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Result Update
January 27, 2012

Swaraj Engines Ltd. (SEL)

CMP	:	**Rs.430**
Reco	:	**BUY**
Target	:	**Rs.612**

STOCK INFO	
BSE	500407
NSE	SWARAJENG
Bloomberg	SWE IN
Reuters	SWAR.BO
Sector	Engines
Face Value (Re)	10
Equity Capital (Rs Mn)	124
Mkt Cap (Rs Mn)	5,341
52w H/L (Rs)	504/349
Avg Daily Vol (BSE+NSE)	8,711

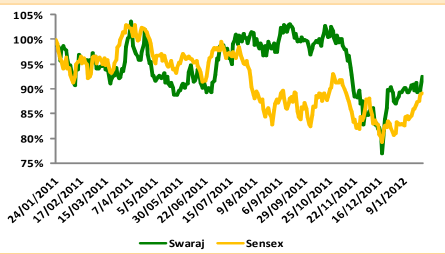
SHAREHOLDING PATTERN	%
(as on 30th Sep. 2011)	
Institutions	14.96
Others, Incl Public	34.42
Promoters	50.62

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
SWARAJ	7	-8	-8
SENSEX	9	0.8	-11

Source: Capitaline, IndiaNivesh Research

SWARAJ ENGINES v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Net Sales up 27%, PAT up 24%, robust performance continues. Maintain Buy with target of Rs 612.

Quick Fundamentals (Rs. Mn)	Q3 FY12	Q2FY12	Q3 FY11	QoQ %	YoY %	9mFY12	9mFY11	YoY%
Revenue	**1176**	**1029**	**926**	**14**	**27**	**3307**	**2637**	**25%**
Cost of Revenues	994	876	766	13	30	2794	2179	28%
Raw Materials	916	799	698	15	31	2563	1982	29%
Employee Expenses	48	47	43	1	12	142	126	13%
Other Expenditure	30	31	25	(2)	19	89	70	26%
EBIDTA	**182**	**153**	**160**	**19**	**14**	**513**	**458**	**12%**
Depreciation	10	10	12	4	(11)	29	33	-11%
EBIT	172	143	149	20	16	484	425	14%
Interest Expense	(21)	(20)	(12)	9	76	(61)	(39)	56%
Other income	11	8	3.8	39	189	26	15	78%
PBT	204	170	164	20	24	570	479	19%
Tax	63	52	51	21	24	176	151	17%
PAT	141	118	113	20	24	394	328	20%
EPS (RS.)	11.34	9.48	9.12			31.72	26.44	
Margin %				**Basis Points (BPS)**				**BPS**
EBITDA	*15.5*	*14.8*	*17.3*	66	(179)	*15.5*	*17.4*	(187)
EBIT	*14.6*	*13.9*	*16.0*	74	(142)	*14.6*	*16.1*	(151)
PBT	*17.4*	*16.5*	*17.8*	82	(39)	*17.2*	*18.2*	(92)
PAT	*12.0*	*11.4*	*12.2*	53	(26)	*11.9*	*12.5*	(54)

Source: Company Filings; IndiaNivesh Research

- SEL continued to witness yet another strong quarter of performance on the back of robust demand for tractor engines. During the quarter the company sold 14273 units of engines as against 12294 units sold in Q3FY11 (up 16% YoY) & 12839 units in Q2FY12 (up 11% QoQ). This has contributed in the 27% YoY and 14% QoQ augmentation in the revenue of the company. Average realization per unit of engine has gone up by 9% YoY & 3% QoQ.

Cost Analysis (% of Revenue)	Q3 FY12	Q2FY12	Q3 FY11	bps QoQ	bps YoY
Raw Materials	77.9%	77.6%	75.4%	28	252
Employee Expenses	4.1%	4.6%	4.6%	-51	-56
Other Expenses	2.6%	3.0%	2.7%	-42	-17

Source: Company Filings; IndiaNivesh Research

- Due to increase in raw material cost as compared to last year the EBITDA margin contracted by 179 bps YoY. However EBITDA margin has increased by 66 bps QoQ driven by savings on employee as well as other expenses.
- Rise in interest earnings as well as other income resulted in 24% YoY and 20% QoQ growth in PAT to Rs 141 mn.
- The two phased capacity expansion project is progressing well. In the first phase the company expects to achieve enhanced production capacity of 60,000 units by end of fiscal FY12.

Valuation

- The tractor industry's forecast by largest player M&M has been revised upward to 17-18% from previous 11-13% for FY12 (13% For FY13E). This upward revision has been backed by record kharif production, good monsoons, continued labour shortage, easy availability of finance and increase in MSPs. Going ahead, though tractor sales are dull during months of November and December, the sales are expected to pick up in January 2012 due to harvest season for Rabi. The players are expanding their product portfolio to various other agricultural implements. With acceleration in the pace of mechanization of Indian agriculture, we expect healthy growth in demand for agricultural implements-tractors in particular.
- In addition to these favorable macro factors, the increasing usage of tractors in non-agri related activities like passenger transportation and carrying material for industrial/construction purposes would enhance the owner's capital efficiency in non-farming seasons thereby increasing demand. Hence, we believe SEL is best poised to take the advantage of robust growth in tractor industry.
- At the CMP of Rs 430, SEL is trading at 10.7x & 9.2x FY12E & FY13E EPS. We believe current valuation is too low for a company that has large cash on its book, zero debt, expanding its assets by 1.7x in next 2 years, has consistently paid high dividend (dividend yield 2.5%). SEL has historically traded in PE band of 7-21 with mean of around 14x 1 yr forward EPS. Taking a conservative view we apply 15% discount to mean valuation multiple to arrive at PER of 12x yielding a price target of Rs 612 in 12-18 months.

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