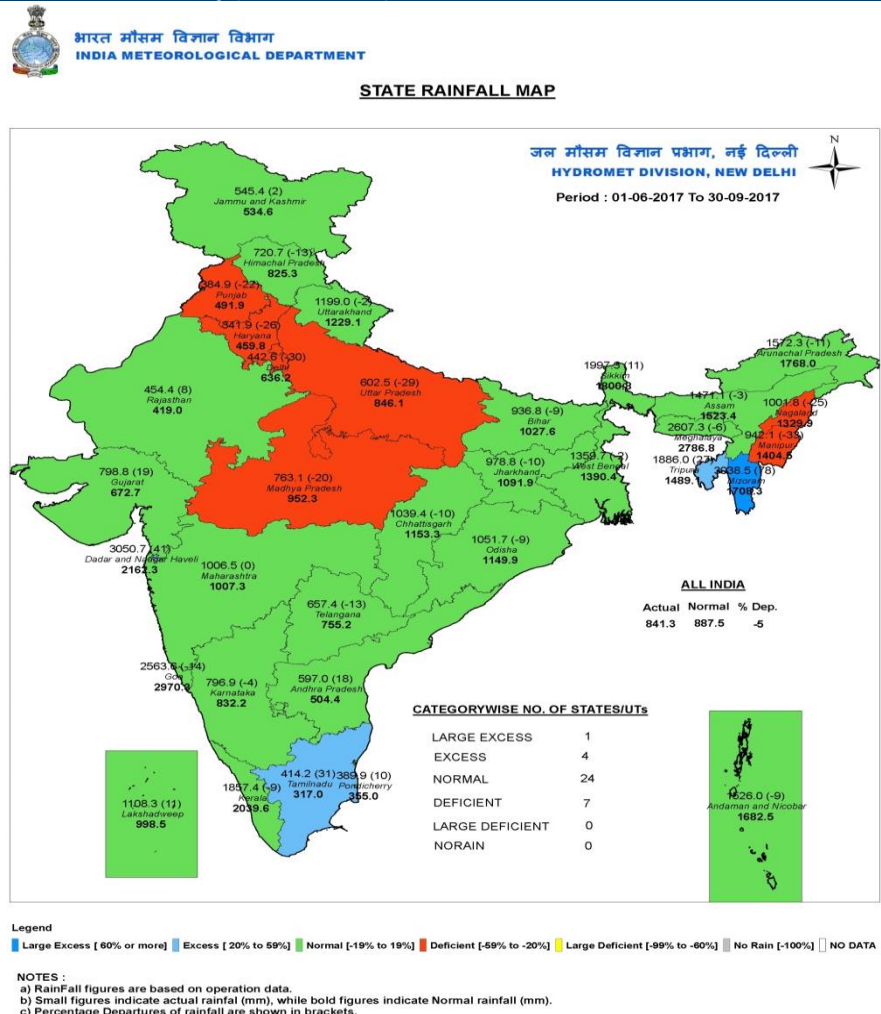
Normal monsoons are significant, more so domestically, as ~55% of the Indian population is still dependent on agriculture for livelihood amid ~45% irrigation penetration pan India

On the spatial distribution front, monsoon 2017 was normal in the southern (at par with LPA) & eastern (-4% of LPA) part of the country and below normal in northern (-10% of LPA) & central (-6% of LPA) India

## Monsoon 2017 near normal at -5% of LPA

Early onset of rainfall on May 30 (usual onset date of June 1) coupled with initial indicators like positive dipole movement in the Indian Ocean and fading El Niño conditions in the Pacific Ocean led IMD to upgrade its initial estimates (April 2017) from 96% of long period average (LPA) to 98% of LPA (June 2017). Monsoon 2017 began with a bright and widespread distribution across the country with rainfall in June coming in at +4% LPA and July at +2% of LPA before fizzling out in August (-13% of LPA) and September (-12% of LPA) to finally end the season at -5% of LPA.

### Exhibit 1: Pan-India map (Monsoon 2017)



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

Initial foodgrain production numbers have already been released by the central government. Kharif production is expected to decline ~3% (on a higher base) to 134.7 MT

