

Industry	Auto Ancillary
Bloomberg	SWE
BSE CODE	500407

## Demand revival expected in 2HFY20

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>1135</b>
<b>Price Target</b>	<b>1241</b>
<b>Potential Upside</b>	<b>9%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	1649/1031
Mkt Capital (Rs Cr)	1377
Free float (%)	49%
Avg. Vol 1M (,000)	6
No. of Shares (Cr.)	1
Promoters Pledged %	0%

### Research Analyst

**NAVEEN KUMAR DUBEY**

Naveen.dubey@narnolia.com

+91-22-62701235

**SWATI SINGH**

Swati.singh@narnolia.com

### 2QFY20 Result Update

- ❑ SWARAJENG posted a decline in revenue by 9.8% YoY at Rs. 223 crores (vs our estimates of Rs.245 crores) in 2QFY20.
- ❑ Engine volumes de-grew by 8% YoY at 26271 units led by lower tractor volumes. Realization also declined by 2% YoY to Rs.84778 per unit during the quarter.
- ❑ The domestic tractor volumes declined by 7%YoY due to uneven monsoon along with flood situations across various parts of the country.
- ❑ With improved monsoons, reservoir level and Kharif crop sowing, the rural demand sentiment is expected to improve in the festive season going ahead.
- ❑ Gross margins declined by 18 bps on QoQ basis to 23.1% led by heavy discounting. There have been heavy discounts of 4-5% provided at the tractor industry level which led to margin decline.
- ❑ However, EBITDA margins improved by 15 bps on a sequential basis to 13.5% led by operating leverage benefit.
- ❑ PAT for the quarter stood at Rs. 25 crores (vs our expectation of Rs. 26 crores). PAT margins improved robustly by 316 bps QoQ to 11.4% led by lower tax rate benefit.

### View and Valuation

The demand scenario for tractor industry may improve in 2HFY20 because of better rainfall, increased water level in reservoirs and expectation of increase in kharif sowing. However, overall volume growth will remain negative 3-4% in FY20. We expect margins to remain range bound due to increased discounting despite softness in commodity prices. Factoring the higher discounts and weaker operating leverage we reduce our FY21e EPS estimates by 3%. We value SWARAJENG at 15x FY21e EPS to arrive at a target price of Rs.1241 and maintain Hold rating.

### Key Risks to our rating and target

- ❑ Slowdown in rural recovery.
- ❑ Adverse movement in commodity prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	666	771	872	808	842
EBITDA	105	122	132	111	130
EBIT	88	105	112	89	109
PAT	69	80	82	83	97
EPS (Rs)	55	66	68	68	80
EPS growth (%)	34%	19%	3%	0%	18%
ROE (%)	24%	35%	35%	32%	33%
ROCE (%)	31%	46%	47%	35%	37%
BV	228	188	196	212	241
P/B (X)	6.5	10.6	10.2	5.3	4.7
P/E (x)	26.6	30.3	29.4	16.5	14.0

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## 2QFY20 Results

PAT above expectation

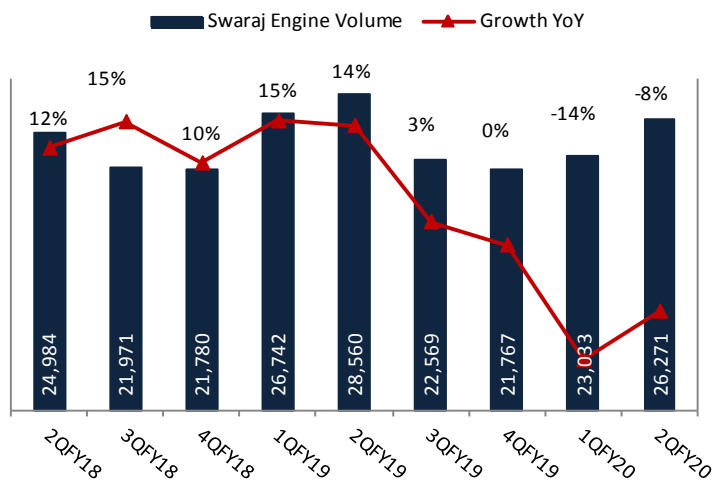
Fig in Rs Cr										
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	247	199	191	205	223	-10%	8%	771	872	13%
Other Income	4	4	4	4	3	-11%	-5%	19	15	-19%
Total Income	251	203	195	209	226	-10%	8%	790	887	12%
COGS	185	151	144	158	171	-8%	9%	574	657	14%
Staff Cost	10	10	10	10	11	8%	6%	35	39	13%
Other Exp.	11	10	11	10	11	-8%	4%	40	44	9%
Expenditure	207	171	164	178	193	-7%	8%	650	740	14%
EBITDA	40	27	27	27	30	-25%	10%	122	132	8%
Depreciation	5	5	5	5	5	11%	12%	17	20	16%
EBIT	35	23	22	23	25	-30%	9%	105	112	7%
Interest	-	-	0	-	0	-	-	1	0	-91%
PBT	39	27	26	26	28	-28%	7%	123	127	4%
Excpt. Item	-	-	-	-	-	-	-	-	-	-
Tax	14	9	9	9	3	-80%	-71%	43	45	6%
PAT	25	17	17	17	25	0%	50%	80	82	3%

