

Subdued performance on Covid-19 related headwinds

Swaraj Engines reported a revenue decline of 8.5% YoY to ₹ 175.1 crore due to pressure in both volumes and realisation. Volumes fell 4.3% YoY to 20827 engines while realisation was at ₹ 84,088/engine (-2.4% YoY). On an annual basis, the company sold around 89,928 engines (-9.7% YoY) at an average realisation of ₹ 85,991 (-1.7% YoY). Change in the product mix led to lower OPM YoY but curb in employee cost during the quarter improved OPM QoQ. EBITDA margins for the quarter were at 13.4% (-90 bps YoY, +180 bps QoQ) resulting in absolute EBITDA of ₹ 23.4 crore (-14.6% YoY, +18.8% QoQ). Lower taxes (26.1% vs. 35.4% in Q4FY19) negated poor operational impact on bottomline, which was at ₹ 15.8 crore (-4.9% YoY, +22.5% QoQ).

Demand constraints due to Covid-19, liquidity concern at NBFC to hurt volumes this fiscal

We believe fertiliser sales for current Kharif can be a lead indicator of allied agri services. Fertiliser volumes have been the highest ever ahead of this Kharif season. Thus, this also bodes well for tractor growth. However, since tractors are mostly financed by NBFCs and given there are liquidity challenges at latter's end, one can expect a softening in sales volumes for the former given majority of the farmland is held by small/marginal farmers and NBFCs may not prioritise lending to them in this turbulent phase. Further, we also expect a dent in farmer's income from Rabi season. This is largely due to a fall in crop prices along with crop damage/loss of yield due to late harvesting that can translate into poor demand for high cost durable/non-durable items and, hence, growth outlook for tractor companies. M&M reported 80% fall in tractor sales in April, largely due to lockdown. Given that 30-40% of M&M's tractor sales come from Swaraj tractors, we believe engine sales for Swaraj should also be negative. We expect FY21E to be a washout year for tractor/engine sales company. However, the same can be rebound in FY22E if normal monsoon persists.

Valuation & Outlook

Swaraj has negative working capital cycle of around 30-40 days (~10% of sales), leading the company to hold liquid cash & investment to the tune of ₹ 130 crore (~10% of MCap) as on FY20. Going ahead, the company's capex is limited to around ₹ 15-20 crore (~2-3% of sales), which we expect to be funded through internal accruals. This leaves aside incremental cash of at least 4% of sales every year. This bodes well for healthy dividend payout in years to come. The company announced a dividend of ₹ 40/share, providing dividend yield of ~4%. Going ahead, we expect strong balance sheet along with parental advantage in domestic agri theme and 4% dividend yield (at par with savings bank account) to turn it to be the safest bet in this uncertain time. We introduce FY22E and value the company at 19x FY22E PER to arrive at a target price of ₹ 1235. We have a **BUY** rating on the stock.

Key Financial Summary

(₹crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	771.2	871.7	773.3	708.8	815.1	2.7%
EBITDA	121.6	131.6	100.4	85.5	112.2	5.7%
EBITDA margin (%)	15.8	15.1	13.0	12.1	13.8	
Net Profit	80.1	82.4	71.0	58.3	78.9	5.4%
EPS (₹)	66.1	68.0	58.6	48.0	65.1	
P/E (x)	15.0	14.6	16.9	20.6	15.2	
EV/EBITDA (x)	8.4	8.2	10.7	12.4	9.1	
RoCE (%)	45.9	47.1	34.0	24.9	32.5	
RoE (%)	35.1	34.6	30.1	22.6	28.6	

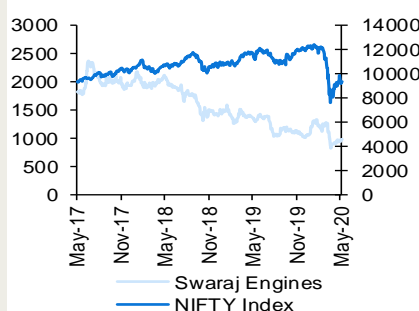
Source: ICICI Direct Research, Company

SWARAJ

Particulars

Particular	Amount
Market Capitalization	₹1200 crore
Total Debt (FY 20)	₹0 crore
Cash and Inv. (FY 20)	₹143 crore
EV (FY 20)	₹1057.4 crore
52 week H/L (₹)	1173 / 807
Equity capital	₹12.1 crore
Face value	₹10

Price chart



Key Highlights

- Demand constraints due to Covid-19 and liquidity concern at NBFC to hurt volumes this fiscal
- Strong balance sheet due to negative working capital business, makes it one of the safest agri play bet
- Revise rating on stock from REDUCE to BUY with target price of ₹ 1235

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Exhibit 1: Change in estimates

(₹Crore)	FY21E			FY22E		Comments
	Old	New	% Change	Introduced		
Revenues	834.5	708.8	-15.1	815.1		Downgraded FY 21E estimates due to Covid-19 related issues
EBITDA	127.7	85.5	-33.1	112.2		
EBITDA Margin (%)	15.3	12.1	-320 bps	13.8		
PAT	73.7	58.3	-21.0	78.9		
EPS (₹)	60.8	48.0	-21.0	65.1		

