

Industry
Bloomberg
BSE CODE

Auto Anciliary
SWE IN
500407

RATING	HOLD
CMP	1249
Price Target	1266
Potential Upside	1%

Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	1,541/1010
Mkt Capital (Rs Cr)	1578
Free float (%)	49%
Avg. Vol 1M (,000)	4
No. of Shares (Crs)	1
Promoters Pledged %	0%

RESEARCH ANALYST

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

Demand scenario to improve in FY21

3QFY20 Result update

- SWARAJENG reported numbers below estimates; Sales declined by 14.4% on YoY basis to Rs 170 cr (vs. expect. Rs 185 cr) impacted by continued decline witnessed in the tractor industry in the quarter.
- The company's engines sales volumes for 3QFY20 stood at 19797 units (vs. expect. 21802 units), posting a decline of 12.3% on YoY basis led by lower tractor volumes.
- M&M domestic tractor volumes were down by 6% YoY. However, domestic tractor demand looks positive in the near term led by the expectation of a better Rabi output, supported by crop prices and government thrust on irrigation, rural infra & agri sector.
- Gross margin remained muted on sequential basis to 23%.
- EBITDA margin contracted by 189 bps on QoQ basis to 11.6% on account of increase in employee expenses by 138 bps and increase in other expenses by 44 bps respectively.
- PAT stood at Rs 13 cr (vs expect. Rs 19 cr), reporting a decline of 25.7% on YoY basis. PAT margin was down by 115 bps on YoY and 382 bps on QoQ at 7.6%. Tax rate reported was 25.6% in the quarter.

View and Valuation

SWARAJENG sales remained impacted due to continued decline observed in tractor industry. However, domestic tractor demand outlook is expected to improve in long term led by strong Rabi sowing, increased MSPs and increased reservoir levels coupled with government thrust to improve agriculture sector. In the near term, the company will stay impacted on account of subdued demand scenario. Considering, increasing commodity prices and weaker operating leverage we reduce our Sales and PAT estimates by 2%/3% and 10%/4% for FY20e and FY21e respectively. We value SWARAJENG at 15x FY21e EPS to arrive at a target price of Rs.1266 and maintain Hold on the stock.

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	786	855
EBITDA	105	122	132	101	132
EBIT	88	105	112	80	111
PAT	69	80	82	73	99
EPS (Rs)	55	66	68	60	82
EPS growth (%)	34%	19%	3%	-11%	36%
ROE (%)	24%	35%	35%	29%	34%
ROCE (%)	31%	46%	47%	32%	38%
BV	228	188	196	204	240
P/B (X)	6.5	10.6	10.2	6.1	5.2
P/E (x)	26.6	30.3	29.4	20.8	15.3

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Numbers below estimates

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	199	191	205	223	170	-14%	-24%	771	872	13%
Other Income	4	4	4	3	3	-32%	-20%	19	15	-19%
Total Income	203	195	209	226	173	-15%	-24%	790	887	12%
COGS	151	144	158	171	131	-13%	-24%	574	657	14%
Staff Cost	10	10	10	11	11	7%	-2%	35	39	13%
Other Exp.	10	11	10	11	9	-15%	-17%	40	44	9%
Expenditure	171	164	178	193	150	-12%	-22%	650	740	14%
EBITDA	27	27	27	30	20	-28%	-34%	122	132	8%
Depreciation	5	5	5	5	5	8%	-4%	17	20	16%
EBIT	23	22	23	25	15	-36%	-41%	105	112	7%
Interest	-	0	-	0	-	-	-	1	0	-91%
PBT	27	26	26	28	17	-35%	-38%	123	127	4%
Excpt. Item	-	-	-	-	-	-	-	-	-	-
Tax	9	9	9	3	4	-53%	64%	43	45	6%
PAT	17	17	17	25	13	-26%	-49%	80	82	3%

Domestic tractor industry sales trend (%)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Below 30 HP	15%	15%	10%	11%	11%	11%	9%	10%	11%
31-40 HP	44%	46%	44%	35%	37%	37%	35%	36%	36%
41-50 HP	28%	27%	38%	49%	46%	46%	49%	47%	46%
Above 50 HP	12%	13%	8%	5%	6%	7%	7%	7%	7%

Exhibit: Engine Volume Trend

Swaraj engines volumes declined by 12.3% on YoY basis led by lower tractor volumes.

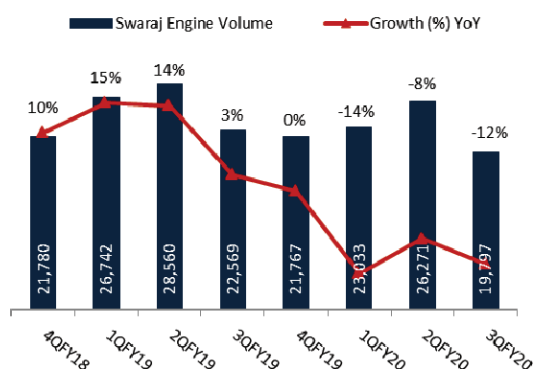


Exhibit: Realization Trend

Realization declined on account of change in product mix and higher discounts offered.

