

CMP: ₹ 1,500 Target: ₹ 1,680 (12%) Target Period: 12 months

HOLD

April 27, 2022

## Attractive dividend yield, low growth prospect to weigh

**About the stock:** Swaraj Engines (SEL) is involved in manufacturing diesel engines for M&M's Swaraj brand of tractors. It is headquartered at Mohali (Punjab).

- Steady ~10% compounding of revenues, EBITDA, PAT over past five years
- Net cash positive b/s; consistent cash flow generation; highly capital efficient player with history of >30% return ratios & high dividend pay-outs

**Q4FY22 Results:** SEL reported steady Q4FY22 results.

- Diesel engine volumes were at 23,937 units, down 29% YoY
- Net sales declined 21% YoY to ₹ 242 crore tracking 1.6% QoQ ASP increase
- Operating margins improved 50 bps QoQ to 12.8% in Q4FY22
- Consequent PAT was down 33% YoY to ₹ 22 crore (high margins in Q2FY21)

**What should investors do?** The stock has de-grown ~4.5% CAGR from ~₹ 1,820 in April 2017 over the past five years, underperforming the broader Nifty Auto index.

- We maintain **HOLD** rating tracking muted growth prospects in tractor space on high base of FY21 amid high dividend payout & resulting yields (~5%)

**Target Price and Valuation:** Rolling over our valuations to FY24E, we now value SEL at ₹ 1,680 i.e. 15x P/E on FY24E EPS of ~₹112/share (earlier target price ₹ 1,720).

### Key triggers for future price performance:

- Play on farm mechanisation courtesy ~33% volume share of M&M's tractor sales via Swaraj brand. Beneficiary of normal to positive monsoons
- Superlative return ratios profile along with positive CFO, FCF generation
- Attractive dividend play, with present dividend yield at ~5%
- Sales, PAT to grow at 10%, 11.5% CAGR, respectively, over FY21-24E, building in ~6.6% volume CAGR

**Alternate Stock Idea:** In our auto- ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 170

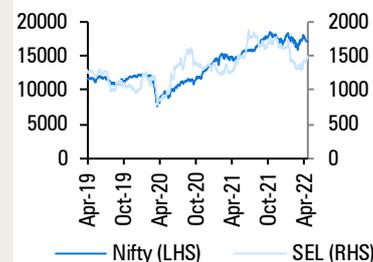
### Particulars

Particular	₹ crore
Market Capitalization	1,818.8
Total Debt (FY22P)	0.0
Cash & Invs. (FY22P)	127.1
EV	1,691.6
52 week H/L (₹)	2000 / 1292
Equity capital	12.1
Face value (₹)	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	52.2	52.2	52.2	52.1
FII	1.9	1.5	1.9	1.8
DII	10.7	9.1	8.9	8.9
Other	35.3	37.3	37.1	37.1

### Price Chart



### Recent event & key risks

- Posted steady Q4FY22 results.
- Key Risk:** (i) Delay in recovery of margin trajectory amid price hikes, o/p leverage benefits, (ii) higher than expected engine sales volume growth in FY22-24E

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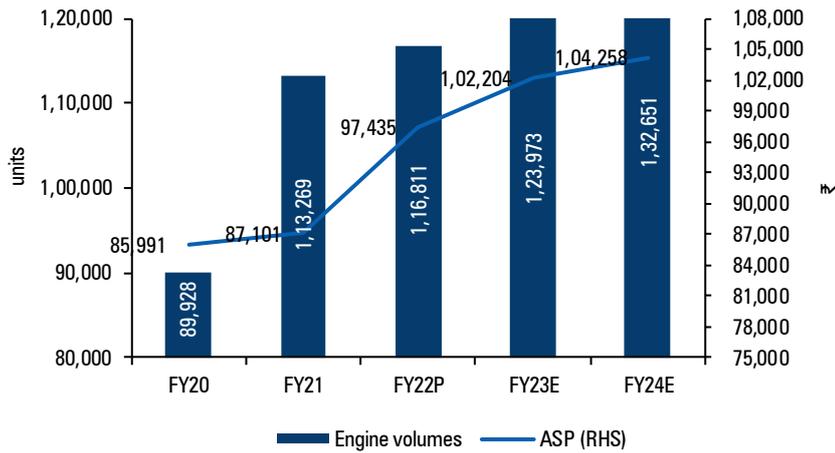
### Key Financial Summary