Source: Company, ICICI Direct Research

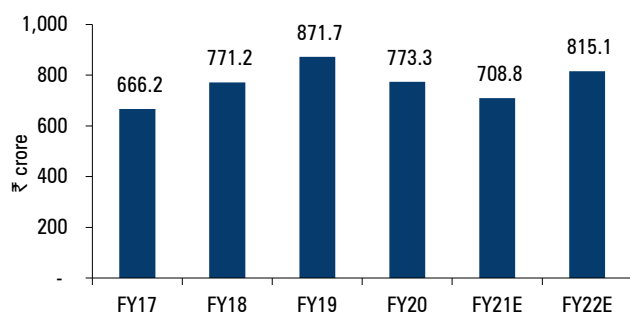
Exhibit 2: Assumptions

	Current						Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	
Engine Sales Volume (units)	82,297	92,022	99,638	89,928	80,775	92,367	Revise downward our sales volume estimates for FY 21E due to Covid-19 related challenges. Introduced FY 22E
Engine Net Sales Realisation (₹unit)	78,363	81,235	84,804	85,958	84,239	85,081	

Source: Company, ICICI Direct Research

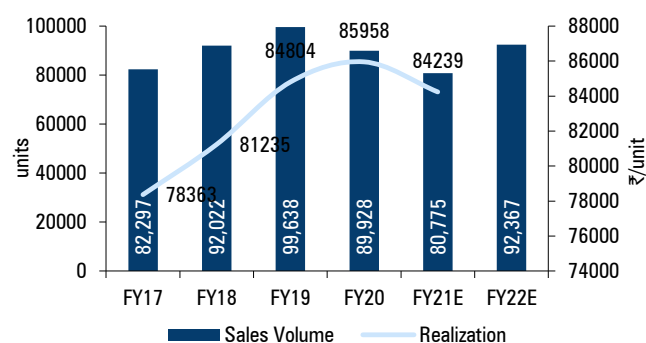
Financial Story in Charts

Exhibit 3: Revenue trend



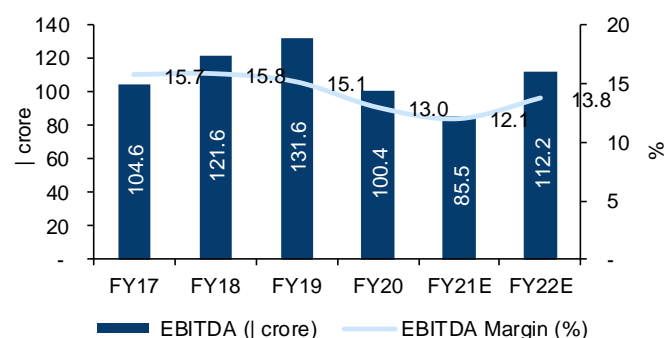
Source: Company, ICICI Direct Research

Exhibit 4: Volume – Realisation breakup



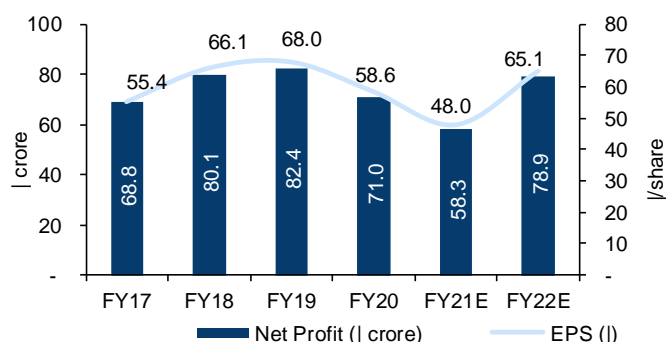
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



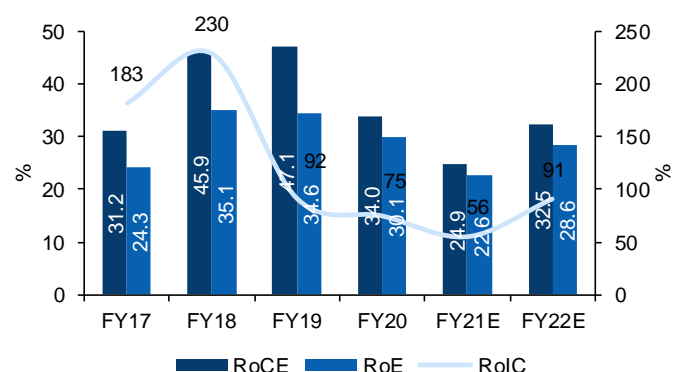
Source: Company, ICICI Direct Research

Exhibit 6: PAT and EPS trend



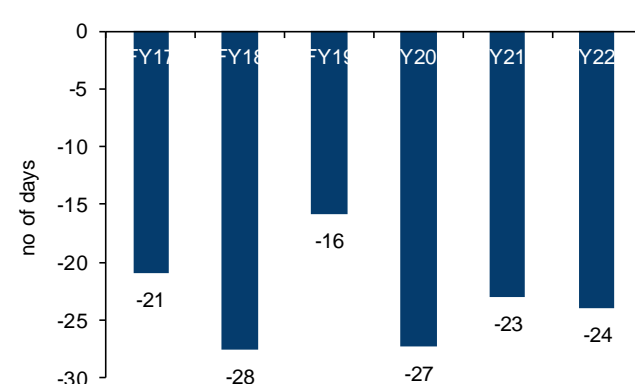
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Working capital cycle



Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 9: Profit and loss statement (₹ crore)				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Net Sales	871.7	773.3	708.8	815.1
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	871.7	773.3	708.8	815.1
Growth (%)	13.0	-11.3	-8.3	15.0
Raw Material Expenses	656.6	592.5	545.8	615.4
Employee Expenses	39.3	41.8	42.1	48.0
Other Operating Expense	44.2	38.6	35.4	39.5
Total Operating Expenditure	740.1	672.9	623.4	702.9
EBITDA	131.6	100.4	85.5	112.2
Growth (%)	8.2	-23.7	-14.9	31.3
Depreciation	19.5	20.1	21.3	22.5
Interest	0.1	0.0	0.0	0.0
Other Income	15.4	12.8	13.5	15.0
PBT	127.4	93.1	77.7	104.8
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	45.0	22.0	19.4	25.8
PAT	82.4	71.0	58.3	78.9
Growth (%)	2.9	-13.8	-18.0	35.5
EPS (₹)	68.0	58.6	48.0	65.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash Flow Statement (₹ crore)				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	82.4	71.0	58.3	78.9
Add: Depreciation	19.5	20.1	21.3	22.5
(Inc)/dec in Current Assets	-66.1	14.6	-5.5	-2.5
(Inc)/dec in CL and Provisions	-0.9	-4.0	-9.7	12.4
Others	0.1	0.0	0.0	0.0
CF from operating activities	35.1	101.8	64.4	111.3
(Inc)/dec in Investments	-7.7	-27.3	0.0	0.0
(Inc)/dec in Fixed Assets	-33.6	-15.6	-15.0	-15.0
Others	4.5	0.5	0.0	0.0
CF from investing activities	-36.9	-42.4	-15.0	-15.0
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	-72.8	-58.2	-36.4	-60.6
(Inc)/dec in Share Cap	0.0	0.0	0.0	0.0
Others	-0.3	-14.9	0.0	0.0
CF from financing activities	-73.0	-73.1	-36.4	-60.6
Net Cash flow	-74.9	-13.7	13.0	35.6
Opening Cash	106.7	31.9	18.2	31.2
Closing Cash	31.9	18.2	31.2	66.8

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	12.1	12.1	12.1	12.1
Reserve and Surplus	225.9	223.8	245.7	264.0
Total Shareholders funds	238.0	235.9	257.8	276.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	7.2	4.6	4.6	4.6
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	245.1	240.5	262.4	280.7
Assets				
Gross Block	244.5	258.2	273.2	288.2
Less: Acc Depreciation	134.5	154.7	176.0	198.4
Net Block	110.0	103.5	97.2	89.7
Capital WIP	2.0	4.0	4.0	4.0
Total Fixed Assets	112.0	107.5	101.2	93.7
Investments	83.8	111.1	111.1	111.1
Inventory	47.4	37.0	38.8	42.4
Debtors	18.7	4.1	7.8	6.7
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	55.7	66.1	66.1	66.1
Cash	31.9	18.2	31.2	66.8
Total Current Assets	153.8	125.4	143.9	182.1
Current Liabilities	104.2	99.2	91.3	102.7
Provisions	8.1	9.1	7.3	8.2
Current Liabilities & Prov	112.3	108.3	98.6	110.9
Net Current Assets	41.5	17.2	45.3	71.1
Others Assets	7.8	4.7	4.7	4.7
Application of Funds	245.1	240.5	262.3	280.7

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	68.0	58.6	48.0	65.1
Cash EPS	84.1	75.2	65.6	83.6
BV	196.3	194.6	212.6	227.7
DPS	50.0	40.0	30.0	50.0
Cash Per Share (Incl Invst)	95.4	106.6	117.3	146.7
Operating Ratios (%)				
EBITDA Margin	15.1	13.0	12.1	13.8
PAT Margin	9.5	9.2	8.2	9.7
Inventory days	20	17	20	19
Debtor days	8	2	4	3
Creditor days	44	47	47	46
Return Ratios (%)				
RoE	34.6	30.1	22.6	28.6
RoCE	47.1	34.0	24.9	32.5
RoIC	107.6	94.2	74.0	114.3
Valuation Ratios (x)				
P/E	14.6	16.9	20.6	15.2
EV / EBITDA	8.2	10.7	12.4	9.1
EV / Net Sales	1.2	1.4	1.5	1.3
Market Cap / Sales	1.4	1.6	1.7	1.5
Price to Book Value	5.0	5.1	4.7	4.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.0	1.1	1.0
Quick Ratio	0.7	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



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