

Robust performance, attractive dividend yield at play...

Swaraj Engines (SEL) reported a robust performance in Q4FY21, primarily tracking healthy wholesale tractors volume and likely inventory restocking at its key client M&M. Engine sales volume for Q4FY21 came in at 33,831 units, up 62% YoY, 8% QoQ. Sales volume for FY21 came in at an all-time high of 113,269 units, up 26% YoY amid ~20% volume growth in the tractor segment for FY21. Net sales in Q4FY21 were at ₹ 305 crore with EBITDA at ₹ 46.2 crore and corresponding EBITDA margins at 15.1%, up 170 bps QoQ. Margins for the quarter were supported by improvement in gross margins as well as operating leverage benefits. PAT in Q4FY21 was at ₹ 32.6 crore, up 106% YoY, 30% QoQ. SEL announced a total dividend of ₹ 69/share for FY21, implying dividend payout of ~90%, with EPS for FY21 at ₹ 76.2/share.

Normal monsoon outlook bodes well for Indian tractor industry

The tractor industry has been at the forefront of farm mechanisation in India. The segment was the clear outlier in FY21 with industry volume growing ~20% YoY vs. a decline for the rest of the segments in the automobile space amid Covid-19. It was primarily driven by robust farm sentiments and cash flows, amid healthy food grain production as well as procurement by government agencies, above normal monsoon (109% of LPA in 2020) as well as less incidence of Covid in the rural belt. With expectations of normal rainfall in the upcoming monsoon season 2021 (IMD forecast pegged at 98% of LPA), we believe the tractor industry is well poised to grow in FY22E, albeit in high single digits amid an elevated base. This bodes well for engine manufacturers like SEL. Gauging long term sustainable demand prospects, SEL is also expanding its manufacturing capacity from 1.35 lakh units to 1.5 lakh units, through internal accruals. We build in engine sales volume of 1.21 lakh units for FY22E and 1.31 lakh units for FY23E, implying sales volume CAGR of 7.4% in FY21-23E.

Increase in dividend payout to further boost return ratios

Return ratios of SEL have been industry leading with RoE, RoCE in excess of 30% by virtue of its high asset turnovers, stable margin profile, near zero to negative working capital cycle and high dividend payouts. It has further increased the dividend payout, with FY21 ratio pegged at ~90% vs. ~70-80% in the past. SEL announced a dividend of ₹ 69/share with an EPS of ₹ 76.2/share for FY21. This will further provide a leg-up to return ratios (RoCE inching to ~45% in FY22E) with surplus cash on its balance sheet. Building in similar payouts for FY22, FY23E, SEL offers an impressive dividend yield of ~5% thereby providing high margin of safety to our investment thesis.

Valuation & Outlook

We maintain our positive stance on SEL amid a highly capital efficient business model, robust cash flow generation and overall positive farm sentiments domestically. Building in ~13/10% sales/PAT CAGR in FY21-23E we retain **BUY** valuing it at ₹ 1650 i.e. 18x P/E on FY23E (earlier TP ₹ 1710).

Key Financial Summary

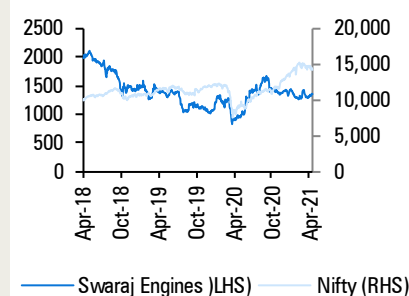
Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	871.7	773.3	986.6	1,150.1	1,263.3	13.2%
EBITDA	131.7	100.4	135.7	146.6	164.3	10.1%
EBITDA Margins (%)	15.1	13.0	13.8	12.7	13.0	
Net Profit	82.4	71.0	92.6	98.9	111.4	9.7%
EPS (₹)	67.9	58.6	76.2	81.5	91.8	
P/E	20.0	23.2	17.8	16.7	14.8	
RoNW (%)	34.6	30.1	33.0	34.6	36.4	
RoCE (%)	47.1	34.0	41.3	43.3	45.5	

Source: Company, ICICI Direct Research

Particulars

Particular	₹ crore
Market Capitalization	1,649.0
Total Debt (FY21P)	0.0
Cash & Investments (FY21P)	165.1
EV (FY20)	1,483.9
52 week H/L (₹)	1709 / 925
Equity capital	12.1
Face value (₹)	10.0