Key Financials	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	3 year CAGR (FY22P-24E)
Net Sales	773.3	986.6	1,138.2	11.3%	1,267.1	1,383.0	10.2%
EBITDA	100.4	135.7	155.4	8.2%	174.3	193.0	11.5%
EBITDA Margins (%)	13.0	13.8	13.7		13.8	14.0	
Net Profit	71.0	92.6	109.5	9.7%	122.2	136.0	11.5%
EPS (₹)	58.6	76.2	90.2		100.7	112.0	
P/E	25.6	19.7	16.6		14.9	13.4	
RoNW (%)	30.1	33.0	35.8		38.4	40.8	
RoCE (%)	34.0	41.3	44.9		48.3	51.3	

Source: Company, ICICI Direct Research

### Financial story in charts

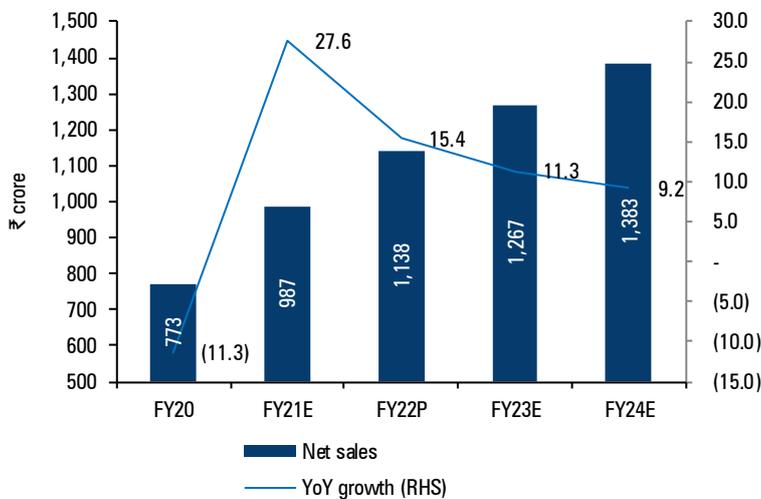
Exhibit 1: Trend in volumes and ASPs



SEL is seen posting 6.6% volume CAGR in FY22-24E with ASP seen increasing at 3.4% CAGR on that time

Source: Company, ICICI Direct Research

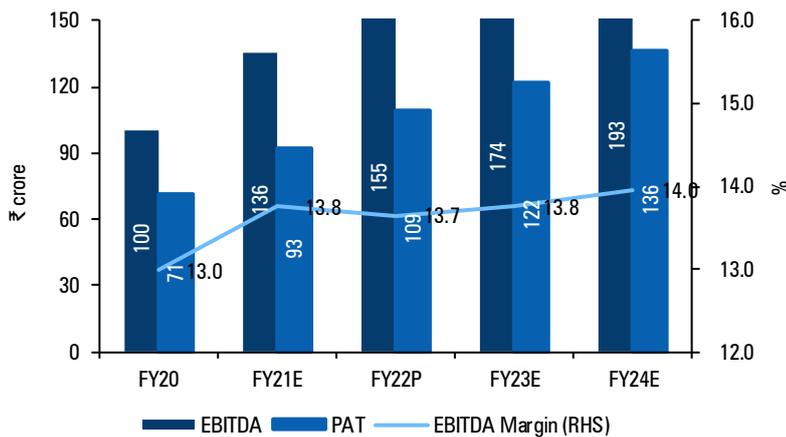
Exhibit 2: Trend in top line



Net sales are expected to grow at 10.2% CAGR over FY22-24E to ₹ 1,383 crore

Source: Company, ICICI Direct Research

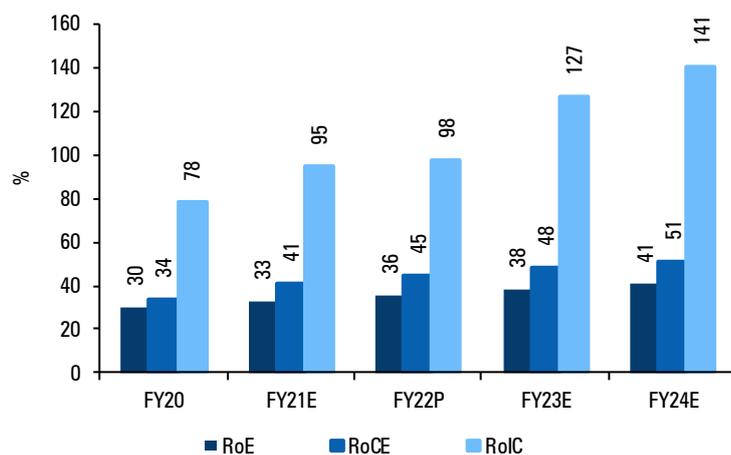
Exhibit 3: Trend in margins and profitability



