

# Swaraj Engines

13 October 2015

Reuters: SWAR.BO; Bloomberg: SWE IN

## 'H'igh 'P'owered Growth!

Swaraj Engines caters to the 20HP-50HP engine requirement of fastest-growing Swaraj brand of tractors from Swaraj Tractors, which is owned by Mahindra & Mahindra or M&M. Swaraj Engines' sales over the past several years outperformed as it supplies engines to Swaraj Tractors which has grown faster than the industry and nearly doubled its market share post acquisition by M&M in FY08. Swaraj Engines is expanding its product portfolio and has recently introduced a 54HP engine, while 60HP and 65HP engines along with diesel genset are in development mode. Also, Swaraj Tractors is likely to launch a new 60HP tractor in FY16, which coupled with new higher HP engines from Swaraj Engines, is likely to result in further industry-wide outperformance for Swaraj Engines over FY16-FY18E. Despite near-term headwinds in tractor demand, we believe the tractor industry has structural drivers in place and offers significant room for growth, given the lower penetration of tractors and increased focus on farm mechanisation. We have estimated a 10% CAGR in domestic tractor industry's volume over FY15-FY20E, albeit on a low base of FY15/FY16. We expect a 32% earnings CAGR for Swaraj Engines over FY16-FY18E backed by strong volume growth and margin expansion. With excellent financials i.e. robust return ratios, debt-free balance sheet, robust cash balance and a 4% dividend yield, we believe Swaraj Engines is a quality stock. We have assigned Buy rating to the stock with a target price of Rs1,168 (17x September 2017 earnings), up 38% from the current market price.

**New products to drive growth:** Swaraj Engines currently caters to the 20HP-50HP engine requirement of Swaraj brand of tractors. However, the company has expanded its product range and recently started manufacturing 54HP engine, while, 60HP and 65HP engines are at development stage. Also, on Swaraj Tractors front, the company is expected to launch a new 60HP tractor in FY16, which will further strengthen its position and incremental market share in the domestic tractor industry. We have estimated a 19% volume CAGR for Swaraj Engines over FY16-FY18E because of: 1) New engine launches in higher HP space, 2) New tractor launch from Swaraj Tractors, 3) Demand revival likely in FY17, and 4) Low base of FY15/FY16.

**Strong margin expansion to drive strong EBITDA/PAT growth over FY16-FY18E:** EBITDA margin of Swaraj Engines fell 105bps YoY in FY15, largely because of negative operating leverage in 2HFY15 with volume falling sharply by ~35% YoY. In our view, the tractor industry will soon bottom out and is expected to grow in double digits in FY17/FY18. Favourable operating leverage driven by demand revival coupled with benign commodity prices should drive a 310bps EBITDA margin expansion over FY15-FY18E to ~17% by FY18E and result in strong 31% and 32% CAGR in EBITDA/ PAT, respectively, over FY16-FY18E.

**Valuation:** Swaraj Engines' stock currently trades at a P/E of 14x and 11x FY17E/FY18E earnings, respectively, at a long-term average of 15x one-year forward P/E. However, in the past three years, the stock got re-rated and traded at a one-year average of 19x and two-year average of 18x, given the attractive business model with a negative working capital cycle, decent margins, robust return ratios and a debt-free status. With the worst likely behind and strong double-digit CAGR expected in sales/EBITDA/PAT on demand recovery and margin expansion, we believe the stock could be re-rated further. We have given a 15% premium to its three-year average multiple and assigned Buy rating with a target price of Rs1,168, up 38% from the current market price (17x September 2017 EPS of Rs 69).

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Revenue	6,083	5,397	5,701	6,882	8,463
YoY (%)	27.0	(11.3)	5.6	20.7	23.0
EBITDA	907	747	832	1,087	1,430
EBITDA Margin (%)	14.9	13.8	14.6	15.8	16.9
PAT	670	518	560	739	968
YoY (%)	20.9	(22.7)	8.1	32.0	31.0
EPS (Rs)	54	42	45	59	78
RoE (%)	33.2	24.5	26.2	33.2	39.6
RoCE (%)	25.7	18.7	20.8	26.6	32.4
P/E (x)	15.7	20.3	18.8	14.2	10.9
P/BV (x)	5.0	5.0	4.9	4.6	4.1

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: Automobile Ancillary

CMP: Rs846

Target Price: Rs1,168

Upside: 38%

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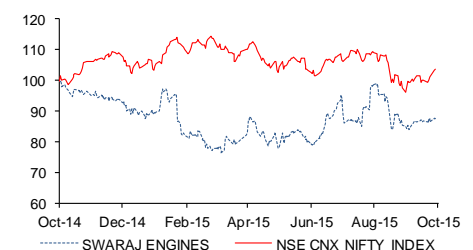
### Key Data

Current Shares O/S (mn)	12.4
Mkt Cap (Rsbm/US\$m)	10.9/166.9
52 Wk H / L (Rs)	1,033/728
Daily Vol. (3M NSE Avg.)	9,876

### Share holding (%)

	3QFY15	4QFY15	1QFY16
Promoter	50.6	50.6	50.6
FII	6.2	6.8	6.8
DII	9.5	9.2	9.0
Others	33.7	33.4	33.6

### One -Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
Swaraj Engines	2.8	7.3	(11.0)
Nifty Index	7.9	(5.9)	3.8

Source: Bloomberg

**Valuation/stock price performance**

Swaraj Engines or SEL stock currently trades at a P/E of 14x and 11x FY17E/FY18E earnings, respectively (long-term average of 15x one-year forward P/E). However, over the past three years, the stock got re-rated and traded at a one-year average of 19x and two-year average of 18x, given the attractive business model with a negative working capital cycle, decent margins, robust return ratios and a debt-free status. With the worst likely behind and strong double-digit CAGR expected in sales/EBITDA/PAT on demand recovery and margin expansion, we believe the stock could be re-rated further. We have given a 15% premium to its three-year average multiple and assigned Buy rating with a target price of Rs1,168, up 38% from the current market price (17x September 2017 EPS of Rs69).