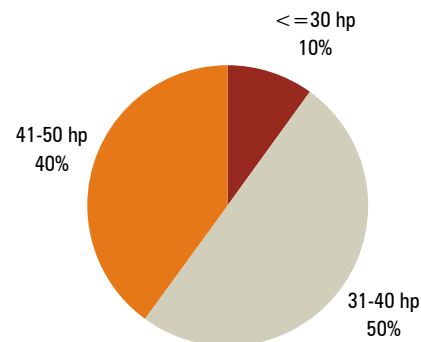
Despite general news flow, which speak of ~34% of districts pan India receiving below normal monsoon in 2017 and consequent hit on rural income, it should be pointed out that a similar situation also existed last year (33% of districts receiving below normal rainfall) amid normal monsoon conditions (-3% of LPA) leading to record 9% increase in foodgrain production that ended at 138.5 million tonne (MT). Thus, we expect the impact of near normal monsoon 2017 to be limited on farm income and consequent rural demand. Also, reinforcing our view is high irrigation penetration in key rainfall deficient agrarian states like Punjab (99%), Haryana (86%) & Uttar Pradesh (76%). Further, reinforcing our belief is robust two-wheeler & tractor sales in September 2017, which rose 9% & 36%, respectively, partly due to re-stocking post GST and partly due to underlying healthy demand prospects in the rural market.

## 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, developed in-house capability and facilities for modernisation along with technological upgradation 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). SEL also manufactures hi-tech engine components for commercial vehicles for SML Isuzu (erstwhile Swaraj Mazda). The contribution to the topline, however, remains limited (<3%).

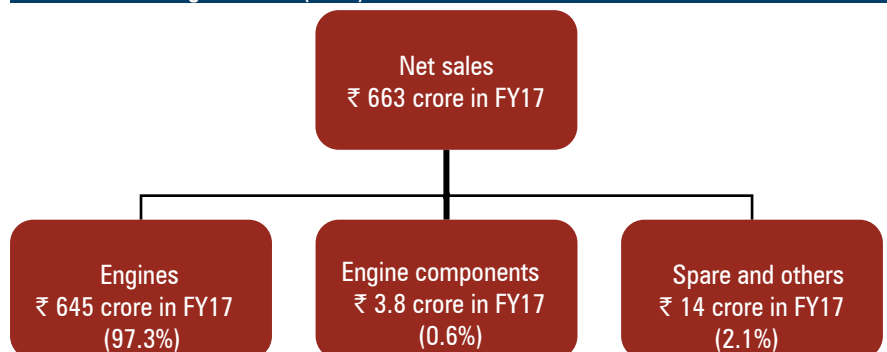
**Exhibit 2: Engine sales; hp break-up**



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 3: Sales segmentation (FY17)**



Source: Company, ICICIdirect.com Research

### Domestic tractor market on strong footing; penetration set to increase

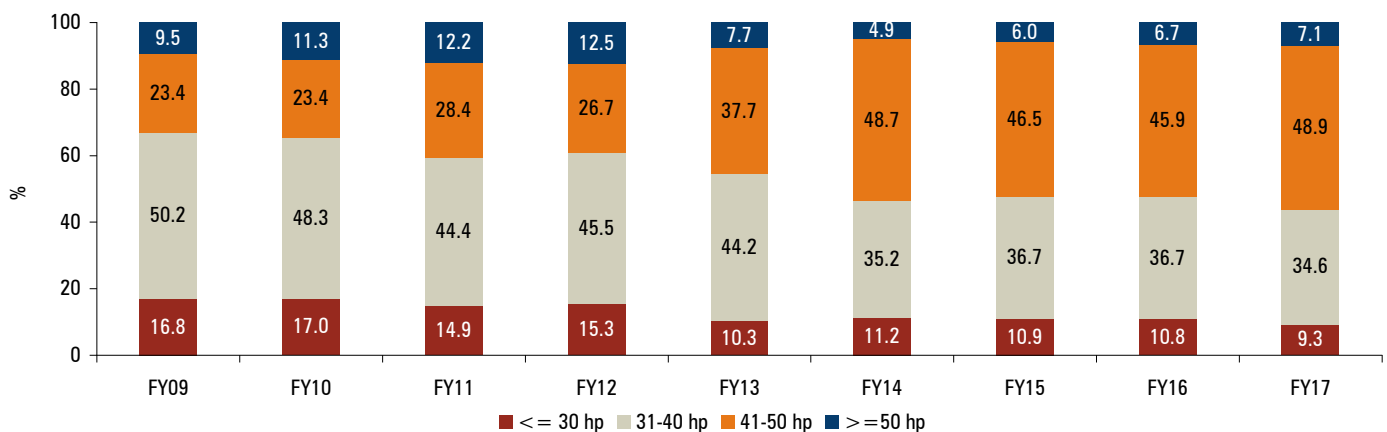
The domestic tractor industry has been at the forefront of farm mechanisation in India with tractor sales increasing at a CAGR of 8.4% in FY09-17 to ~5.8 lakh units in FY17 (~3.0 lakh units in FY09). Within segments, main growth was witnessed in the segment of 41-50 hp, which has grown at a CAGR of 18.9% to 2.9 lakh units over FY09-17 (71,000 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 4: 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 5: 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.