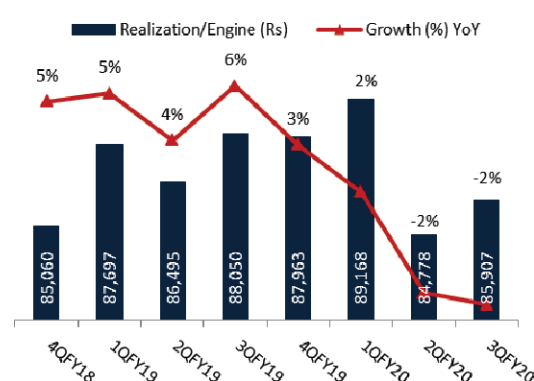


Exhibit: M&M Tractor Volume Trend

M&M domestic tractor vol. is expected to improve led by better Rabi output & initiatives of govt. will further improve demand.

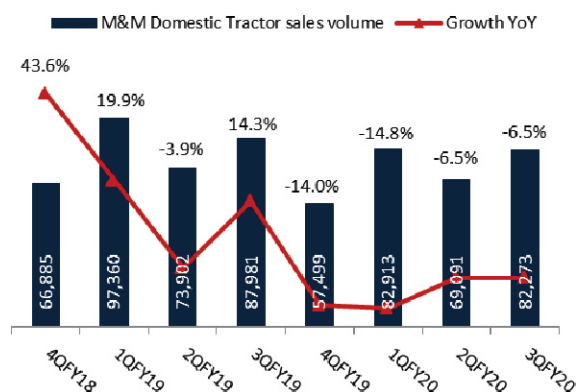


Exhibit: COGS and Gross Margin Trend

Gross margin remained flattish on sequential basis to 23%.

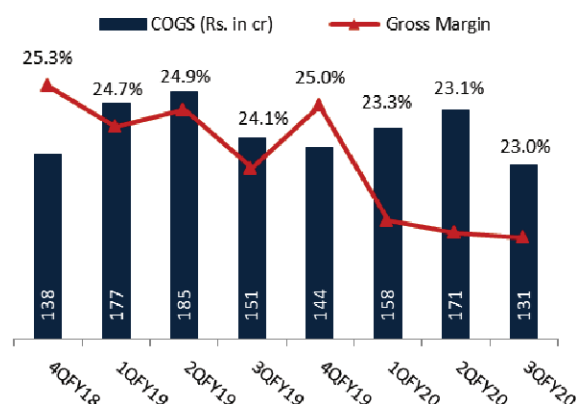


Exhibit: EBITDA and EBITDA Margin Trend

EBITDA margin declined by 189 bps on QoQ basis led by increase in employee cost and other expenses.

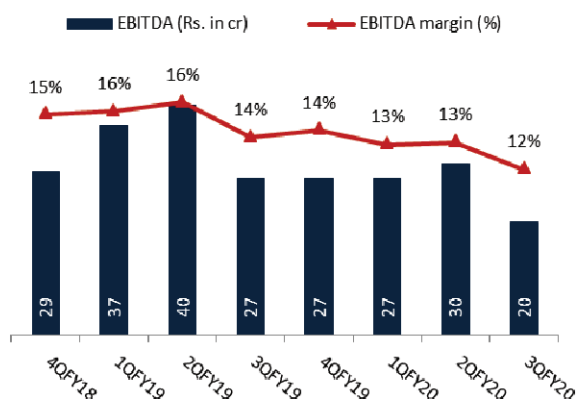


Exhibit: PAT and PAT Margin Trend

Decline in EBITDA margin and higher tax rate led to decline in PAT margin by 382 bps on QoQ at 7.6%.