**Exhibit 1: P/E band – Swaraj Engines got re-rated over the past three years**



Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 2: EV/EBITDA**



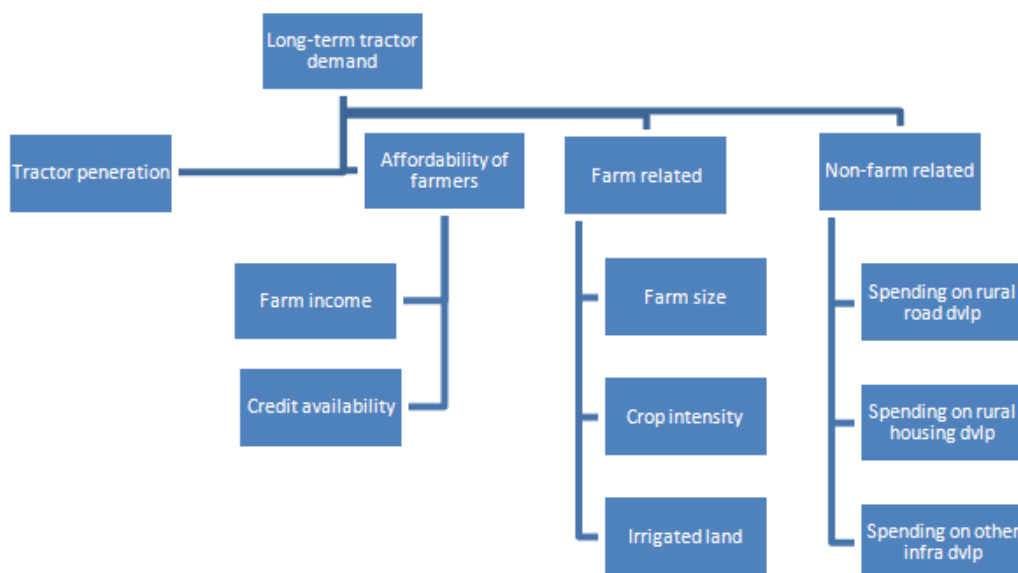
Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Investment Arguments

### Structural drivers for tractor demand to drive around 10% industry CAGR over FY15-FY20E

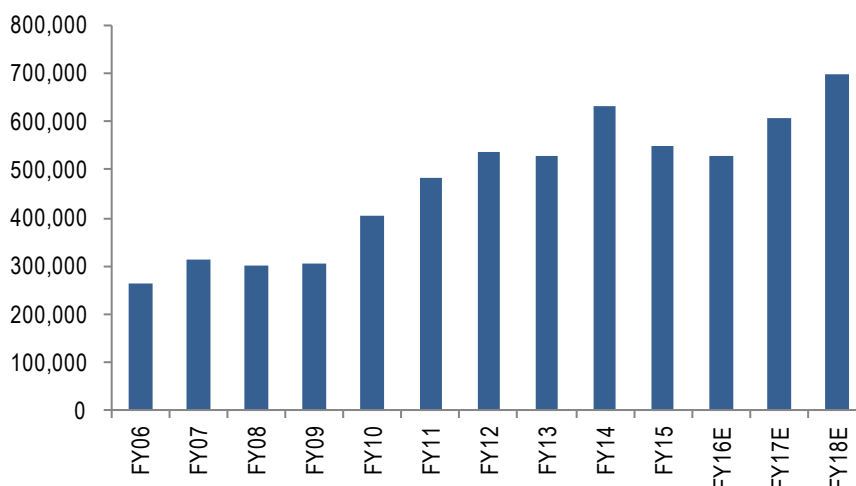
Swaraj Engines, which caters to the engine requirement of Swaraj Tractors, India's fastest-growing tractor company, is dependent on the tractor industry. Two consequent seasons of crop damage because of unseasonal rains along with deficient monsoon impacted farmer sentiment, thereby resulting in weak tractor demand for the past one year. The domestic tractor industry posted a CAGR of 10% over the past seven years backed by rising market penetration, stable farm income and a good hike in minimum support prices or MSPs of food grains. We believe the domestic tractor industry will post a five-year CAGR of 10% as structural drivers like lower market penetration, rising farm mechanisation, stable farm income, lowering of the replacement cycle and increased focus of the government on agricultural and rural development remain favourable.

#### Exhibit 3: Drivers for a strong CAGR over the next five years



Source: Nirmal Bang Institutional Equities Research

#### Exhibit 4: Volume projection for domestic tractor industry

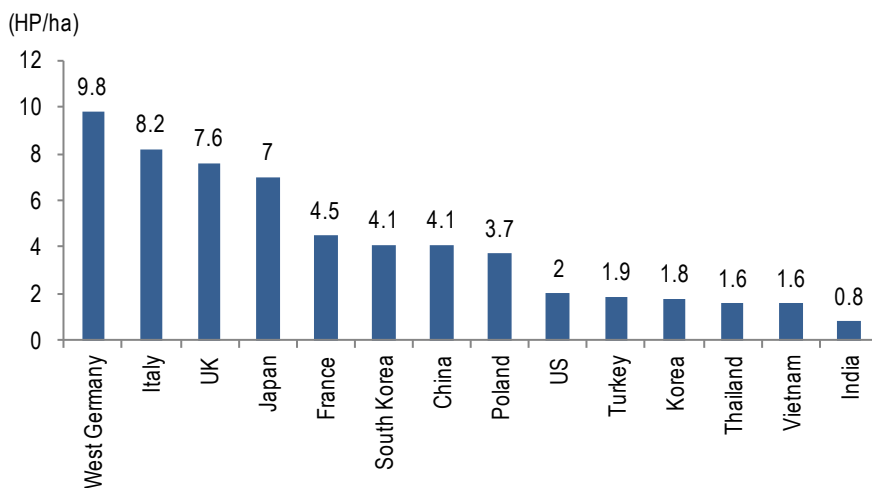


Source: Crisil, Nirmal Bang Institutional Equities Research

**Focus on farm mechanisation and low market penetration - key growth drivers**

The market penetration of tractors in India is among the lowest in the world (1HP per hectare) when compared to developed and developing economies where the penetration is in the range of 3HP-4HP per hectare. On a state-wise comparison in India, the penetration of tractors in most states remains low barring Punjab, Haryana, Bihar and Uttar Pradesh which have high penetration levels while in western, southern and eastern regions the level of penetration still remains at a lower level, thereby auguring well for the domestic tractor industry. Also, tractors are fast replacing bullock carts and manual labour, resulting in increased farm mechanisation, as it is more cost-effective to own a tractor. With the increased benefits of farm mechanisation like offsetting the shortage of farm labour (following the shift from rural areas towards urban areas) cost savings and better efficiency, farm mechanisation remains one of the strongest structural drivers for domestic industry's growth. Also, it should be noted that tractors were traditionally used in land preparation and haulage, while with the advent of farm mechanisation tractor applications have now been extended to seeding, cultivation, weeding, spraying etc. As per rating agency Crisil, tractor population in India remains at close to 4.3mn units while the minimum requirement for covering India's entire agricultural land is 13.0mn units, thereby indicating the level of under-penetration in India.