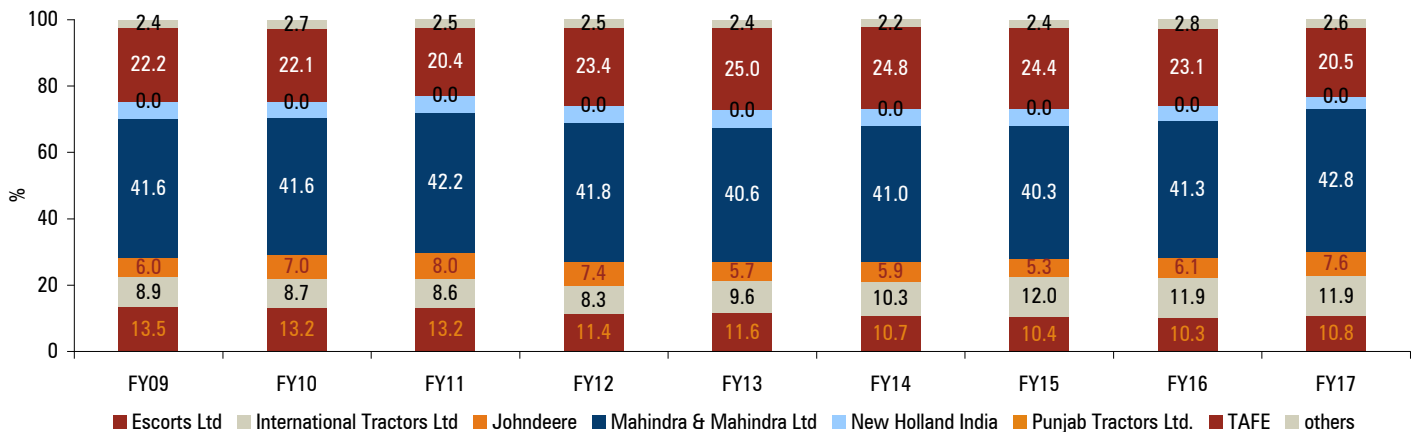
Going forward, on the back of near normal monsoon 2017 (-5% of LPA) and the central government's thrust on augmenting the farm income through both increases in productivity and better farm realisations we expect the domestic tractor industry to witness healthy double digit growth over FY18-19E. Long term growth of the domestic tractor industry is, however, pegged at 8-10% (as per industry estimates) 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 ( $\leq 30$  hp, 31-40 hp, 41-50 hp &  $\geq 51$  hp segment).

**Exhibit 6: Domestic tractor market share - Players**



Source: Crisil, ICICIdirect.com Research

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.

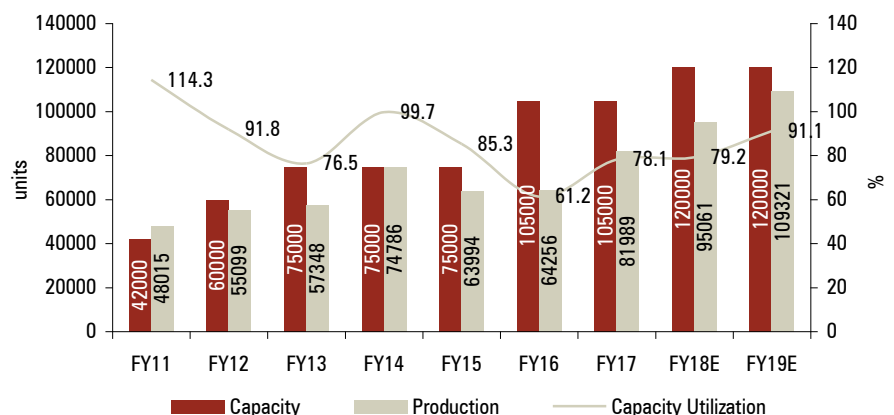
SEL also undertakes continuous innovation and technology upgradation to meet the changing engine requirements at the Swaraj division at M&M. The company is also developing engines in the  $> 50$  HP segment that will further help augment sales at SEL. All expenses for the aforesaid expansion were undertaken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

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

Post acquisition by M&M (i.e. post FY08), SEL has always operated at optimal capacity utilisation levels with utilisation levels 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.

