

Swaraj Engines Limited

CMP ₹ 430.3
Accumulate

Result Update
Q3FY12

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- **Strong results with improved volume growth on account of robust engines demand**
- **Average realization/unit up by 9.4% Y-Y & 2.8% Q-Q**
- **Sequential pull back in operating and net profit margins**

Swaraj Engines Ltd. (SEL) reported a strong set of numbers for the quarter and 9-months ended December 2011. Rising raw material costs impacted the Y-Y performance but on a sequential basis, the company has reported an improved operating & net profit margins.

Total income for Q312 reported a robust 27% Y-Y increase to ₹ 1,176Mn as against ₹ 926Mn for Q311 (& a 14% Q-Q growth). For the 9-months ended FY12, SEL posted a 25% Y-Y sales growth to ₹ 3,307Mn as compared to ₹ 2,637Mn for the corresponding period of last year.

For December 2011, SEL's engine despatches to M&M-Swaraj Division totaled to 14,273 units as against 12,294 units in December 2010, translating to a 16% Y-Y rise (11% Q-Q growth). Average realization/unit for Q312 was ₹ 82,379.3/- (₹ 75,321.3/- for Q311), a rise of 9% Y-Y.

In terms of expenses as a % of sales, raw material cost for Dec'11 increased by 252bps to 77.9% from 75.4% in Dec'10 resulting in a 179bps OPM dip. However, operating margins on a sequential basis have increased by 66bps on account of reduced personnel & other expenditure. Net profit for the current quarter reported an impressive Y-Y growth of 24% to ₹ 141Mn as compared to ₹ 113Mn for Q311 (20% Q-Q growth) on the back of rising other income and interest income. Tax rate for Dec'11 was at 31%.

The company's phased capacity expansion programme totalling to 75,000 engines p.a. is on course & the 1st phase of 60,000 engines p.a. is expected to be completed by the end of FY12.

Our Call:

Going ahead, with rising tractor demand from the core agriculture as well as non-agri related activities (transportation & other industrial requirements) will enhance Swaraj Engine's overall growth prospects (which was also reflected in the sequential margin improvement). At the CMP of ₹ 430.3/- (FY11 cash per share = ₹ 108/-) the scrip is trading at 10.6x TTM earnings of ₹ 40.6/- We recommend an ACCUMULATE in the price range of ₹ 400-420 per share.

Quarterly Financials

Earnings Statement

Particulars (₹Mn.)	Q312	Q212	Q-Q(%)	Q311	Y-Y(%)	9MFY12	9MFY11	Y-Y(%)
Units Sold (Nos.)	14,273	12,839	11.2%	12,294	16.1%	40,965	35,174	16.5%
Sales Realization/Unit (₹)	82,379.3	80,138.6	2.8%	75,321.3	9.4%	80,725.0	74,970.1	7.7%
Net Revenues	1,166.6	1,020.6	14.3%	919.3	26.9%	3,280.5	2,619.9	25.2%
Other Opertaing Income	9.2	8.3	10.8%	6.7	37.3%	26.4	17.1	54.4%
Total Income	1,175.8	1,028.9	14.3%	926.0	27.0%	3,306.9	2,637.0	25.4%
Raw Material Cost	915.9	798.6	14.7%	698.0	31.2%	2,563.1	1,982.4	29.3%
Gross Profit	259.9	230.3	12.9%	228.0	14.0%	743.8	654.6	13.6%
Staff Cost	47.8	47.1	1.5%	42.8	11.7%	142.2	125.8	13.0%
Other Expenditure	30.0	30.6	-2.0%	25.2	19.0%	88.7	70.4	26.0%
Total Expenditure	77.8	77.7	0.1%	68.0	14.4%	230.9	196.2	17.7%
Operating Profit	182.1	152.6	19.3%	160.0	13.8%	512.9	458.4	11.9%
Other Income	11.0	7.9	39.2%	3.8	189.5%	26.1	14.7	77.6%
EBITDA	193.1	160.5	20.3%	163.8	17.9%	539.0	473.1	13.9%
Depreciation	10.2	9.8	4.1%	11.5	-11.3%	29.3	33.0	-11.2%
EBIT	182.9	150.7	21.4%	152.3	20.1%	509.7	440.1	15.8%
Interest	(21.3)	(19.5)	-	(12.1)	-	(60.5)	(38.8)	-
PBT	204.2	170.2	20.0%	164.4	24.2%	570.2	478.9	19.1%
Tax	63.4	52.4	21.0%	51.1	24.1%	176.2	150.5	17.1%
PAT	140.8	117.8	19.5%	113.3	24.3%	394.0	328.4	20.0%
Equity Capital	124.2	124.2	-	124.2	-	124.2	124.2	-
EPS (₹)	11.3	9.5	19.5%	9.1	24.3%	31.7	26.4	20.0%