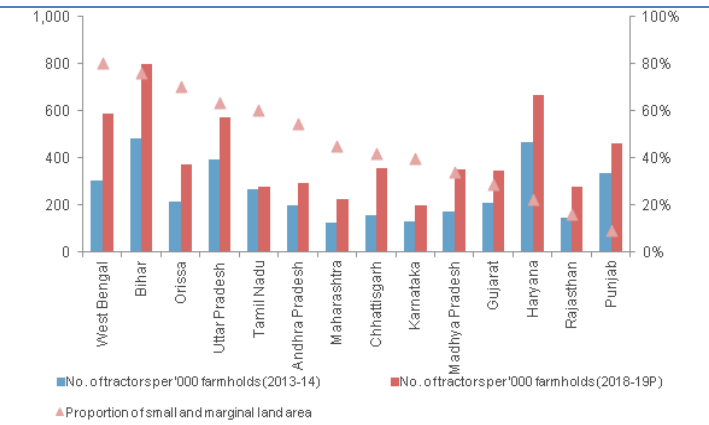
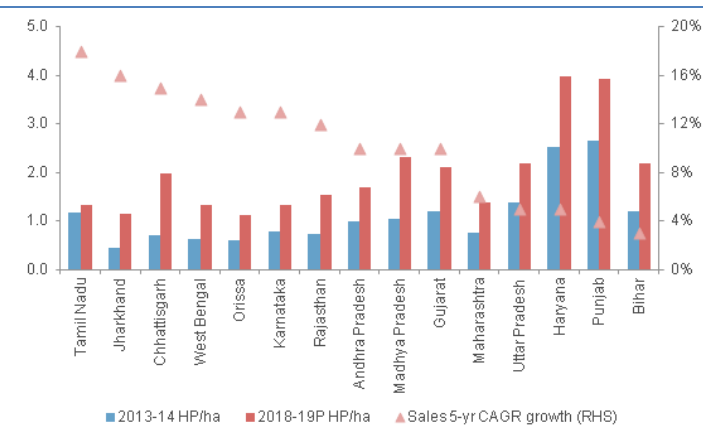
**Exhibit 5: India's tractor usage remains lowest globally**



Source: Crisil

**Exhibit 6: State-wise market penetration of tractors in India**

**Exhibit 7: State-wise ownership of tractors per 1,000 farmers in India (considering farmers having more than two hectares of land)**



Source: Crisil

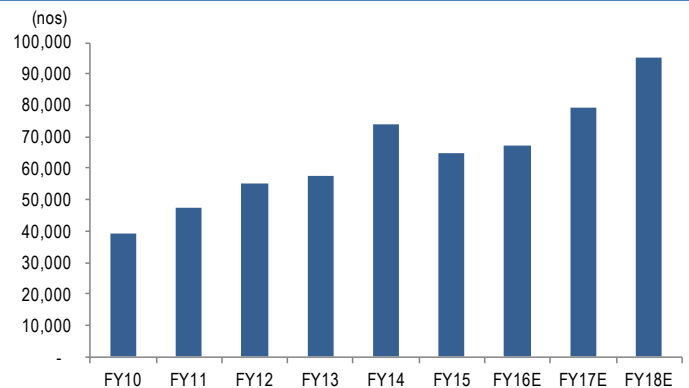
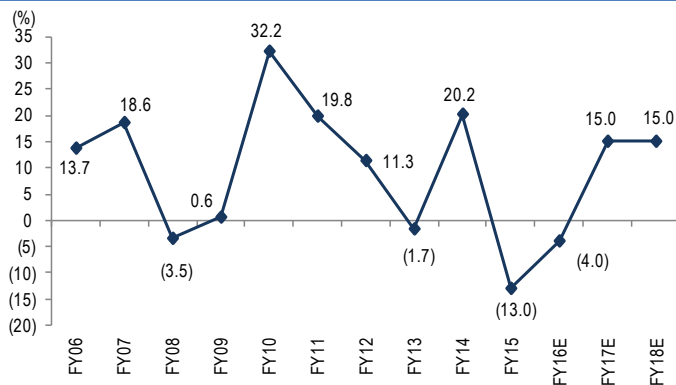
Source: Crisil

**Swaraj Engines is key beneficiary of likely improvement in tractor demand**

Swaraj Tractors is the fastest-growing tractor company in India, which has nearly doubled its market share over FY08-FY15 after its acquisition by M&M. We believe that Swaraj Tractors will continue to gain market share and be a key beneficiary of likely improvement in tractor demand in the coming years as it has a very strong brand name and is launching new products in the above 50HP segment. The company is expected to launch a new 60HP tractor in FY16, while we also note that higher HP segment in the tractor Industry is expected to grow at a faster rate compared to the lower HP segment. Market share gains for Swaraj Tractors augurs well for Swaraj Engines because it is a direct beneficiary and also its demand is directly related to the performance of Swaraj brand of tractors.

