

RESEARCH

Swaraj Engines | Target: Rs 1,500 | +9% | ADD

Better sales mix to aid earnings; upgrade to ADD

SUMMARY

Swaraj Engines

Swaraj Engines' (SWE) Q4FY21 revenue was below estimates on lower volumes. However, a better sales mix and price hikes led to a beat on EBITDA margin (15.1% vs. 12.9% est.) and earnings (+105% YoY to Rs 326mn). A successful kharif harvest, signs of healthy rabi cultivation and rising tractor financing bolster growth prospects. Given the Q4 beat, strong support from M&M, debt-free status and a growing rural economy, we raise FY22/FY23 earnings by 11%/16%. This leads to a revised Mar'22 TP of Rs 1,500 (vs. Rs 1,300) – upgrade from SELL to ADD.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	330

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.60	2bps	(12bps)	100bps
India 10Y yield (%)	6.08	(1bps)	(11bps)	(13bps)
USD/INR	74.88	(0.7)	(3.3)	2.2
Brent Crude (US\$/bbl)	67.05	0.4	3.9	162.2
Dow	34,078	(0.4)	4.4	44.1
Shanghai	3,478	1.5	2.1	21.9
Sensex	47,949	(1.8)	(3.8)	51.5
India FII (US\$ mn)	16 Apr	MTD	CYTD	FYTD
FII-D	281.6	(21.6)	(2,048.9)	(21.6)
FII-E	(99.9)	(495.2)	6,831.2	(495.2)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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ADD

TP: Rs 1,500 | ▲ 9%

SWARAJ ENGINES

Auto Components

20 April 2021

Better sales mix to aid earnings; upgrade to ADD

Swaraj Engines' (SWE) Q4FY21 revenue was below estimates on lower volumes. However, a better sales mix and price hikes led to a beat on EBITDA margin (15.1% vs. 12.9% est.) and earnings (+105% YoY to Rs 326mn). A successful kharif harvest, signs of healthy rabi cultivation and rising tractor financing bolster growth prospects. Given the Q4 beat, strong support from M&M, debt-free status and a growing rural economy, we raise FY22/FY23 earnings by 11%/16%. This leads to a revised Mar'22 TP of Rs 1,500 (vs. Rs 1,300) – upgrade from SELL to ADD.

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Improved ASPs drive healthy Q4: Below-expected volumes led to a Q4 revenue miss of ~4% at Rs 3bn (+74% YoY). However, better ASPs and gross margins took EBITDA margin 200bps above estimates to 15.1%. Adj. PAT doubled YoY to Rs 326mn. SWE announced dividend of Rs 69/sh for FY21, amounting to a ~90% payout ratio.

Tractor industry expected to log 6% CAGR over FY21-FY23: After 26% YoY growth in FY21, we expect single-digit growth in domestic tractor industry volumes off a higher base. Growth will be aided by a rising rural economy and aggressive infrastructure spends. We model for a 6% CAGR in industry volumes and expect SWE to clock a revenue/EBITDA/PAT CAGR of 7%/5%/5%.

Upgrade to ADD: SWE has been a zero-debt company, clocking healthy ROE and ROCE of ~35% each for the past three years. We expect the company to incur capex to increase production capacity. Given the Q4 EBITDA margin outperformance and steady growth prospects, we raise our FY22/FY23 earnings estimates by 11%/16% and increase our Mar'22 TP from Rs 1,300 to Rs 1,500. We continue to value the stock at 18x FY23E EPS, in line with its 10Y average P/E multiple. Considering the recent stock price correction and improving earnings outlook, we upgrade our rating from SELL to ADD.

Ticker/Price	SWE IN/Rs 1,370
Market cap	US\$ 222.0mn
Shares o/s	12mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,700/Rs 927
Promoter/FPI/DII	52%/1%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	8,717	7,733	9,866	10,624	11,374
EBITDA (Rs mn)	1,317	1,004	1,357	1,398	1,506
Adj. net profit (Rs mn)	824	711	925	924	1,015
Adj. EPS (Rs)	67.9	58.6	76.3	76.2	83.6
Adj. EPS growth (%)	2.9	(13.8)	30.2	(0.1)	9.8
Adj. ROAE (%)	34.6	30.1	37.9	35.3	36.5
Adj. P/E (x)	20.2	23.4	18.0	18.0	16.4
EV/EBITDA (x)	12.3	16.2	12.1	11.4	10.4

Source: Company, BOBCAPS Research | P – Provisional



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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