Ratio Analysis

Profitability

YE March	Q312	Q212	Q-Q(bps)	Q311	Y-Y(bps)	9MFY12	9MFY11	Y-Y(bps)
OPM (%)	15.5%	14.8%	65.6	17.3%	(179.1)	15.5%	17.4%	(187.3)
EBITDA (%)	16.4%	15.6%	82.4	17.7%	(126.6)	16.3%	17.9%	(164.2)
EBIT (%)	15.6%	14.6%	90.9	16.4%	(89.2)	15.4%	16.7%	(127.6)
PAT (%)	12.0%	11.4%	52.6	12.2%	(26.1)	11.9%	12.5%	(53.9)

Operational Parameters

YE March	Q312	Q212	Q-Q(bps)	Q311	Y-Y(bps)	9MFY12	9MFY11	Y-Y(bps)
Raw Material Cost	77.9%	77.6%	27.9	75.4%	251.8	77.5%	75.2%	233.1
Staff Cost	4.1%	4.6%	(51.2)	4.6%	(55.7)	4.3%	4.8%	(47.0)
Other Expenditure	2.6%	3.0%	(42.3)	2.7%	(17.0)	2.7%	2.7%	1.3
Effective Tax Rate	31.0%	30.8%	26.1	31.1%	(3.5)	30.9%	31.4%	(52.5)