**Exhibit 8: After two years of weak demand, tractor industry expected to bounce back in FY17**

**Exhibit 9: Expect double-digit engine volume growth for Swaraj Engines in FY17E/FY18E**



Source: Crisil, Nirmal Bang Institutional Equities Research

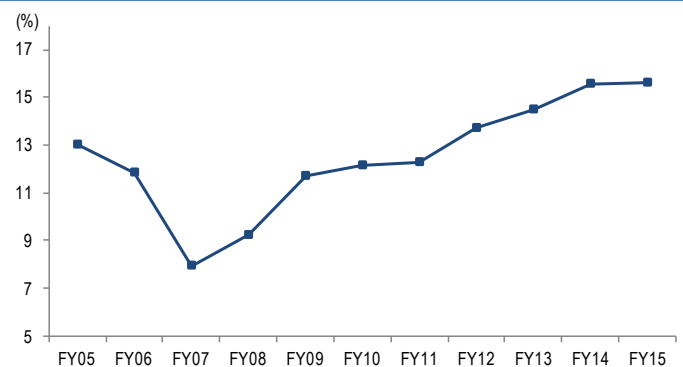
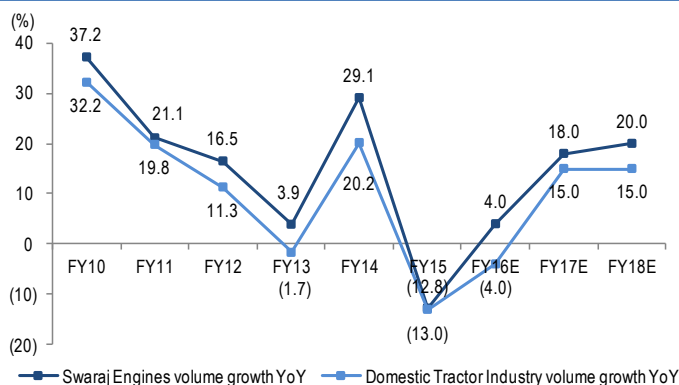
Source: Crisil, Nirmal Bang Institutional Equities Research

**Consistent outperformance compared to industry growth**

Swaraj Engines has consistently outperformed industry growth on the back of strong outperformance of Swaraj Tractors after its acquisition by M&M in FY08. It is noteworthy that Swaraj Tractors currently commands a market share of ~16% versus 9% in FY08 and consistently gained market share even when the demand environment was weak. Over FY10-FY15, Swaraj Engines posted a CAGR of 11% versus industry CAGR of 6%. With new tractor launches expected in FY16/FY17 in the higher HP segment and a strong brand name, we expect Swaraj Tractors to gain further market share over the next two three years, thereby resulting in better-than-industry growth in FY16/FY17, all of which augurs well for the growth of Swaraj Engines.

**Exhibit 10: Swaraj Engines continuously outperforms domestic industry's growth because of strong market share gains of Swaraj Tractors**

**Exhibit 11: Estimated market share of Swaraj Tractors**



Source: Nirmal Bang Institutional Equities Research

Source: Nirmal Bang Institutional Equities Research

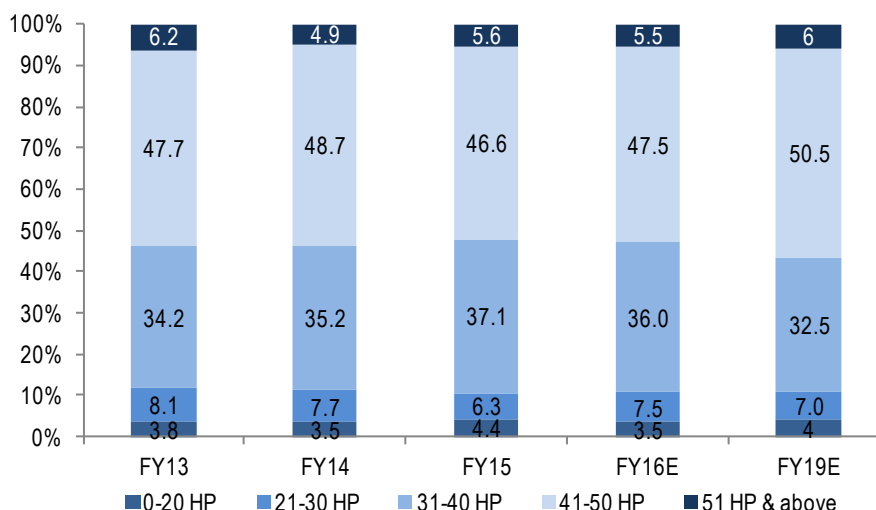
## New products to drive growth

Swaraj Engines currently caters to 20HP-50HP engine requirement of Swaraj brand of tractors. However, the company is now expanding its product range and recently started manufacturing 54HP engines, while 60HP and 65HP engines are at development stage. Also on Swaraj Tractors' front, the company is expected to launch a new 60HP tractor in FY16 which will further strengthen Swaraj Tractors' position and incremental market share in the domestic tractor industry. We have estimated a 19% volume CAGR for Swaraj Engines over FY16-FY18E because of: 1) New engine launches in the higher HP segment, 2) New tractor launch from Swaraj Tractors, 3) Demand revival likely in FY17, and 4) Low base of FY15/FY16.

## Demand for higher HP tractors to grow at a faster rate than that of lower HP tractors

It is estimated that bulk of the growth in the coming years will come from the higher HP segment i.e. 41HP-50HP and 51HP and above tractors are estimated to increase their share over the next four to five years against a decline in share expected in the less than 30HP segment. Swaraj brand of tractors are known for their performance in the higher HP segment and we believe that new launches in this segment in future will result in further market share gains in the domestic market. Currently, M&M is the second-biggest player in 50HP and above segment as International Tractors commands the biggest share.