**Exhibit 7: SEL: Capacity, production & capacity utilisation trend**



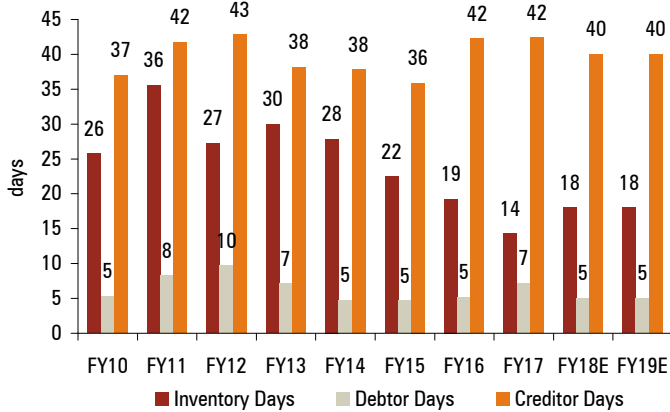
Source: Company, ICICIdirect.com Research

Going forward, we expect sales volumes to grow at a CAGR of 15.3% in FY17-19E to 109,321 units in FY19E vs. 82,997 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 ~₹ 50 crore in this regard (funded through internal accruals).

### Working capital - key hallmark of SEL!

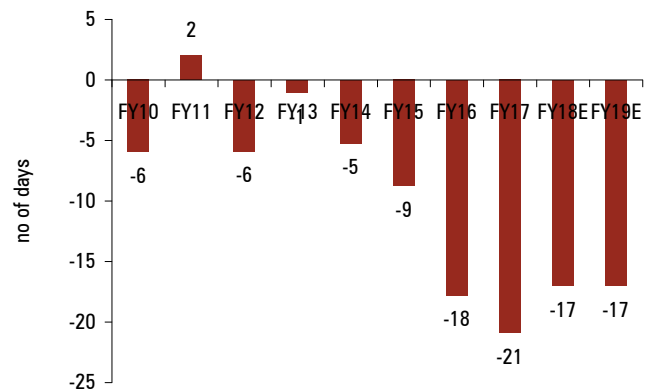
SEL, after being acquired by M&M, has drastically improved its working capital cycle with net working capital days reducing from 42 days in FY08 to four days in FY09. Thereafter, the net working capital has either been marginally negative or zero, thereby implying prudent capital management at SEL. This has resulted in strong cash flow generation for the company with five-year average CFO: EBITDA at 0.9x in FY13-17.

**Exhibit 8: SEL: Net working capital days (break-up)**



Source: Company, ICICIdirect.com Research

**Exhibit 9: SEL: Net working capital days**



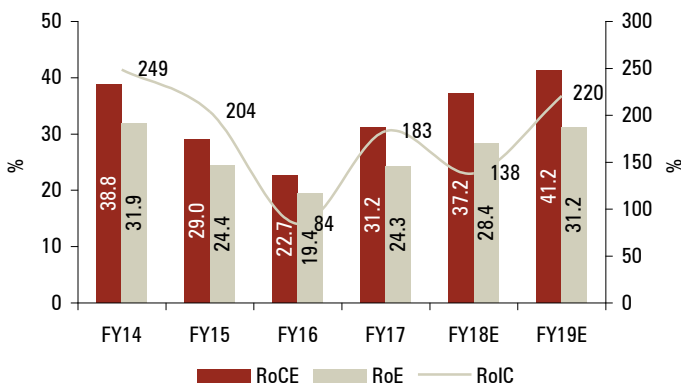
Source: Company, ICICIdirect.com Research

Going forward, we have built in a negative working capital cycle of 17 days in FY18-19E (negative 21 days in FY17).

### Superior return ratios; high dividend payouts!

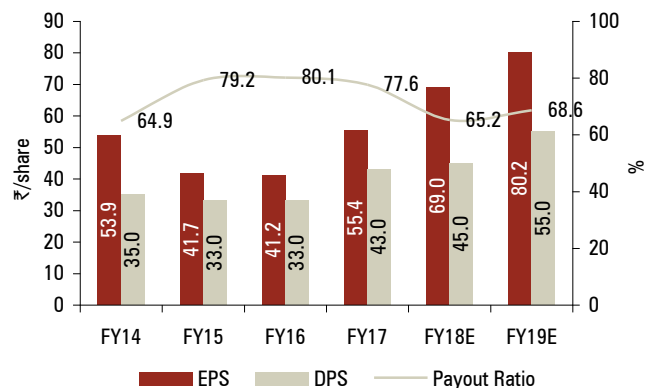
The return ratio profile for SEL has been superior with five-year average RoCEs and RoEs at 31% and 26%, respectively in FY13-17. Going forward, post the blip in FY16 (volume de-growth of 1%) on the back of a pick-up in tractor (Swaraj) demand/capacity expansion and consequent engine sales at SEL, we expect return ratios to inch up in FY17-19E. The core return ratio i.e. RoICs has, however, been above 100% post acquisition by M&M with five-year average RoICs at 163% in FY13-17.