Price Performance



Key Highlights

- Engine sales volume for Q4FY21 came in robust at 33,831 units with FY21 volumes at an all-time high of 1.21 lakh units, up 26% YoY
- EBITDA margins for the quarter improved 170 bps QoQ to 15.1% amid improvement in gross margins and operating leverage benefits

Key risk to our call

- Muted tractor sales domestically amid Covid-19 induced interim disruptions (demand & supply side)
- Sooner than expected transition towards electrification in the tractor space; SEL is exposed to EV risk

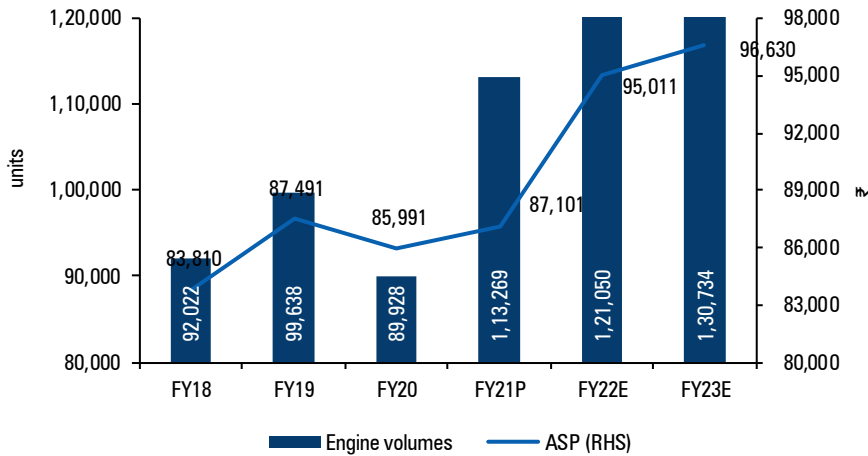
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Financial story in charts

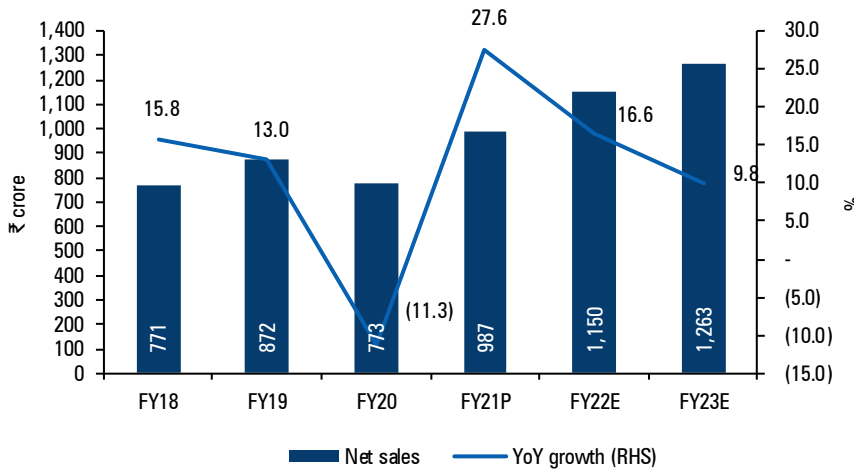
Exhibit 1: Trend in volumes and realisations



We expect SEL to clock 7.4% volume CAGR over FY21P-23E to 1.31 lakh units. ASPs are expected to grow at a CAGR of 5.3% in the aforesaid period primarily tracking increase in metal prices