We expect margins to reach 14.0% by FY24E on higher operating leverage, with PAT seen growing at 11.5% CAGR over FY22-24E to ₹ 136 crore

Source: Company, ICICI Direct Research

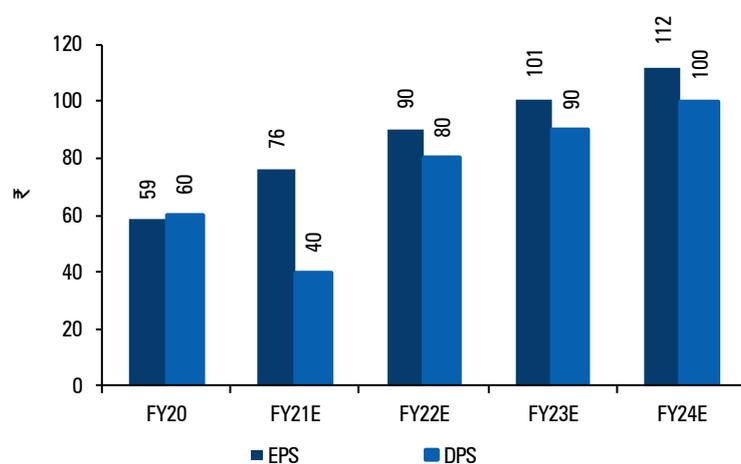
Exhibit 4: Trend in return ratios



With healthy double-digit return ratios and high dividend pay-outs, SEL is poised to continue to post industry-leading return ratios in future

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EPS and DPS



Dividend payout ratio is expected to be at ~90% in FY23E & FY24E; thereby offering a healthy dividend yield of ~6% on forward basis

