NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

SWARAJ ENGINES Ltd.

" Long term fundamental continue to remains intact.... "

"Accumulate"
4th Feb' 14

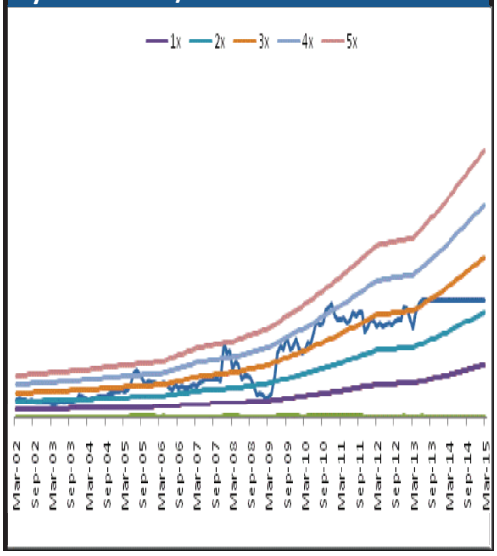
Result update	Accumulate
CMP	598
Target Price	648
Previous Target Price	600
Upside	8%
Change from Previous	7%

Market Data	
BSE Code	500407
NSE Symbol	SWARAJENG
52wk Range H/L	382/535
Mkt Capital (Rs Crores)	742
Average Daily Volume	601
Nifty	6,002

Stock Performance-%	1M	1yr	YTD
Absolute	(6.6)	24.3	51.4
Rel. to Nifty	(2.3)	24.7	45.3

Share Holding Pattern-%	3QFY14	2QFY14	1QFY14
Promoters	50.6	50.6	50.6
FII	1.9	1.9	1.5
DII	10.6	10.4	10.6
Others	36.9	37.1	37.3

1 yr Forward P/B



Swaraj Engines posted a moderate revenue growth of 20.8% to Rs. 150.2 crore during Q3FY14 over corresponding period of previous year due to 21.2% growth yoy reported in diesel engines sales volume. Company sold 18,530 diesel engines during the quarter as compared to 15,288 engines sold during corresponding period of previous year. EBITDA of the company marginally outpaced by the revenue due to unexpected rise in non operating expenses and stands at Rs. 21.8 crore up by 18.6% yoy. Though company managed to control material cost, which constitutes ~90% of the total expenses; however, employee cost and administration expenses reported the growth of 22.1% and 23.9% respectively during the quarter. As a result, EBITDA and PBT margin reported a marginal deterioration of 24bps and 5bps during Q3FY14 yoy respectively. PAT reflected in-line numbers and reported the yoy growth of 21.4% to Rs. 16.7 crore before extra ordiniary item of Rs. 1.15 crore; while PAT margin improved by 5bps.

Leading supplier to Mahindra & Mahindra Ltd :

Leading supplier to Mahindra & Mahindra Ltd – A key source to growth: SEL enjoys the access to the India's largest tractor manufacturer "M&M" (41% market share in Domestic tractor industry), which has a holding of 33% in SEL. Swaraj Engines Ltd manufactures tractor engines solely for the "Swaraj Division" of M&M. It caters to ~80% demand of Swaraj division of M&M and rest 20% of demand is met through Kirloskar Oil Engines, which has a holding of 17% in SEL. The demand from M&M is estimated to grow further and reach ~85-90%.

Outlook :

We have modeled a 25% of revenue growth for FY15 yoy respectively, due to SWE's ability to maintain growth in product volume and recent enhancement in annual production capacity from 75,000 units to 105,000 units. Company currently operates at TTM EBITDA and net margin of 14.8% and 11.3% respectively, which provides sufficient cushion against operating cost. With liquidity being moderate and cash flow positive, company has enough cash to finance its expansion plan of Rs. 38 crore through internal accruals.

Valuations :

At the CMP of INR610, the stock discounts its FY14E EPS of INR53.20 by 10.8x and FY15E EPS of INR61.2 by 9.8x. Given the strong revenue growth at a CAGR of 21%; PAT growth at CAGR of 26% post acquisition and stable margins at ~15%, the company is poised to grow further and capable of ustaining its healthy earnings. Furthermore, despite the capex of INR58crore, the company has strong cash flows and the company is debt free. Also, Company assurance of 30-60% dividend payout ratio implies an attractive dividend yield of 4-9%. So taking all this into consideration share looks reasonable at Rs. 610 as long term fundamental continue to remains intact and one can expect growth of about maybe 10-13% in next eight-twelve months time. **We upgrade our rating on stock from "Hold" to "accumulate", with a revised price target to Rs 648.**

Financials — **Rs, Crore**

	3QFY14A	2QFY14A	(Var)-%	3QFY13A	(YoY)-%
Revenue	150.2	151.6	-0.9%	124.6	21.7%
EBITDA	21.8	22.7	-3.8%	18.4	23.3%
PAT	15.6	17.2	-9.5%	13.8	24.9%
EBITDA Margin	14.5%	14.9%	(40) bps	14.8%	(30) bps
PAT Margin	10.8%	11.0%	(20) bps	10.7%	10 bps

(Standalone) **(Source: Company/Eastwind Research)**

Please refer to the Disclaimers at the end of this Report.

SWARAJ ENGINES Ltd.

Key financials :

PARTICULAR	2009A	2010A	2011A	2012A	2013A	2014E	2015E
Performance							
Revenue	208	282	361	449	479	602	750
Other Income	5	10	8	12	15	18	20
Total Income	213	292	369	461	494	620	770
EBITDA	32	50	61	69	71	87	109
EBIT	27	45	56	65	64	78	98
DEPRICIATION	5	5	4	4	7	9	11
INTREST COST	0	0	0	0	0	0	0
PBT	32	55	64	77	79	96	118
TAX	11	17	20	24	24	30	37
Reported PAT	21	37	44	53	55	66	81
Dividend	7	12	14	19	48	24	30
EPS	17.2	30.1	35.4	42.5	44.6	53.5	65.4
DPS	5.9	9.3	11.6	15.1	38.4	19.3	24.2
Yeild %							
EBITDA %	15.3%	17.6%	16.8%	15.5%	14.9%	14.5%	14.5%
PBT %	15.1%	18.7%	17.4%	16.8%	16.1%	16.0%	15.7%
NPM %	10.0%	12.8%	11.9%	11.5%	11.2%	11.0%	10.8%
Earning Yeild %	8.0%	31.6%	12.2%	9.9%	11.3%	9.0%	10.9%
Dividend Yeild %	2.7%	9.8%	4.0%	3.5%	9.7%	3.2%	4.0%
ROE %	21.9%	30.4%	28.8%	28.4%	28.6%	28.1%	28.3%
ROCE%	21.9%	30.4%	28.8%	28.4%	28.6%	28.1%	28.3%
Position							
Net Worth	97	123	152	186	194	236	287
No of Share	1	1	1	1	1	1	1
CMP	214	95	290	429	395	598	598
Valuation							
Book Value	78.3	98.8	122.6	150.0	156.0	190.2	231.5
P/B	2.7	1.0	2.4	2.9	2.5	3.1	2.6
P/E	3.5	5.3	5.6	5.1	6.8	11.2	9.1
Net Sales/Equity	2.1	2.3	2.4	2.4	2.5	2.5	2.6

(Source: Company/Eastwind Research) **(Figures In crore)**

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