Source: Company, ICICI Direct Research

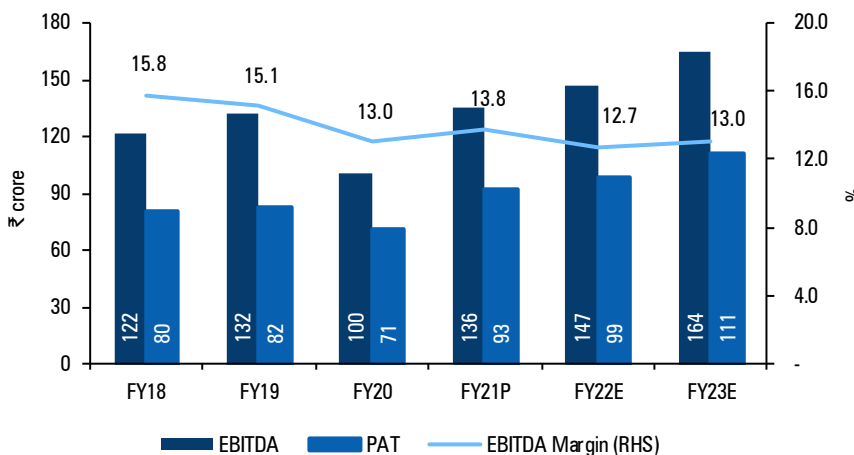
Exhibit 2: Topline trend



Revenues are expected to grow at a CAGR of 13.2% over FY21P-23E

Source: Company, ICICI Direct Research

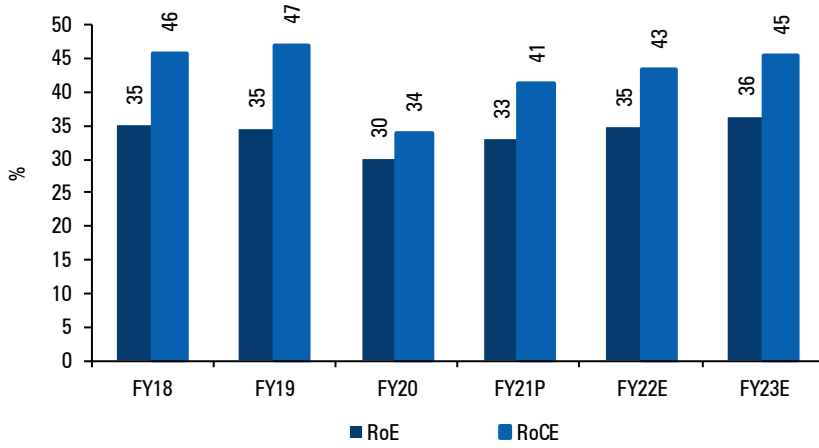
Exhibit 3: Trend in EBITDA, EBITDA margins and PAT



EBITDA margins are seen a tad soft over FY22E, FY23E due to more than anticipated increase in metal prices. We expect PAT to grow at 9.7% CAGR over FY21P-23E

Source: Company, ICICI Direct Research

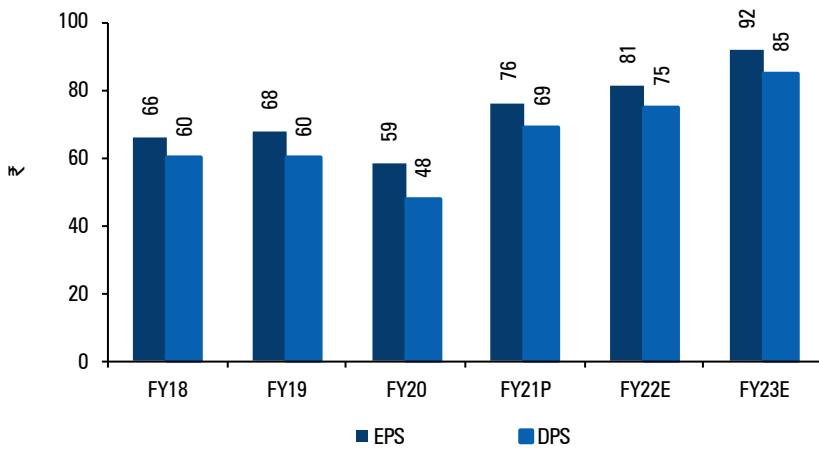
Exhibit 4: Trend in return ratios



With robust dividend payout, RoE & RoCE are industry leading and are seen extending towards ~40% level

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EPS and DPS



SEL has increased the dividend payout to ~90% level for FY21 with present dividend yield at ~5%

Source: Company, ICICI Direct Research

Exhibit 6: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	871.7	13.0	67.9	2.8	20.0	11.3	34.6	47.1
FY20	773.3	-11.3	58.6	-13.8	23.2	14.6	30.1	34.0
FY21P	986.6	27.6	76.2	30.2	17.8	10.9	33.0	41.3
FY22E	1150.1	16.6	81.5	6.9	16.7	10.0	34.6	43.3
FY23E	1263.3	9.8	91.8	12.6	14.8	8.7	36.4	45.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Net Sales	773.3	986.6	1,150.1	1,263.3
Other Operating Income	-	-	-	-
Total Operating Income	773.3	986.6	1,150.1	1,263.3
Growth (%)	47.0	27.6	16.6	9.8
Raw Material Expenses	592.5	765.7	897.1	985.4
Employee Expenses	41.8	42.9	48.9	53.6
Other Operating Expense	38.6	42.3	57.5	60.0
Total Operating Expenditure	672.9	850.9	1,003.5	1,098.9
EBITDA	100.4	135.7	146.6	164.3
Growth (%)	36.5	35.1	8.0	12.1
Depreciation	20.1	19.8	23.0	25.3
Other Income	12.8	8.6	8.7	9.9
PBT	93.1	124.5	132.3	148.9
Exceptional Item	-	-	-	-
Total Tax	22.0	31.9	33.3	37.5
PAT	71.0	92.6	98.9	111.4
Growth (%)	38.8	30.3	6.9	12.6
EPS (₹)	58.6	76.2	81.5	91.8