**Exhibit 10: RoIC, RoCE & RoE trend**



Source: Company, ICICIdirect.com Research

**Exhibit 11: EPS, DPS & dividend payout**



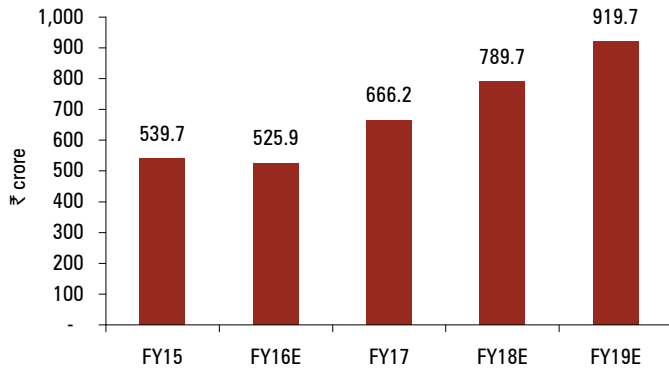
Source: Company, ICICIdirect.com Research

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 & FY19E respectively, thereby offering a dividend yield of ~2.5%.

### Revenues to grow at 17.5% CAGR in FY17-19E

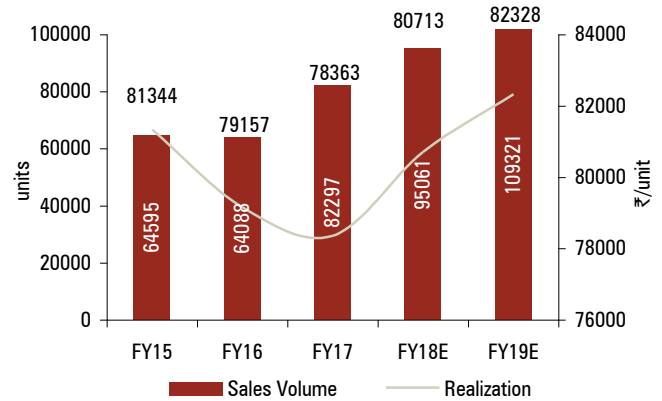
We expect SEL to clock modest revenue growth at 17.5% CAGR in FY17-19E to ₹ 919.7 crore in FY19E (₹ 666.2 crore in FY17). We expect sales volumes of engines to grow at a CAGR of 15.3% in FY17-19E to 1.1 lakh units in FY19E (0.8 lakh units in FY17). On the realisations front, we expect realisations to grow at 2.5% CAGR in FY17-19E, largely factoring in pass through of increase in raw material costs (mainly steel).

**Exhibit 12: Sales trend**



Source: Company, ICICIdirect.com Research

**Exhibit 13: Sales volume and realisation trend**



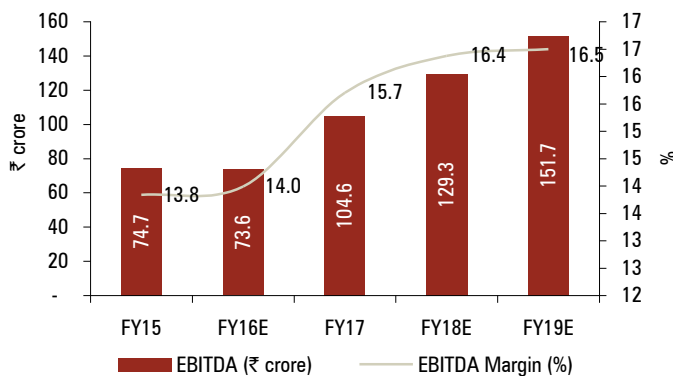
Source: Company, ICICIdirect.com Research

For full year FY17, SEL reported volume growth of 28% at 82297 units. Going forward, amid healthy demand drivers in place, we expect sales volume growth of 15.3% CAGR in FY17-19E. This would primarily be on the back of good brand recall of Swaraj Tractors, 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 20.4%, 20.3% CAGR, respectively, in FY17-19E