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	871.7	13.0	67.9	2.8	22.1	12.6	34.6	47.1
FY20	773.3	-11.3	58.6	-13.8	25.6	16.8	30.1	34.0
FY21	986.6	27.6	76.2	30.2	19.7	12.3	33.0	41.3
FY22P	1138.2	15.4	90.2	18.3	16.6	10.9	35.8	44.9
FY23E	1267.1	11.3	100.7	11.7	14.9	9.5	38.4	48.3
FY24E	1383.0	9.2	112.0	11.3	13.4	8.5	40.8	51.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Net Sales</b>	<b>986.6</b>	<b>1,138.2</b>	<b>1,267.1</b>	<b>1,383.0</b>
Other Operating Income	-	-	-	-
Total Operating Income	986.6	1,138.2	1,267.1	1,383.0
Growth (%)	27.6	15.4	11.3	9.2
Raw Material Expenses	765.7	890.2	992.1	1,080.1
Employee Expenses	42.9	43.9	47.4	51.8
Other Operating Expense	42.3	48.7	53.2	58.1
Total Operating Expenditure	850.9	982.8	1,092.7	1,190.0
<b>EBITDA</b>	<b>135.7</b>	<b>155.4</b>	<b>174.3</b>	<b>193.0</b>
Growth (%)	35.1	14.5	12.2	10.7
Depreciation	19.8	18.1	20.3	22.1
Interest	-	0.1	-	-
Other Income	8.6	9.7	10.0	11.6
<b>PBT</b>	<b>124.5</b>	<b>146.8</b>	<b>164.0</b>	<b>182.5</b>
Exceptional Item	-	-	-	-
Total Tax	31.9	37.4	41.8	46.5
<b>PAT</b>	<b>92.6</b>	<b>109.5</b>	<b>122.2</b>	<b>136.0</b>
Growth (%)	30.3	18.3	11.7	11.3
<b>EPS (₹)</b>	<b>76.2</b>	<b>90.2</b>	<b>100.7</b>	<b>112.0</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Profit after Tax</b>	<b>92.6</b>	<b>109.5</b>	<b>122.2</b>	<b>136.0</b>
Add: Depreciation	19.8	18.1	20.3	22.1
(Inc)/dec in Current Assets	(94.2)	6.9	(11.9)	(19.5)
Inc/(dec) in CL and Provisions	62.6	(21.5)	30.6	17.0
Others	-	0.1	-	-
<b>CF from operating activities</b>	<b>80.8</b>	<b>113.0</b>	<b>161.2</b>	<b>155.7</b>
(Inc)/dec in Investments	76.9	(2.1)	(20.0)	(10.0)
(Inc)/dec in Fixed Assets	(5.9)	(21.9)	(20.0)	(20.0)
Others	(4.8)	(31.0)	-	-
<b>CF from investing activities</b>	<b>66.3</b>	<b>(55.0)</b>	<b>(40.0)</b>	<b>(30.0)</b>
Issue/(Buy back) of Equity	0.0	-	-	-
Inc/(dec) in loan funds	-	-	-	-
Dividend paid & dividend tax	(48.5)	(97.1)	(109.2)	(121.4)
Inc/(dec) in Share Cap	-	-	-	-
Others	0.5	12.7	0.0	(0.0)
<b>CF from financing activities</b>	<b>(48.0)</b>	<b>(84.4)</b>	<b>(109.2)</b>	<b>(121.4)</b>
Net Cash flow	99.0	(26.4)	12.0	4.3
Opening Cash	18.2	117.3	90.9	102.9
<b>Closing Cash</b>	<b>117.3</b>	<b>90.9</b>	<b>102.9</b>	<b>107.2</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	12.1	12.1	12.1	12.1
Reserve and Surplus	268.4	293.5	306.5	321.1
<b>Total Shareholders funds</b>	<b>280.5</b>	<b>305.7</b>	<b>318.6</b>	<b>333.2</b>
Total Debt	-	-	-	-
Deferred Tax Liability	0.6	0.1	0.1	0.1
Minority Interest / Others	-	-	-	-
<b>Total Liabilities</b>	<b>281.1</b>	<b>305.8</b>	<b>318.7</b>	<b>333.3</b>
<b>Assets</b>				
Gross Block	265.6	287.2	307.2	327.2
Less: Acc Depreciation	174.4	192.5	212.8	234.9
Net Block	91.1	94.7	94.4	92.3
Capital WIP	1.3	1.6	1.6	1.6
<b>Total Fixed Assets</b>	<b>92.5</b>	<b>96.3</b>	<b>96.0</b>	<b>93.9</b>
Investments	34.9	36.5	56.5	66.5
Inventory	61.7	62.1	69.4	75.8
Debtors	113.4	103.6	104.1	113.7
Loans and Advances	13.4	12.5	13.9	15.1
Other Current Assets	19.2	22.7	25.3	27.6
<b>Cash</b>	<b>117.3</b>	<b>90.9</b>	<b>102.9</b>	<b>107.2</b>
Total Current Assets	325.0	291.7	315.6	339.3
Current Liabilities	168.7	145.1	173.6	189.5
Provisions	8.5	10.6	12.7	13.8
Current Liabilities & Prov	177.2	155.6	186.2	203.3
<b>Net Current Assets</b>	<b>147.8</b>	<b>136.1</b>	<b>129.3</b>	<b>136.1</b>
Others Assets	5.9	36.9	36.9	36.9
<b>Application of Funds</b>	<b>281.1</b>	<b>305.8</b>	<b>318.7</b>	<b>333.3</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	76.2	90.2	100.7	112.0
Cash EPS	92.5	105.1	117.4	130.3
BV	231.1	251.8	262.5	274.5
DPS	69.0	80.0	90.0	100.0
Cash Per Share (Incl Invst)	125.3	104.9	131.3	143.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.8	13.7	13.8	14.0
PAT Margin	9.4	9.6	9.6	9.8
Inventory days	22.8	19.9	20.0	20.0
Debtor days	41.9	33.2	30.0	30.0
Creditor days	62.4	46.5	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	33.0	35.8	38.4	40.8
RoCE	41.3	44.9	48.3	51.3
RoIC	94.7	98.0	127.2	140.7
<b>Valuation Ratios (x)</b>				
P/E	19.7	16.6	14.9	13.4
EV / EBITDA	12.3	10.9	9.5	8.5
EV / Net Sales	1.7	1.5	1.3	1.2
Market Cap / Sales	1.8	1.6	1.4	1.3
Price to Book Value	6.5	6.0	5.7	5.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.2	1.3	1.1	1.1
Quick Ratio	0.8	0.9	0.8	0.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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