### Exhibit 12: Demand for higher HP tractors to grow at a faster rate



Source: Crisil

### Exhibit 13: Market share of players in 51HP and above segments

51 HP and above segments	FY10	FY11	FY12	FY13	FY14	FY15
International Tractors	12.7	13.8	13.8	26.6	35.7	31.3
Mahindra & Mahindra	55.8	56.8	60.8	42.5	23.7	26.0
John Deere	27.6	25.7	22.4	14.5	17.5	16.0
New Holland India	-	-	-	9.3	12.5	12.4
Escorts.	-	-	-	4.0	6.4	9.7
TAFE	1.7	1.7	1.1	0.9	1.7	2.7
SAME DEUTZ-FAHR	1.4	0.9	0.9	1.1	1.8	1.5
HMT	0.9	1.1	0.9	1.0	0.6	0.3

Source: Crisil

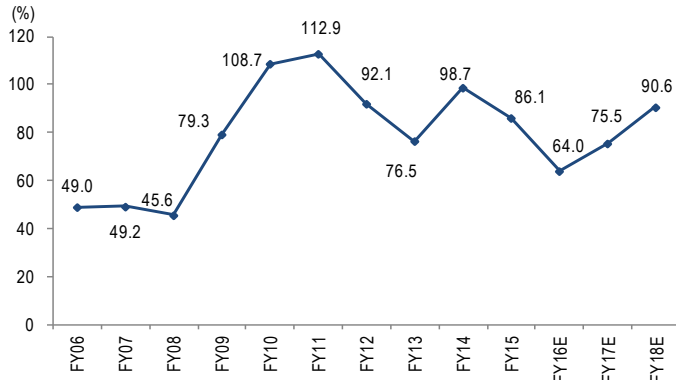
**Exhibit 14: Segment-wise break-up of domestic tractor industry in HP terms and YoY growth rates**

	FY10	FY11	FY12	FY13	FY14	FY15
Up to 30HP	68,477	71,721	82,224	54,506	70,811	59,866
31HP-40HP	194,488	214,348	244,431	233,397	223,302	202,497
41HP-50HP	94,183	137,180	143,102	199,130	308,810	256,270
51HP and above	45,438	59,037	67,134	40,735	31,228	32,830
Total- domestic industry	402,586	482,286	536,891	527,768	634,151	551,463
<b>YoY (%)</b>						
Up to 30HP	34%	5%	15%	(34%)	30%	(15%)
31HP-40HP	27%	10%	14%	(5%)	(4%)	(9%)
41HP-50HP	32%	46%	4%	39%	55%	(17%)
51HP and above	56%	30%	14%	(39%)	(23%)	5%
Total- domestic industry	32%	20%	11%	(2%)	20%	(13%)

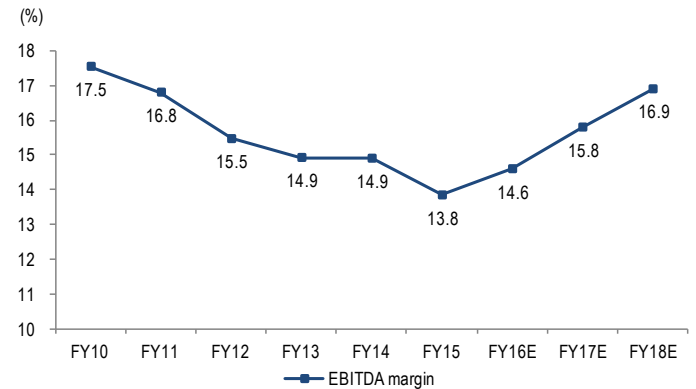
Source: Crisil

### Increased capacity utilisation to drive margins and growth in future

Swaraj Engines, under the leadership of M&M, has timely executed capacity expansion which resulted in better and efficient use of capital. The company, over FY10-FY15 achieved average 96% capacity utilisation and is currently running at capacity utilisation of ~90%, given the slowdown in the tractor industry. The company has almost completed its next phase of capacity expansion to 105,000 units from 75,000 units at a cost of Rs350mn. We expect the company to achieve capacity utilisation of 91% by FY18E on increased capacity, which should result in better operating leverage and drive margins for the company over FY17E/FY18E.

**Exhibit 15: Increase in capacity to drive growth in future**


Source: Nirmal Bang Institutional Equities Research

**Exhibit 16: Margins to expand on positive operating leverage likely in FY17E/FY18E**


Source: Nirmal Bang Institutional Equities Research

## 1QFY16 performance comes as a surprise

Swaraj Engines reported better-than-expected 1QFY16 performance, with engine volume increasing sharply by 49% QoQ on a low base. On YoY basis, the company reported a 9% YoY drop in engine sales as against double-digit industry decline in 1QFY16. What is commendable is that despite a 9% YoY fall in volume, margins on QoQ basis posted a 170 bps expansion, largely because of positive operating leverage. We expect the margins to improve by 310bps over FY15-FY18E backed by demand recovery in tractors, which is likely to drive margin expansion for the company.

### Exhibit 17: Quarterly performance snapshot - 1QFY16

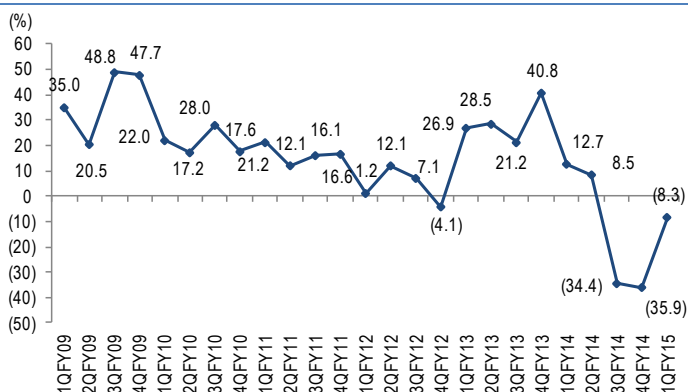
Y/E March (Rsmn)	1QFY15	4QFY15	1QFY16	YoY (%)	QoQ (%)	FY14	FY15	YoY (%)
Net revenue	1,652	1,037	1,525	(7.7)	47.0	6,083	5,397	(11.3)
Raw material costs	1,266	782	1,161	(8.3)	48.4	4,623	4,091	(11.5)
Staff costs	77	75	82	7.2	10.1	277	308	11.4
Other expenses	70	52	66	(4.7)	26.3	277	251	(9.5)
Total expenditure	1,412	909	1,309	(7.3)	43.9	5,176	4,650	(10.2)
EBITDA	249	134	223	(10.7)	66.5	907	747	(17.6)
EBITDAM (%)	15.0	12.8	14.5	(47)	172	14.9	13.8	(106)
Depreciation	33.4	30.2	33.7	0.9	11.6	91	132	44.8
Interest costs	-	-	-	-	-	-	-	-
Other income	43	41	44	3.8	7.3	175	163	(6.7)
PBT	258	145	233	(9.8)	61.1	978	778	(20.4)
Tax	83	62	77	(7.3)	23.2	308	260	(15.7)
Net profit	176	83	157	(11.0)	89.7	670	518	(22.6)
NPM (%)	10.6	7.9	10.2	(36)	29.2	11.0	9.6	(141)
EPS (Rs)	14.2	6.6	12.6	(11.0)	89.7	54.0	41.7	(22.6)