## 35-50 HP segment holds over 80% share

Domestic tractor industry sales trend (%)	FY14	FY15	FY16	FY17	FY18	FY19
Below 30 HP	11%	11%	11%	9%	10%	11%
31-40 HP	35%	37%	37%	35%	36%	36%
41-50 HP	49%	46%	46%	49%	47%	46%
Above 50 HP	5%	6%	7%	7%	7%	7%

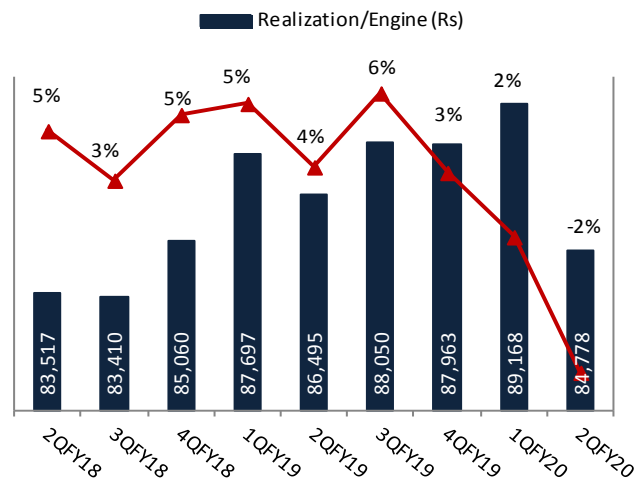
## Exhibit: Engine Volume Trend

Decline in tractor volumes across industry led to engine volumes decline



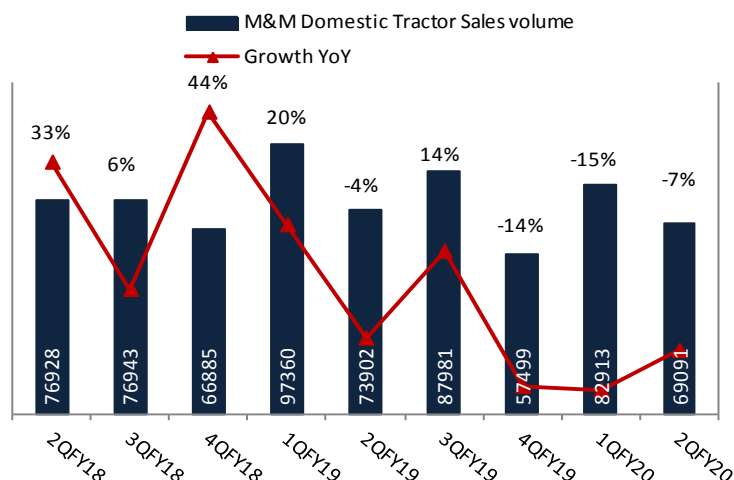
## Exhibit: Realization Trend

Realization declined led by change in product mix and higher discountings.



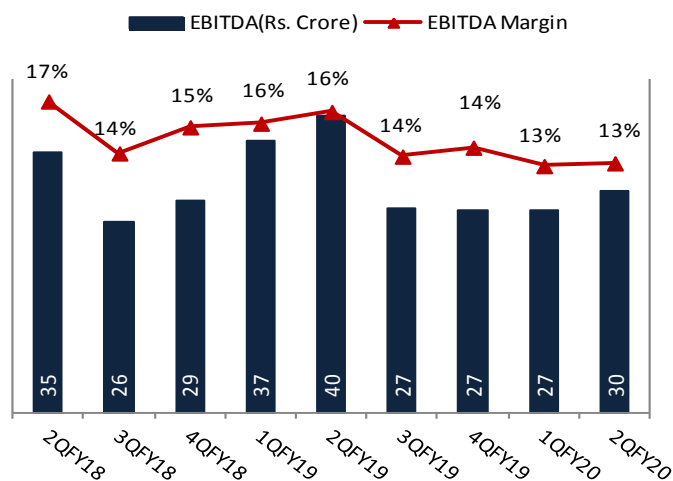
## Exhibit: M&M Tractor Volume Trend

Decline in tractor volume led by uneven monsoon along with flood situation across industry