Financials

Earnings Statement					Balance Sheet				
Particulars (₹ Mn.)	FY08	FY09	FY10	FY11	Particulars (₹ Mn.)	FY08	FY09	FY10	FY11
Net Revenues	1,253.6	2,081.7	2,824.4	3,606.3	Equity Capital	124.2	124.2	124.2	124.2
- Growth (%)	-2.8%	66.1%	35.7%	27.7%	Reserves	705.4	845.5	1,103.2	1,398.0
Total Expenditure	1,021.8	1,763.0	2,328.7	2,999.2	Shareholders Funds	829.6	969.7	1,227.4	1,522.2
Operating Profit	231.7	318.7	495.7	607.1	Borrowed Funds	0.0	0.0	0.0	0.0
Other Income	1.8	1.7	41.8	23.7	Deferred Tax Liability	50.7	38.6	26.8	19.2
EBITDA	233.6	320.4	537.5	630.8	Total Liabilities	880.4	1,008.4	1,254.2	1,541.4
Depreciation	45.9	47.0	48.4	44.6	Fixed Assets	300.2	265.3	236.7	264.3
EBIT	187.7	273.4	489.1	586.2	Investments	167.1	203.2	577.2	577.9
Interest	(32.7)	(48.7)	(58.0)	(57.3)	Current Assets				
PBT	220.4	322.2	547.1	643.5	Inventory	84.9	127.7	199.1	351.2
Tax	76.8	109.4	173.6	204.4	Sundry Debtors	168.9	52.2	40.5	80.6
PAT	143.6	212.8	373.5	439.1	Loans & Advances	48.7	48.6	60.0	84.2
- Growth (%)	-3.4%	48.2%	75.6%	17.6%	Cash & Bank Balance	305.1	558.8	563.9	762.0
					Current Liabilities				
					Sundry Creditors	194.4	156.7	286.1	411.9
					Provisions	0.0	90.7	137.1	166.7
					Net Current Assets	413.1	539.9	440.4	699.3
					Total Assets	880.4	1,008.4	1,254.2	1,541.4
Ratio Analysis					Cash Flow				
Particulars	FY08	FY09	FY10	FY11	Particulars (₹ Mn.)	FY08	FY09	FY10	FY11
OPM (%)	18.5%	15.3%	17.6%	16.8%	Opening Cash & Bank	67.9	305.1	558.8	563.9
EBITDA (%)	18.6%	15.4%	19.0%	17.5%	Profit after Tax	143.6	212.8	373.5	439.1
PBIT (%)	15.0%	13.1%	17.3%	16.3%	Less: Investment Income	(1.8)	(1.7)	(41.8)	(23.7)
PAT (%)	11.5%	10.2%	13.2%	12.2%	Interest Paid	(32.7)	(48.7)	(58.0)	(57.3)
Interest Cover (x)	(5.7)	(5.6)	(8.4)	(10.2)	Depreciation	45.9	47.0	48.4	44.6
EPS (₹)	11.6	17.1	30.1	35.4	Deferred Taxation	(4.7)	(12.1)	(11.8)	(7.6)
Cash per share (₹)	38.0	61.4	91.9	107.9	Others	(2.1)	(0.7)	(5.2)	0.0
P/E (x)	37.2	25.1	14.3	12.2	Change in Working Cap	313.4	127.0	104.5	(60.8)
P/BV (x)	6.4	5.5	4.4	3.5	CF - Operating Activities	461.5	323.5	409.6	334.3
BVPS (₹)	66.8	78.1	98.8	122.6	Change in Fixed Assets	(19.1)	(11.4)	(14.6)	(72.2)
Market Cap (₹ Mn.)	2,553.5	2,834.3	3,824.5	5,343.7	Change in Investments	(167.1)	(36.1)	(373.9)	(0.7)
M Cap/Sales (x)	2.0	1.4	1.4	1.5	Investment Income	1.8	1.7	41.8	23.7
EV (₹ Mn.)	2,081.4	2,072.3	2,683.4	4,003.8	CF - Investing Activities	(184.4)	(45.8)	(346.7)	(49.2)
EV/EBITDA (x)	8.9	6.5	5.0	6.3	Increase in Equity	0.0	0.0	0.0	0.0
ROCE (%)	22.6%	28.2%	39.9%	38.5%	Changes in Borrowings	0.0	0.0	0.0	0.0
RONW (%)	17.3%	21.9%	30.4%	28.8%	Interest (Paid)/Received	32.7	48.7	58.0	57.3
Inventory T/o Days	24.7	22.4	25.7	35.5	Dividend Paid	(72.7)	(72.7)	(115.9)	(144.3)
Debtors T/o Days	49.2	9.2	5.2	8.2	CF - Financing Activities	(39.9)	(23.9)	(57.9)	(87.0)
Advances T/o Days	14.2	8.5	7.8	8.5	Net Change in Cash	237.2	253.8	5.0	198.1
Creditors T/o Days	56.6	27.5	37.0	41.7	Closing Cash & Bank Bal	305.1	558.8	563.9	762.0
Working Cap T/o Days	120.3	94.7	56.9	41.7					
Fixed Assets T/o (Gross)	1.8	2.9	3.9	4.6					
DPS (₹)	5.0	5.0	8.0	10.0					
Dividend Payout (%)	43.2%	29.2%	26.6%	28.3%					
Dividend Yield (%)	1.2%	1.2%	1.9%	2.3%					

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

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YES
YES
NO

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