### Metrics

Engine sold	20,044	12,344	18,383	(8.3)	48.9	74,062	64,595	(12.8)
RM costs as % of sales	76.2	75.0	75.8	(42) bps	77bps	76.6	75.0	(156)bps
EC as % of sales	4.6	7.1	5.4	75 bps	(179) bps	4.6	5.7	116 bps
OE as % of sales	4.2	5.0	4.3	14 bps	(70) bps	4.6	4.6	9 bps
Gross margin (%)	23.8	25.0	24.2	42 bps	(77) bps	24.0	24.2	20 bps
EBITDA margin (%)	15.0	12.8	14.5	(47) bps	172 bps	14.9	13.8	(106) bps
ETR (%)	31.9	42.9	32.8	89 bps	(1,011) bps	31.5	33.4	189 bps
PAT margin (%)	10.6	7.9	10.2	(36) bps	231 bps	11.0	9.6	(141) bps

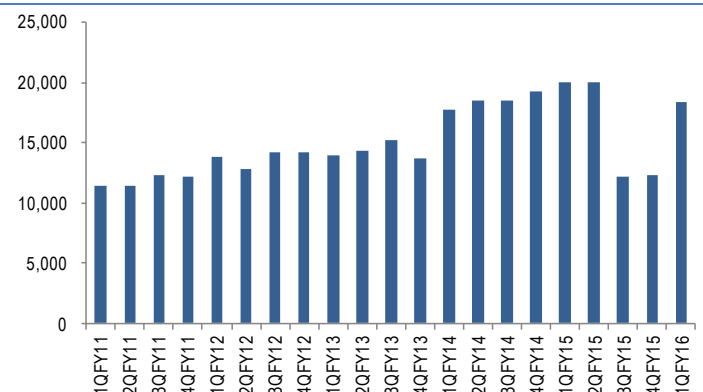
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 18: Engine sales improve significantly on QoQ basis in 1QFY16



Source: Nirmal Bang Institutional Equities Research

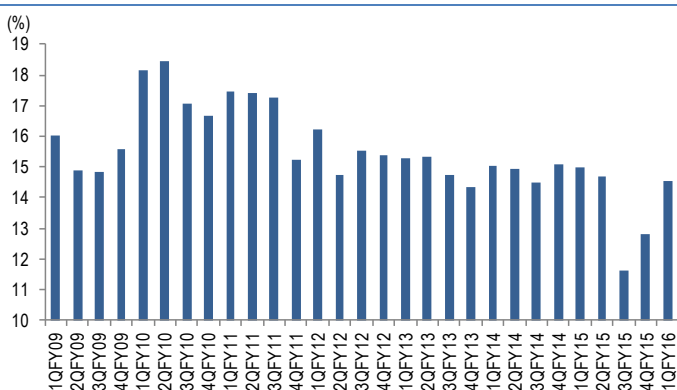
### Exhibit 19: Quarterly engine volume



Source: Company, Nirmal Bang Institutional Equities Research

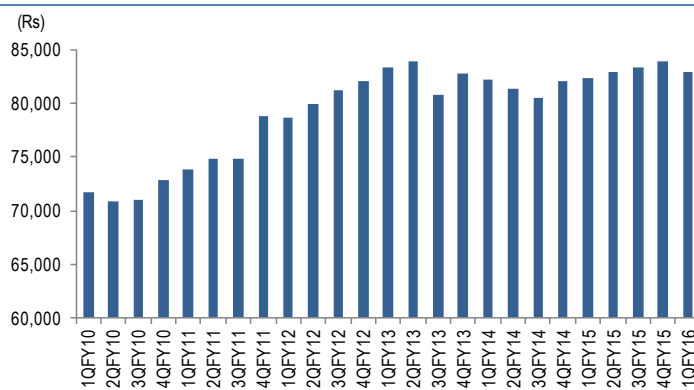


**Exhibit 20: EBITDA margin bottoms out**



Source Company, Nirmal Bang Institutional Equities Research

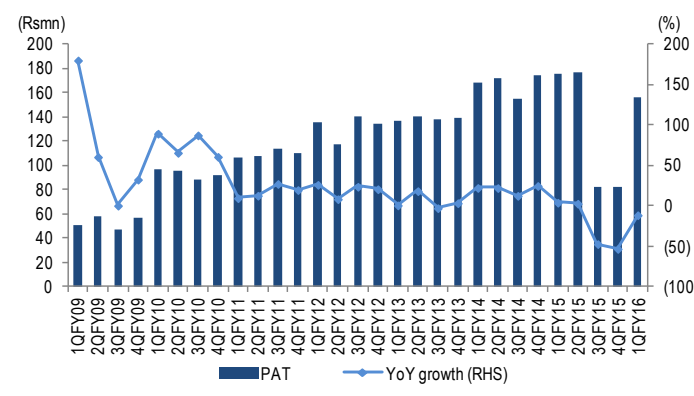
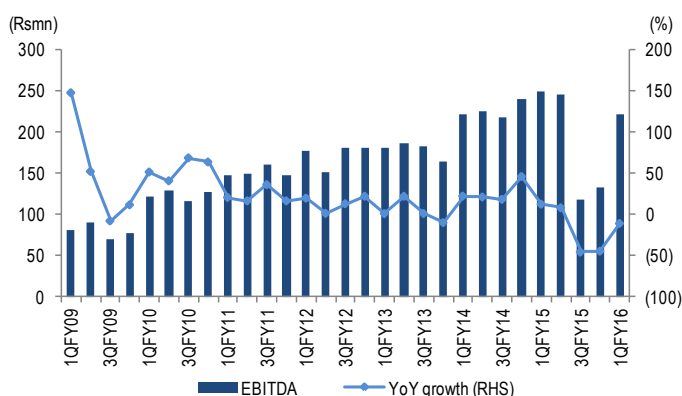
**Exhibit 21: Engine realisation remains steady because of pass-through on account of soft commodity prices**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 22: EBITDA witnesses a sharp jump on QoQ basis in 1QFY16**