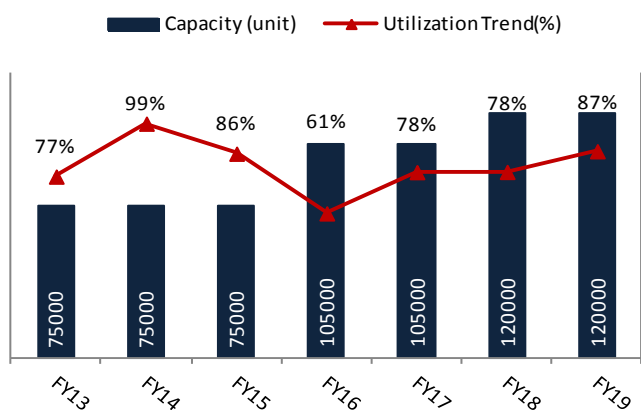
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margins improved marginally led by operating leverage benefit



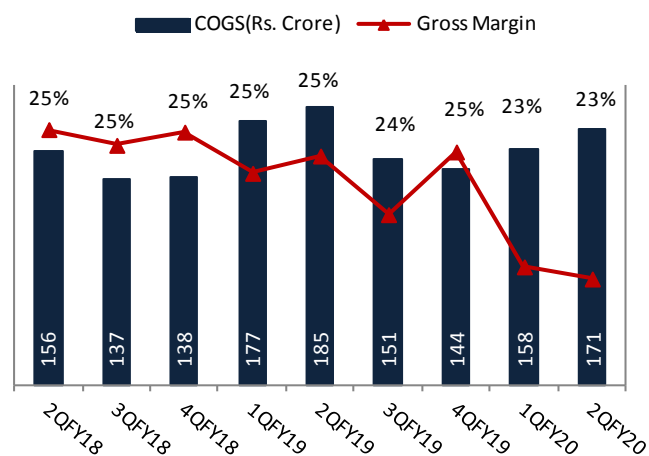
## Exhibit: Capacity and Utilization Trend

The company has enough capacity in place to cater to the future demand



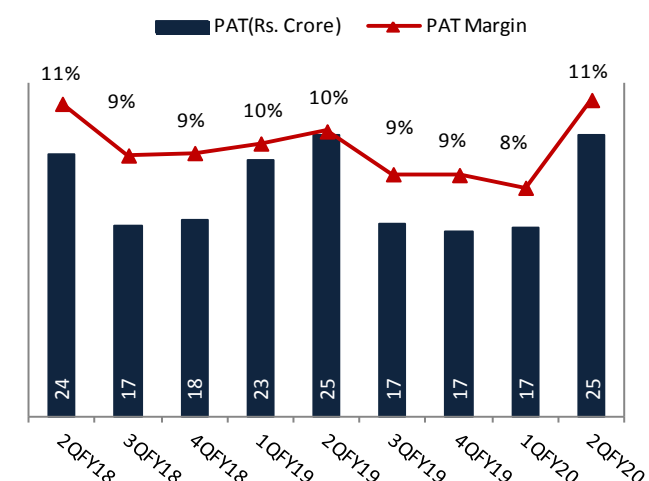
## Exhibit: COGS and Gross Margin Trend

Gross margins declined by 18 bps on QoQ basis to 23.1% despite softness in commodity prices



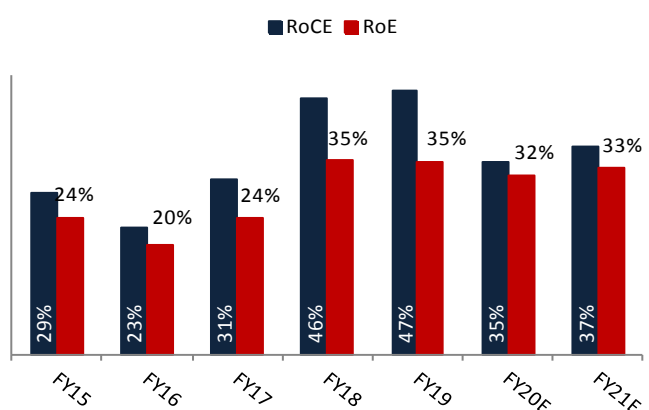
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins improved robustly due to lower tax rate benefit



## Exhibit: Return Ratios

Improvement in profitability will lead to gradual improvement in return ratios going ahead