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	71.0	92.6	98.9	111.4
Add: Depreciation	20.1	19.8	23.0	25.3
(Inc)/dec in Current Assets	24.5	(134.0)	(17.1)	(20.8)
Inc/(dec) in CL and Provisions	(6.6)	62.7	21.4	19.6
Others	0.0	-	-	-
CF from operating activities	109.1	41.1	126.2	135.4
(Inc)/dec in Investments	(27.3)	76.9	(15.0)	(25.0)
(Inc)/dec in Fixed Assets	(16.1)	(5.8)	(15.0)	(15.0)
Others	1.0	(4.7)	-	-
CF from investing activities	(42.4)	66.4	(30.0)	(40.0)
Issue/(Buy back) of Equity	-	0.0	-	-
Dividend paid & dividend tax	(58.2)	(83.8)	(91.1)	(103.2)
Inc/(dec) in Share Cap	-	-	-	-
Others	(14.9)	35.9	(2.9)	12.1
CF from financing activities	(73.1)	(47.9)	(93.9)	(91.0)
Net Cash flow	(6.5)	59.6	2.3	4.3
Opening Cash	77.9	71.4	130.9	133.2
Closing Cash	71.4	130.9	133.2	137.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	12.1	12.1	12.1	12.1
Reserve and Surplus	223.8	268.4	273.5	293.8
Total Shareholders funds	235.9	280.6	285.6	305.9
Total Debt	-	-	-	-
Deferred Tax Liability	4.6	0.6	0.6	0.6
Minority Interest / Others	-	-	-	-
Total Liabilities	240.5	281.2	286.2	306.5
Assets				
Gross Block	257.0	265.5	279.8	294.8
Less: Acc Depreciation	154.7	174.4	197.4	222.7
Net Block	102.3	91.1	82.4	72.1
Capital WIP	4.0	1.3	2.0	2.0
Total Fixed Assets	106.4	92.4	84.4	74.1
Investments	112.2	34.9	49.9	74.9
Inventory	37.0	61.7	63.0	69.2
Debtors	4.1	113.4	126.0	138.4
Loans and Advances	-	-	-	-
Other Current Assets	19.2	19.2	22.4	24.6
Cash	71.4	130.9	133.2	137.6
Total Current Assets	131.7	325.3	344.7	369.9
Current Liabilities	105.4	168.7	189.1	207.7
Provisions	9.1	8.6	9.6	10.6
Current Liabilities & Prov	114.6	177.3	198.7	218.2
Net Current Assets	17.2	148.0	146.0	151.6
Others Assets	4.7	5.9	5.9	5.9
Application of Funds	240.5	281.2	286.2	306.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	58.6	76.2	81.5	91.8
Cash EPS	75.2	92.5	100.4	112.6
BV	194.5	231.1	235.3	252.0
DPS	40.0	69.0	75.0	85.0
Cash Per Share (Incl Invst)	151.4	136.6	150.8	175.0
Operating Ratios (%)				
EBITDA Margin	13.0	13.8	12.7	13.0
PAT Margin	9.2	9.4	8.6	8.8
Inventory days	17.5	22.8	20.0	20.0
Debtor days	2.0	42.0	40.0	40.0
Creditor days	49.8	62.4	60.0	60.0
Return Ratios (%)				
RoE	30.1	33.0	34.6	36.4
RoCE	34.0	41.3	43.3	45.5
RoIC	162.8	106.5	128.9	160.1
Valuation Ratios (x)				
P/E	23.2	17.8	16.7	14.8
EV / EBITDA	14.6	10.9	10.0	8.7
EV / Net Sales	1.9	1.5	1.3	1.1
Market Cap / Sales	2.1	1.7	1.4	1.3
Price to Book Value	7.0	5.9	5.8	5.4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	0.5	1.1	1.1	1.1
Quick Ratio	0.2	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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