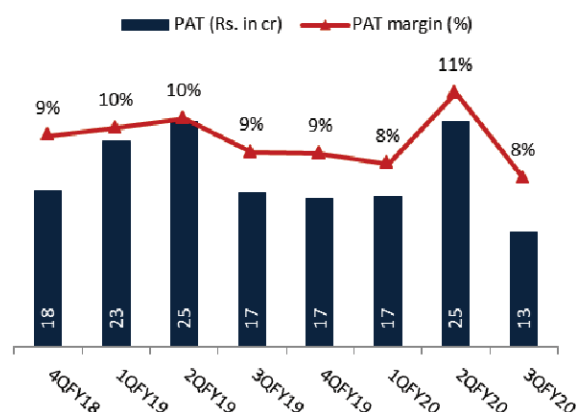


Exhibit: Capacity and Utilization Trend

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

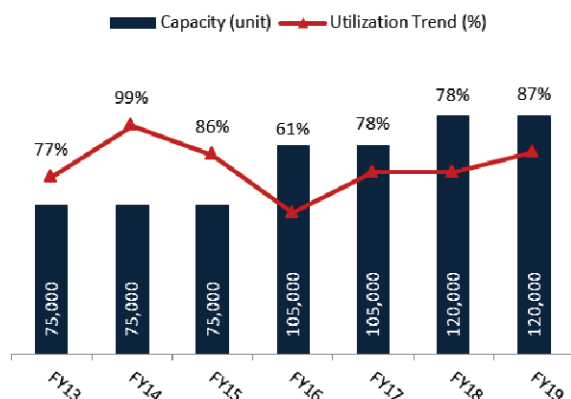
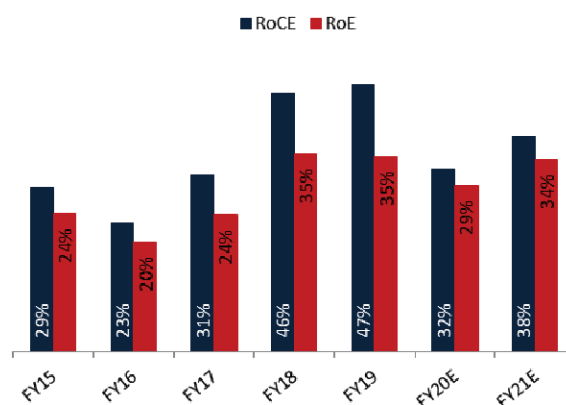


Exhibit: Return Ratios

Return ratios are expected to improve led by better profitability 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	236	279
Networth	210	212	263	283	229	238	248	292
Debt	-	-	-	-	-	-	-	-
Other Non Cur Liab	9	8	10	9	9	11	11	11
Total Capital Employed	210	212	263	283	229	238	248	292
Net Fixed Assets (incl CWIP)	86	89	102	92	98	112	109	104
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	4	6	4	4	11	8	8	8
Non Curr Assets	90	94	106	96	109	120	116	112
Inventory	46	33	28	26	32	47	39	42
Debtors	8	7	7	13	15	19	17	18
Cash & Bank	105	140	108	49	47	19	19	61
Other Curr Assets	85	51	87	188	144	162	174	184
Curr Assets	245	231	230	276	239	247	249	306
Creditors	59	48	54	70	98	104	94	102
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	106	115
Net Curr Assets	129	126	167	197	129	129	142	191
Total Assets	334	325	337	372	348	366	365	418

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	786	855
Change (%)	27%	-11%	-3%	27%	16%	13%	-10%	9%
Other Income	17	16	16	17	19	15	17	22
EBITDA	91	75	74	105	122	132	101	132
Change (%)	27%	-18%	-1%	42%	16%	8%	-23%	31%
Margin (%)	14.9%	13.8%	14.0%	15.7%	15.8%	15.1%	12.8%	15.5%
Depr & Amor.	9	13	14	16	17	20	21	22
EBIT	82	62	60	88	105	112	80	111
Int. & other fin. Cost	0	0	0	0	1	0	0	-
EBT	99	78	76	105	123	127	97	132
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	73	99
Adjusted PAT	68	52	51	69	80	82	73	99
Change (%)	23%	-24%	-1%	34%	16%	3%	-11%	36%
Margin(%)	11.2%	9.6%	9.8%	10.3%	10.3%	9.4%	9.3%	11.6%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	32%	24%	20%	24%	35%	35%	29%	34%
ROCE	39%	29%	23%	31%	46%	47%	32%	38%
Asset Turnover	1.8	1.7	1.6	1.8	2.2	2.4	2.2	2.0
Debtor Days	5	5	5	7	7	8	8	8
Inv Days	28	22	19	14	15	20	18	18
Payable Days	36	33	37	38	47	44	44	44
Int Coverage	1,979	4,806	1,499	680	104	1,246	8,016	-
P/E	12.6	19.4	20.7	26.6	30.3	29.4	20.8	15.3
Price / Book Value	4	5	4	6	11	10	6	5
EV/EBITDA	8	12	14	17	20	18	15	11
FCF per Share	45	31	29	61	54	53	64	87

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	97	132
(inc)/Dec in Working Capital	8	8	13	15	11	(19)	2	2
Non Cash Op Exp	3	10	11	16	10	14	21	22
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	95	123
(inc)/Dec in FA & CWIP	(12)	(17)	(27)	(6)	(23)	(4)	(17)	(17)
Free Cashflow	55	39	36	76	66	65	78	106
(Pur)/Sale of Inv	2	30	32	(38)	(25)	(34)	(14)	(9)
others	(6)	(24)	(18)	13	96	42	-	-
CF from Inv. Activities	(16)	(11)	(14)	(32)	47	4	(31)	(26)
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)	(55)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(48)	(51)	(49)	(49)	(136)	(73)	(63)	(55)
Inc(Dec) in Cash	3	(6)	0	1	1	(0)	1	42
Add: Opening Balance	3	6	1	1	2	3	3	19
Closing Balance	6	1	1	2	3	3	20	61

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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