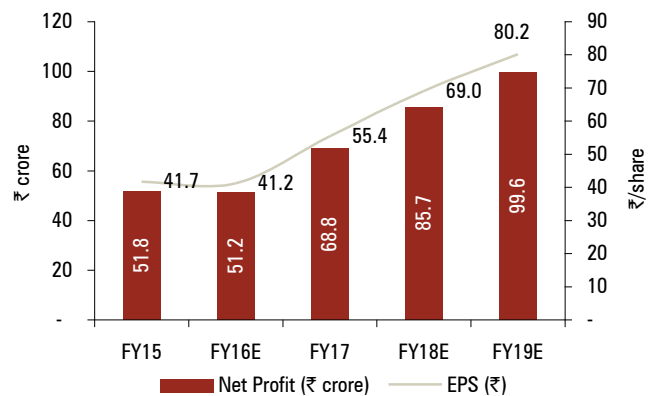
We expect EBITDA to grow at a CAGR of 20.4% in FY17-19E to ₹ 151.7 crore in FY19E (₹ 104.6 crore in FY17), primarily on the back of sales growth (17.5% CAGR) and improvement in EBITDA margins to the tune of 80 bps to 16.5% in FY19E (15.7% in FY17). On the PAT front, we expect PAT to grow at a CAGR of 20.3% in FY17-19E to ₹ 99.6 crore in FY19E (₹ 68.9 crore in FY17). We expect EPS at ₹ 69.0/share & ₹ 80.2/share in FY18E & FY19E, respectively.

**Exhibit 14: EBITDA & EBITDA margins**



Source: Company, ICICIdirect.com Research

**Exhibit 15: PAT & EPS trend**



Source: Company, ICICIdirect.com Research

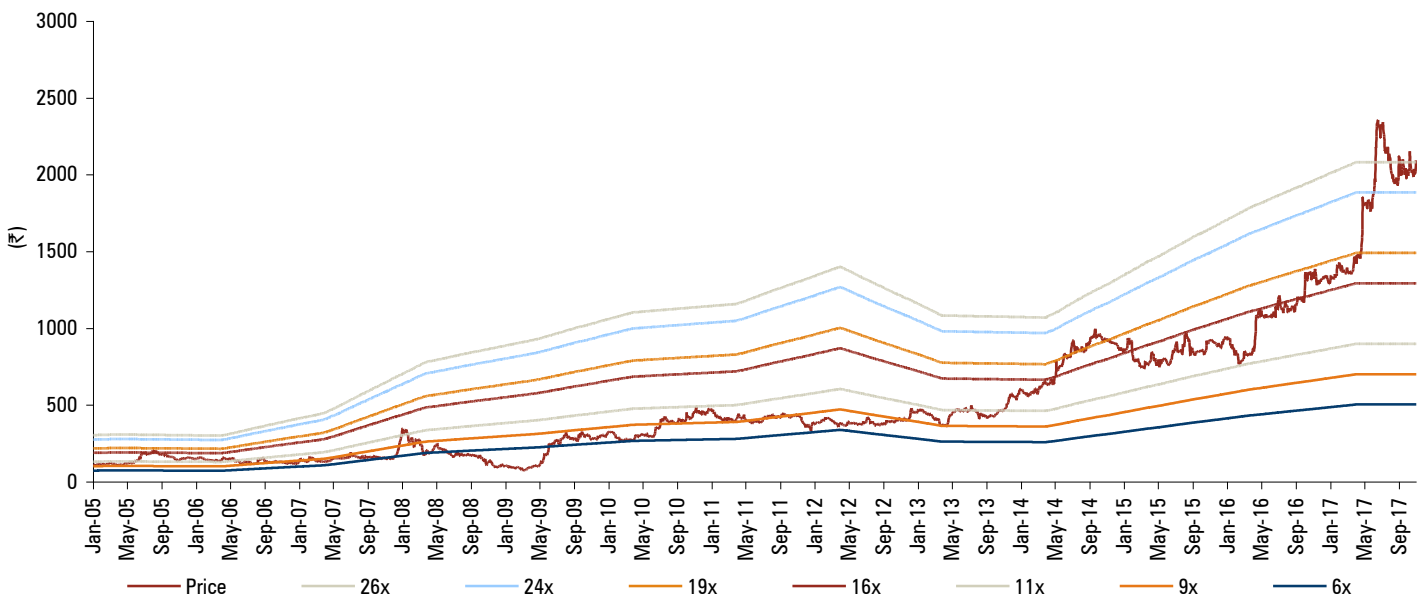


## Outlook and valuation

The domestic tractor industry recorded tractor sales volume of 5.8 lakh units in FY17 with peak sales recorded in FY14 at 6.3 lakh units. Given the current momentum in tractor sales (up 20% YoY in H1FY18 at 3.6 lakh units), we expect the domestic industry to surpass the previous highs and clock sales volume in excess of 6.5 lakh units in FY18E. M&M being the market leader (market share ~44%) is poised to gain with benefits flowing down to SEL. Key factors aiding domestic tractor sales are, robust food grain production in FY17, near normal monsoon 2017, farm loan waiver in certain key states like Uttar Pradesh (constitutes ~15% demand) and robust payout to sugarcane farmers amid improved sugar cycle (prices).

