

Rating matrix		
Rating	:	Buy
Target	:	₹ 2500
Target Period	:	12-18 months
Potential Upside	:	25%

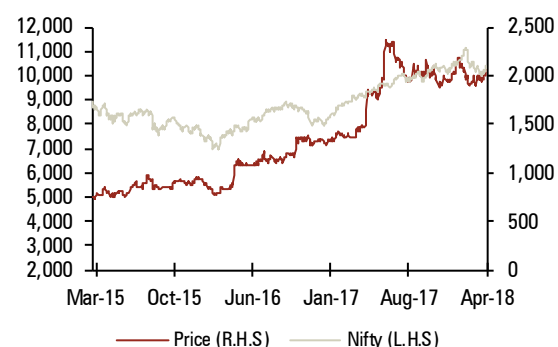
What's changed?	
Target	Unchanged
EPS FY18E	Changed from ₹ 67.2 to ₹ 72.2
EPS FY19E	Unchanged
EPS FY20E	Changed from ₹ 86.4 to ₹ 88.2
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	666.2	833.7	940.5	1,025.1
EBITDA	104.6	135.1	154.2	169.1
Net Profit	68.8	87.6	96.5	107.0
EPS (₹)	55.4	72.2	79.6	88.2

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	36.1	27.7	25.1	22.7
Target P/E	45.1	34.6	31.4	28.3
EV / EBITDA	20.9	16.9	14.6	13.1
P/BV	8.8	10.7	10.2	9.7
RoNW	24.3	38.5	40.8	43.0
RoCE	31.2	52.0	56.7	59.7

Stock data	
Stock Data	₹ crore
Market Capitalization	2,425.0
Total Debt (FY18E)	0.0
Cash & Investments (FY18E)	148.2
EV	2,276.8
52 week H/L	2545 / 1407
Equity capital	₹ 12.1 crore
Face value	₹ 10
MF Holding (%)	12.3
FII Holding (%)	2.7

Price performance



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Swaraj Engines (SWAENG)

₹ 2000

Best placed to play "agriculture theme" ...

- Swaraj Engines (SEL) is a leading manufacturer of engines supplying to the Swaraj brand of tractors
- It predominantly supplies engines in the 20-50 hp tractor segment
- It is a direct beneficiary of robust tractor sales domestically with Swaraj brand tractor commanding a promising ~17% market share as of FY17, up from ~12% as of FY12 (up 500 bps over five years) With
- the industry leader reporting 44% growth in domestic tractor sales in Q4FY18 we expect this robust performance to percolate down to SEL
- With the government's focus on augmenting farm income through increase in MSP, early indications of normal & widespread monsoon 2018, infrastructure activity on the uptick (employs ~30% of tractor) and incremental capacity expansion under execution (105 KT to 120 KT), we believe SEL is the most efficient play on agriculture theme domestically with robust sales & PAT prospects, going forward
- SEL has successfully completed the buyback programme wherein it bought 2.95 lakh shares @2400/share, total spend of ~₹ 71 crore

Skymet forecasts monsoon 2018 at 100% of LPA; SEL to benefit

Skymet, a private weather forecasting agency, expects the upcoming monsoon 2018 to be normal at 100% of LPA with a +/- 5% model error. On a month wise distribution, they expect June to be 111% of LPA, July at 97% of LPA, August at 96% of LPA and September at 101% of LPA. The most encouraging part of the prediction was the 80% probability of a normal to above normal monsoon and no chance of a drought like scenario. This is likely to result in robust farm production and consequent increase in farm income, boosting rural demand, thereby benefiting all farm mechanisation companies, including SEL.

Domestic tractor industry records new high in FY18E, on firm footing!

The domestic tractor industry has been at the forefront of farm mechanisation in India. Tractor sales in FY18E have surpassed a previous high (6.3 lakh units) with annual sales at ~7 lakh units (up 20% YoY). The industry leader, has further consolidated its position with annual sales at ~3 lakh units implying a market share of 43.3%, up 50 bps YoY. With government's focus on augmenting farm income and early signs of normal monsoon 2018, the domestic tractor industry is on a firm footing with robust FY19E prospects (growth to taper albeit on high base).

Strong brand recall, capital efficiency at its very best; retain BUY

Swaraj tractors have a strong brand recall, which translated to ~500 bps increase in its market share over a five-year period to ~17% in FY17. The larger acceptance of Swaraj brand of tractors is primarily on the back of balanced design, low cost of ownership over the lifecycle of product, robust service network and fuel efficiency among others. We expect Swaraj Brand to continue outperforming the domestic tractor industry with consequent benefits flowing down to SEL. SEL has a healthy balance sheet with no debt on its books, negative working capital cycle and robust return ratios amid healthy dividend payouts (~75%). Post buyback (utilisation of surplus cash on books), its return ratios have further improved with average RoCE, RoE & RoIC over FY18-20E is at 56%, 41% & 290%, respectively. Going forward, with macro drivers in place, we expect SEL to clock engine sales volume CAGR of 14.0% in FY17-20E to 121392 units in FY20E (82297 units in FY17). We expect sales, PAT to grow at a CAGR of 15.4%, 15.9%, respectively, in FY17-20E. We value SEL at ₹ 2500 i.e. 30x P/E on FY19E & FY20E average EPS of ₹ 84 with a **BUY** recommendation on the stock.