**Exhibit 23: PAT also registers a strong jump on QoQ basis**



Source: Company, Nirmal Bang Institutional Equities Research

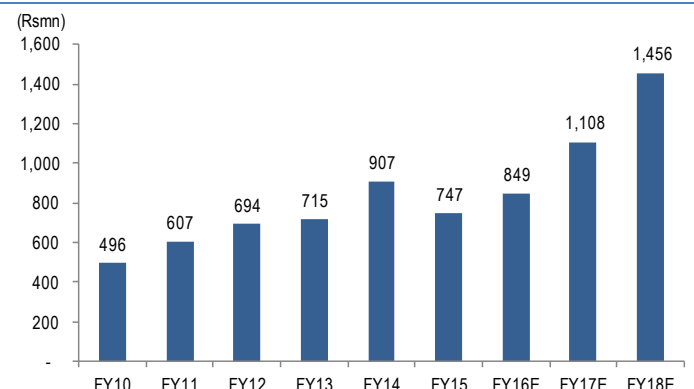
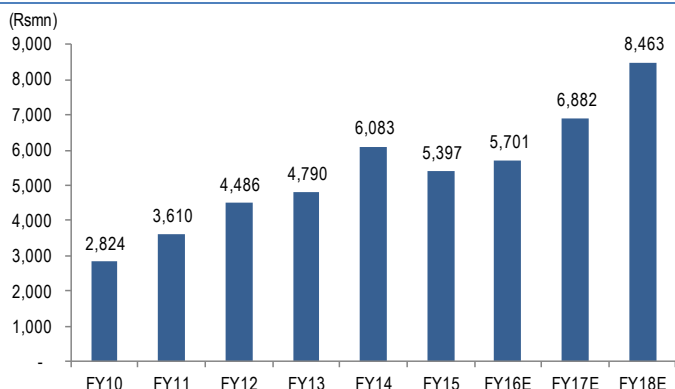
Source: Company, Nirmal Bang Institutional Equities Research

**Earnings expected to grow in double digits**

Given the second consecutive year of weak demand for tractors, we believe the industry may post a strong double-digit growth over FY17E/FY18E because of various structural factors. We expect Swaraj Engines to report a 19% volume CAGR as we expect new products in the higher HP segment from Swaraj Tractors to do well, resulting in market share gains. Given the improving product mix of higher HP tractors, we have estimated a 22% CAGR in net sales for FY16-18E. We expect the utilisation level to touch 91% of capacity by FY18E and build in operating leverage benefits, thereby resulting in a 310bps margin expansion over FY16-18E which coupled with strong net sales growth will drive a double-digit earnings CAGR of 32% over FY16-FY18E.

**Exhibit 24: Expect double-digit sales growth backed by double-digit volume growth over FY16E-FY18E**

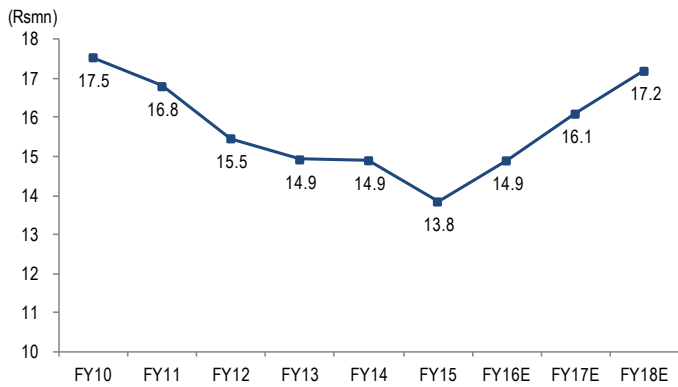
**Exhibit 25: Absolute EBITDA to nearly double from FY15 by FY18E**



Source: Company, Nirmal Bang Institutional Equities Research

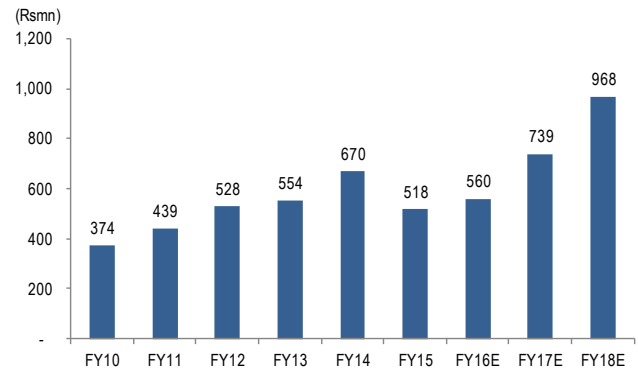
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 26: Higher capacity utilisation and improved mix comprising higher HP tractors to drive margins closer to FY10 level**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 27: PAT expected to post a 32% CAGR over FY16-FY18E**

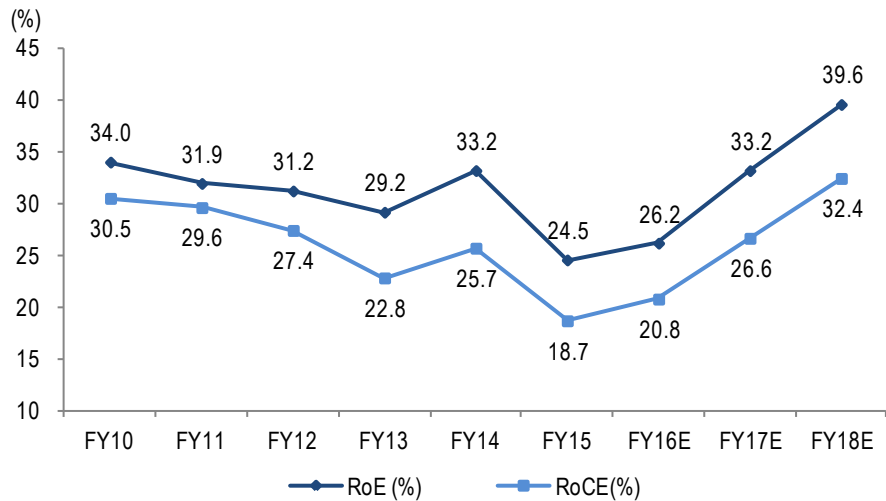


Source: Company, Nirmal Bang Institutional Equities Research

### Strong financials

Swaraj Engines operates with a negative working capital cycle and has a debt-free balance sheet with good free cash flow generation. With its debt-free status and strong cash pile of Rs1.4bn, the company is able to withstand adverse business cycles like the one witnessed in FY15, when the industry registered a sharp double-digit decline in 2HFY15. Also, dividend payout of the company has been strong in excess of 70% for the past three years, resulting in a good dividend yield of 4%.