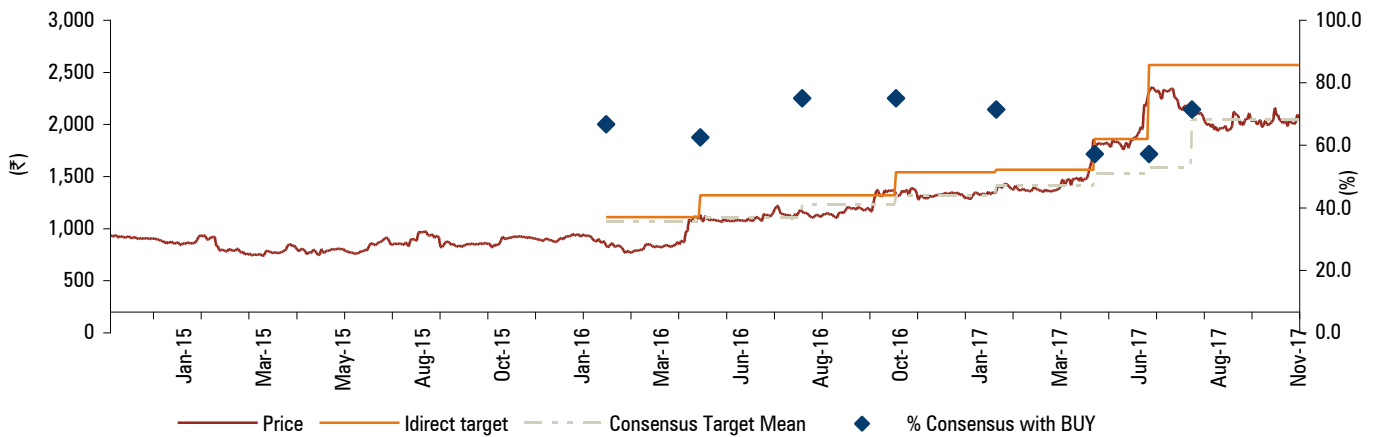
SEL has a superlative business model wherein it realises core return ratios in excess of 200% largely on account of negative working capital cycle, steady margin trajectory and high dividend payout (~75%). We believe this will continue to drive premium valuations for SEL. Going forward, incorporating the H1FY18 results and tweaking our estimates, we now expect SEL to clock engine sales volume CAGR of 15.3% in FY17-19E. We expect sales and PAT to grow at a CAGR of 17.5% and 20.3%, respectively, in FY17-19E. We continue to value SEL at ₹ 2570 i.e. 32x P/E on FY19E EPS of ₹ 80.2 with a **BUY** rating on the stock.

**Exhibit 16: Two year forward P/E (SEL currently trading at 25.7x)**



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
2017	SEL outpaces industry growth rate with engine sales in FY17 at 82297, up 28% YoY vs. industry growth rate of 18%. The company is further augmenting its capacity from 105,000 units to 120,000 units at an incremental capex of ~₹ 50 crore

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (mn)	Position Change (%)
1	Mahindra Group	30-Sep-17	33.2	4.1	0.0
2	Kirloskar Group of Companies	30-Sep-17	17.4	2.2	0.0
3	L&T Investment Management Limited	30-Sep-17	3.8	0.5	0.0
4	DSP BlackRock Investment Managers Pvt.	30-Sep-17	3.3	0.4	0.0
5	PineBridge Investments Asset Manageme	30-Sep-17	2.7	0.3	0.0
6	HDFC Asset Management Co., Ltd.	30-Sep-17	2.1	0.3	0.0
7	Jupiter Asset Management Ltd.	30-Sep-17	1.5	0.2	0.0
8	Parikh (Reeta Keyur)	30-Sep-17	1.4	0.2	0.0
9	Shah (Vikram Chinubhai)	30-Sep-17	1.4	0.2	0.0
10	SBI Funds Management Pvt. Ltd.	30-Sep-17	1.3	0.2	0.0

## Shareholding Pattern

(in %)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoter	50.6	50.6	50.6	50.6	50.6
FII	5.0	5.0	5.0	5.2	5.3
DII	10.5	12.1	12.1	12.2	12.5
Others	33.9	32.3	32.3	32.0	31.6