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	12	12	12	12	12	12	12	12
Reserves	197	200	251	271	216	226	246	280
Networth	210	212	263	283	229	238	258	292
Debt	-	-	-	-	-	-	-	-
Other Non Cur Liab	9	8	10	9	9	11	11	11
Total Capital Employed	210	212	263	283	229	238	258	292
Net Fixed Assets (incl CWIP)	86	89	102	92	98	112	107	103
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	4	6	4	4	11	8	8	8
Non Curr Assets	90	94	106	96	109	120	115	111
Inventory	46	33	28	26	32	47	44	46
Debtors	8	7	7	13	15	19	17	18
Cash & Bank	105	140	108	49	47	19	24	61
Other Curr Assets	85	51	87	188	144	162	177	181
Curr Assets	245	231	230	276	239	247	263	306
Creditors	59	48	54	70	98	104	97	101
Provisions (both)	52	52	2	2	4	4	4	4
Other Curr Liab	4	5	7	7	7	9	9	9
Curr Liabilities	116	105	63	80	110	117	109	113
Net Curr Assets	129	126	167	197	129	129	154	193
Total Assets	334	325	337	372	348	366	378	417

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	608	540	526	666	771	872	808	842
Change (%)	27%	-11%	-3%	27%	16%	13%	-7%	4%
Other Income	17	16	16	17	19	15	18	21
EBITDA	91	75	74	105	122	132	111	130
Change (%)	27%	-18%	-1%	42%	16%	8%	-16%	18%
Margin (%)	14.9%	13.8%	14.0%	15.7%	15.8%	15.1%	13.7%	15.5%
Depr & Amor.	9	13	14	16	17	20	22	21
EBIT	82	62	60	88	105	112	89	109
Int. & other fin. Cost	0	0	0	0	1	0	0	-
EBT	99	78	76	105	123	127	107	130
Exp Item	1	-	-	-	-	-	-	-
Tax	31	26	25	37	43	45	24	33
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	68	52	51	69	80	82	83	97
Adjusted PAT	68	52	51	69	80	82	83	97
Change (%)	23%	-24%	-1%	34%	16%	3%	0%	18%
Margin(%)	11.2%	9.6%	9.8%	10.3%	10.3%	9.4%	10.2%	11.6%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	32%	24%	20%	24%	35%	35%	32%	33%
ROCE	39%	29%	23%	31%	46%	47%	35%	37%
Asset Turnover	1.8	1.7	1.6	1.8	2.2	2.4	2.1	2.0
Debtor Days	5	5	5	7	7	8	8	8
Inv Days	28	22	19	14	15	20	20	20
Payable Days	36	33	37	38	47	44	44	44
Int Coverage	1,979	4,806	1,499	680	104	1,246	990	1,209
P/E	12.6	19.4	20.7	26.6	30.3	29.4	16.5	14.0
Price / Book Value	4	5	4	6	11	10	5	5
EV/EBITDA	8	12	14	17	20	18	12	10
FCF per Share	45	31	29	61	54	53	71	85

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	98	78	76	105	123	127	107	130
(inc)/Dec in Working Capital	8	8	13	15	11	(19)	(2)	1
Non Cash Op Exp	3	10	11	16	10	14	22	21
Int Paid (+)	(11)	(13)	(14)	(16)	(11)	(9)	-	-
Tax Paid	(30)	(27)	(24)	(38)	(43)	(45)	(24)	(33)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	67	56	63	82	89	69	103	120
(inc)/Dec in FA & CWIP	(12)	(17)	(27)	(6)	(23)	(4)	(17)	(17)
Free Cashflow	55	39	36	76	66	65	86	103
(Pur)/Sale of Inv	2	30	32	(38)	(25)	(34)	(17)	(3)
others	(6)	(24)	(18)	13	96	42	-	-
CF from Inv. Activities	(16)	(11)	(14)	(32)	47	4	(34)	(20)
inc/(dec) in NW	-	-	-	-	(71)	0	-	-
inc/(dec) in Debt	-	-	(49)	(49)	(64)	(73)	-	-
Int. Paid	(0)	(0)	(0)	(0)	(1)	(0)	-	-
Div Paid (inc tax)	(48)	(51)	-	-	-	-	(63)	(63)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(48)	(51)	(49)	(49)	(136)	(73)	(63)	(63)
Inc(Dec) in Cash	3	(6)	0	1	1	(0)	6	37
Add: Opening Balance	3	6	1	1	2	3	3	1
Closing Balance	6	1	1	2	3	3	24	61

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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkgarwal@narnolia.com](mailto:mkgarwal@narnolia.com), Contact No.:033-40541700.

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