**Exhibit 28: Return ratios set to increase along with margin expansion**



Source: Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 29: Income statement

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
<b>Net sales</b>	<b>6,083</b>	<b>5,397</b>	<b>5,701</b>	<b>6,882</b>	<b>8,463</b>
% growth	27.0	(11.3)	5.6	20.7	23.0
Raw material costs	4,623	4,091	4,315	5,168	6,262
Staff costs	277	308	308	344	423
Other expenses	277	251	245	282	347
Total expenditure	5,176	4,650	4,868	5,795	7,032
<b>EBITDA</b>	<b>907</b>	<b>747</b>	<b>832</b>	<b>1,087</b>	<b>1,430</b>
% growth	26.8	(17.6)	11.4	30.6	31.5
<b>EBITDA margin (%)</b>	<b>14.9</b>	<b>13.8</b>	<b>14.6</b>	<b>15.8</b>	<b>16.9</b>
Other income	174	162	152	173	189
Interest costs	0	0	0	0	0
Gross profit	1,460	1,306	1,385	1,714	2,200
% growth	27.4	(10.5)	6.1	23.7	28.4
Depreciation	91	132	144	151	167
Profit before tax	978	778	840	1,109	1,453
% growth	23.0	(20.5)	8.1	32.0	31.0
Tax	308	260	281	371	485
Effective tax rate (%)	31.5	33.4	33.4	33.4	33.4
<b>Net profit</b>	<b>670</b>	<b>518</b>	<b>560</b>	<b>739</b>	<b>968</b>
% growth	20.9	(22.7)	8.1	32.0	31.0
<b>EPS (Rs)</b>	<b>53.9</b>	<b>41.7</b>	<b>45.1</b>	<b>59.5</b>	<b>77.9</b>
% growth	20.9	(22.7)	8.1	32.0	31.0
DPS (Rs)	35	33	35	40	45
Dividend payout (%)	65	79	78	67	58

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 31: Balance sheet

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Equity	124	124	124	124	124
Reserves	1,975	1,997	2,032	2,173	2,468
Net worth	2,099	2,121	2,157	2,298	2,593
Net deferred Tax Liab	69	63	63	63	63
LT liabilities/provisions	18	22	22	22	22
Total loans	-	-	-	-	-
<b>Liabilities</b>	<b>2,186</b>	<b>2,206</b>	<b>2,241</b>	<b>2,382</b>	<b>2,677</b>
Gross block	1,529	1,634	2,034	2,224	2,414
Depreciation	689	795	940	1,091	1,258
Net block	841	838	1,094	1,133	1,156
Capital work-in-progress	17	48	48	48	48
LT Investments	-	-	-	-	-
Other long-term assets	38	58	58	58	58
Inventories	464	331	360	454	581
Debtors	78	69	84	120	171
Cash	1,049	1,399	1,220	1,332	1,615
Cash equivalents	62	6	37	77	109
Other bank balance	987	1392	1183	1254	1505
ST Investments	722	420	420	420	420
Other current assets	132	90	90	90	90
Total current assets	2,445	2,309	2,174	2,416	2,877
Trade payables	592	482	567	706	896
Other current liabilities/provisions	563	566	566	566	566
Total current liabilities	1,155	1,048	1,133	1,272	1,462
Net current assets	1,290	1,261	1,042	1,144	1,415
<b>Total assets</b>	<b>2,186</b>	<b>2,206</b>	<b>2,241</b>	<b>2,382</b>	<b>2,677</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 30: Cash flow

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
PBT	978	778	840	1,109	1,453
(Inc.)/dec. in working capital	76	81	41	10	11
Cash flow from operations	1,054	859	881	1,119	1,464
Other income	(174)	(162)	(152)	(173)	(189)
Other expenses	-	-	-	-	-
Depreciation	91	132	144	151	167
Tax paid	(301)	(273)	(281)	(371)	(485)
<b>Net cash from operations</b>	<b>671</b>	<b>556</b>	<b>593</b>	<b>727</b>	<b>957</b>
Capital expenditure	(117)	(164)	(398)	(188)	(188)
Net cash after capex	553	392	195	539	769
Other investing activities	(44)	57	359	100	(64)
Cash from financial activities	(478)	(505)	(523)	(598)	(673)
Opening cash balance	31	62	6	37	77
Closing cash balance*	62	6	37	78	109
Change in cash balance	31	(56)	31	41	32

Source: Company, Nirmal Bang Institutional Equities Research

\* Note: Does not include other bank balances

### Exhibit 32: Key ratios

Y/E March	FY14	FY15	FY16E	FY17E	FY18E
<b>Profitability &amp; Return ratios</b>					
EBITDA margin (%)	14.9	13.8	14.6	15.8	16.9
EBIT margin (%)	13.4	11.4	12.1	13.6	14.9
Net profit margin (%)	11.0	9.6	9.8	10.7	11.4
RoE (%)	33.2	24.5	26.2	33.2	39.6
RoCE (%)	25.7	18.7	20.8	26.6	32.4
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	5	4	5	6	7
Inventory (days)	31	21	23	24	25
Payables (days)	52	40	43	45	47
Current ratio (x)	2.1	2.2	1.9	1.9	2.0
Quick ratio (x)	1.7	1.9	1.6	1.5	1.6
<b>Valuation ratios</b>					
EV/sales (x)	1.6	1.7	1.6	1.3	1.1
EV/EBITDA (x)	10.4	12.2	11.2	8.4	6.2
P/E (x)	15.7	20.3	18.8	14.2	10.9
P/BV (x)	5.0	5.0	4.9	4.6	4.1

Source: Company, Nirmal Bang Institutional Equities Research

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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