Source: Reuters, ICICIdirect.com Research

## Recent Activity

Buys			Sells		
Investor Name	Value (US\$ million)	Shares (million)	Investor Name	Value (US\$ million)	Shares (million)
L&T Investment Management Ltd.	+0.35M	+0.01M	Franklin Templeton Asset Mgmt (India) Pvt. Ltd.	-0.91M	-0.03M
Edelweiss Asset Management Ltd.	+0.23M	+0.01M	Peerless Funds Management Co. Ltd.	-0.22M	-0.01M
Jupiter Asset Management Ltd.	+0.2M	+0.0M	DSP BlackRock Investment Managers Pvt. Ltd.	-0.08M	-0.00M

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	525.9	666.2	789.7	919.7
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	525.9	666.2	789.7	919.7
Growth (%)	-2.6	26.7	18.5	16.5
Raw Material Expenses	395.7	495.6	587.0	685.2
Employee Expenses	31.9	31.0	34.4	39.5
Other Operating Expense	24.7	35.0	39.0	43.2
Total Operating Expenditure	452.3	561.6	660.4	767.9
EBITDA	73.6	104.6	129.3	151.7
Growth (%)	-1.5	42.2	23.6	17.4
Depreciation	13.8	16.3	16.8	20.0
Interest	0.0	0.1	0.0	0.0
Other Income	16.3	17.2	18.8	19.4
PBT	76.0	105.4	131.3	151.2
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	24.9	36.6	45.6	51.7
PAT	51.2	68.8	85.7	99.6
Growth (%)	-1.2	34.5	24.6	16.1
EPS (₹)	41.2	55.4	69.0	80.2

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	51.2	68.8	85.7	99.6
Add: Depreciation	13.8	16.3	16.8	20.0
(Inc)/dec in Current Assets	16.6	-2.9	-11.0	-8.6
Inc/(dec) in CL and Provisions	-41.4	16.9	10.9	15.4
Others	0.0	0.1	0.0	0.0
CF from operating activities	40.2	99.2	102.5	126.3
(Inc)/dec in Investments	31.6	-38.5	20.0	-30.0
(Inc)/dec in Fixed Assets	-27.2	-6.4	-50.0	-5.0
Others	-2.9	-1.0	0.0	0.0
CF from investing activities	1.6	-45.9	-30.0	-35.0
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	-82.0
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	-82.0
Net Cash flow	42.0	4.3	5.4	9.3
Opening Cash	139.9	181.8	186.1	191.5
Closing Cash	181.8	186.1	191.5	200.9

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	12.4	12.4	12.4	12.4
Reserve and Surplus	251.1	270.9	289.6	307.1
Total Shareholders funds	263.5	283.3	302.0	319.6
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	289.6	308.3	325.8
Assets				
Gross Block	193.5	196.2	247.0	252.0
Less: Acc Depreciation	91.8	104.9	121.7	141.7
Net Block	101.7	91.3	125.3	110.3
Capital WIP	0.3	0.8	0.0	0.0
Total Fixed Assets	102.0	92.1	125.3	110.3
Investments	10.4	48.9	28.9	58.9
Inventory	27.8	26.1	38.9	45.4
Debtors	7.5	13.1	10.8	12.6
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	3.0	2.0	2.4	2.8
Cash	181.8	186.1	191.5	200.9
Total Current Assets	220.0	227.2	243.7	261.6
Current Liabilities	60.9	77.4	86.5	100.8
Provisions	4.7	5.2	6.9	8.1
Current Liabilities & Prov	65.6	82.5	93.5	108.8
Net Current Assets	154.5	144.7	150.2	152.7
Others Assets	4.2	3.8	3.8	3.8
Application of Funds	271.1	289.6	308.3	325.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	41.2	55.4	69.0	80.2
Cash EPS	52.3	68.5	82.6	96.2
BV	212.1	228.1	243.1	257.3
DPS	33.0	43.0	45.0	55.0
Cash Per Share (Incl Invst)	154.8	189.2	177.5	209.2
Operating Ratios (%)				
EBITDA Margin	14.0	15.7	16.4	16.5
PAT Margin	9.7	10.3	10.9	10.8
Inventory days	19.3	14.3	18.0	18.0
Debtor days	5.2	7.2	5.0	5.0
Creditor days	42.3	42.4	40.0	40.0
Return Ratios (%)				
RoE	19.4	24.3	28.4	31.2
RoCE	22.7	31.2	37.2	41.2
RoIC	103.2	216.3	158.6	253.8
Valuation Ratios (x)				
P/E	50.0	37.2	29.8	25.7
EV / EBITDA	32.2	22.2	18.1	15.1
EV / Net Sales	4.5	3.5	3.0	2.5
Market Cap / Sales	4.9	3.8	3.2	2.8
Price to Book Value	9.7	9.0	8.5	8.0
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	0.6	0.6
Quick Ratio	0.2	0.2	0.1	0.1

Source: Company, ICICIdirect.com Research

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