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Net Sales	666.2	833.7	940.5	1025.1	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	666.2	833.7	940.5	1025.1	
Growth (%)	26.7	25.2	12.8	9.0	
Raw Material Expenses	495.6	620.5	700.7	763.7	
Employee Expenses	31.0	35.1	40.4	43.1	
Other Operating Expense	35.0	43.0	45.1	49.2	
Total Operating Expenditure	561.6	698.6	786.3	856.0	
EBITDA	104.6	135.1	154.2	169.1	
Growth (%)	42.2	29.2	14.2	9.7	
Depreciation	16.3	16.8	20.0	20.4	
Interest	0.1	0.0	0.0	0.0	
Other Income	17.2	15.8	13.0	14.6	
PBT	105.4	134.1	147.3	163.3	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	36.6	46.5	50.8	56.3	
PAT	68.8	87.6	96.5	107.0	
Growth (%)	34.5	27.3	10.2	10.9	
EPS (₹)	55.4	72.2	79.6	88.2	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	68.8	87.6	96.5	107.0	
Add: Depreciation	16.3	16.8	20.0	20.4	
(Inc)/dec in Current Assets	-2.9	-13.9	-7.0	-5.6	
Inc/(dec) in CL and Provisions	16.9	16.2	12.6	10.0	
Others	0.1	0.0	0.0	0.0	
CF from operating activities	99.2	106.7	122.0	131.8	
(Inc)/dec in Investments	-38.5	0.0	-20.0	-20.0	
(Inc)/dec in Fixed Assets	-6.4	-50.0	-5.0	-5.0	
Others	-1.0	0.0	0.0	0.0	
CF from investing activities	-45.9	-50.0	-25.0	-25.0	
Issue/(Buy back) of Equity	0.0	-0.3	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-64.1	-72.8	-87.3	-94.6	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	15.0	-70.4	0.0	0.0	
CF from financing activities	-49.0	-143.5	-87.3	-94.6	
Net Cash flow	4.3	-86.8	9.7	12.2	
Opening Cash	181.8	186.1	99.3	109.0	
Closing Cash	186.1	99.3	109.0	121.2	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	12.4	12.1	12.1	12.1	
Reserve and Surplus	270.9	215.3	224.5	236.9	
Total Shareholders funds	283.3	227.4	236.6	249.0	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	6.3	6.3	6.3	6.3	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	289.6	233.7	242.9	255.3	
Assets					
Gross Block	196.2	247.0	252.0	257.0	
Less: Acc Depreciation	104.9	121.7	141.7	162.0	
Net Block	91.3	125.3	110.3	95.0	
Capital WIP	0.8	0.0	0.0	0.0	
Total Fixed Assets	92.1	125.3	110.3	95.0	
Investments	48.9	48.9	68.9	88.9	
Inventory	26.1	41.1	46.4	50.6	
Debtors	13.1	11.4	12.9	14.0	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	2.0	2.5	2.8	3.1	
Cash	186.1	99.3	109.0	121.2	
Total Current Assets	227.2	154.3	171.1	188.9	
Current Liabilities	77.4	91.4	103.1	112.3	
Provisions	5.2	7.3	8.2	9.0	
Current Liabilities & Prov	82.5	98.7	111.3	121.3	
Net Current Assets	144.7	55.6	59.8	67.6	
Others Assets	3.8	3.8	3.8	3.8	
Application of Funds	289.6	233.7	242.9	255.3	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	55.4	72.2	79.6	88.2	
Cash EPS	68.5	86.1	96.0	105.0	
BV	228.1	187.6	195.2	205.4	
DPS	43.0	48.8	58.6	63.5	
Cash Per Share (Incl Invst)	189.2	122.2	146.8	173.3	
Operating Ratios (%)					
EBITDA Margin	15.7	16.2	16.4	16.5	
PAT Margin	10.3	10.5	10.3	10.4	
Inventory days	14.3	18.0	18.0	18.0	
Debtor days	7.2	5.0	5.0	5.0	
Creditor days	42.4	40.0	40.0	40.0	
Return Ratios (%)					
RoE	24.3	38.5	40.8	43.0	
RoCE	31.2	52.0	56.7	59.7	
RoIC	216.3	170.5	262.8	434.7	
Valuation Ratios (x)					
P/E	36.1	27.7	25.1	22.7	
EV / EBITDA	20.9	16.9	14.6	13.1	
EV / Net Sales	3.3	2.7	2.4	2.2	
Market Cap / Sales	3.6	2.9	2.6	2.4	
Price to Book Value	8.8	10.7	10.2	9.7	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.5	0.6	0.6	0.6	
Quick Ratio	0.2	0.1	0.1	0.1	

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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