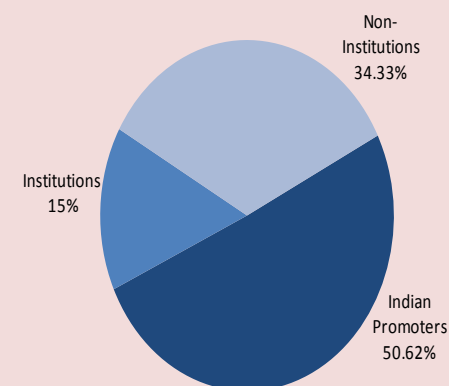


Re-Rate: BUY

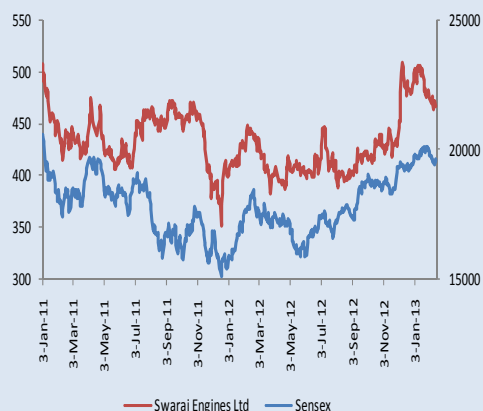
Market Data

Current Market Price (CMP)	465
Target Price	541
Upside Potential	16%
52 Week High Low	530/380
Market Cap (INR in Cr)	578



Stock Scan

Scrip ID	Swaraj Engines Ltd
Scrip Code (NSE)	SWARAJENG
Scrip Code (BSE)	500407
Bloomberg Ticker	SWE IN
Reuters Ticker	SWAR.BO
Industry	Diesel Engines
Face Value (INR per share)	10.00
Equity Share Capital (INR in Cr)	12.42
Avg 3 years P/E	10.41
Avg daily volume (Last 1 Year)	5,667
Beta Vs Sensex	0.55
Dividend Yield	2.80%



Swaraj Engines Limited: Upside from rising volumes

Sector – Auto Ancillaries

We recommend Swaraj Engines Ltd (SEL) a **“BUY”**. We had earlier recommended SEL a BUY with a target price of INR529 in our report dated 23rd November, 2012, which has got achieved on 10th December, 2012. Hence, the stock is poised for Re-Rating based on its strong volume growth which is likely to be seen in FY14e from its capacity expansion to 75000 engines per annum. Other factors like increased demand from M&M, presence in all HP segments, softening of commodity prices and dependence on agriculture industry bodes well for the SEL's fortune as not only will it witness higher sales growth, but the margin will also improve as higher capacities get increasingly utilized.

Investment Highlight

Leading supplier to Mahindra & Mahindra Ltd – A key source to growth: SEL enjoys the access to the India's largest tractor manufacturer “M&M” (41% market share in Domestic tractor industry), which has a holding of 33% in SEL. Swaraj Engines Ltd manufactures tractor engines solely for the “Swaraj Division” of M&M. It caters to ~80% demand of Swaraj division of M&M and rest 20% of demand is met through Kirloskar Oil Engines, which has a holding of 17% in SEL. The demand from M&M is estimated to grow further and reach ~85-90%. The engine volume has grown at a CAGR of 18%, since the M&M acquisition on back of enhanced demand from M&M as compared to CAGR of just 2% over FY04-08 (before the acquisition).

Capacity expansion to improve productivity and help meet the demand from M&M: SEL has undertaken an expansion plan to increase its annual capacity to 75000 engines per annum from 42000 engines in FY11 in two phases. The first phase which increased the capacity to 60000 engines got completed in FY12. The second phase would increase the capacity to 75000 engines. This phase has progressed well and got completed in Q3FY13. Full benefits of this phase of expansion will be available in FY 2014. This expansion would help SEL in improving productivity and meet the aggressive engine demand from M&M. The capex of INR55 crore for the expansion would be funded entirely from internal accruals. According to the Management, the capacity can reach 100000 engines as the need arises from M&M.

SEL'S presence in high HP segment and its growth directly dependent on Indian agriculture – An added advantage: Firstly, SEL manufactures engines in the 20-50HP range. Around 10% of sales comes from lower than 30 HP engine, 50% from 30-40 HP and 40% from 40-50 HP. Secondly, SEL's growth has been directly comparable to Indian agriculture. We expect tractor industry to grow in long term on back of more productivity, low penetration, need for mechanization, higher MSPs and policies (NREGA).

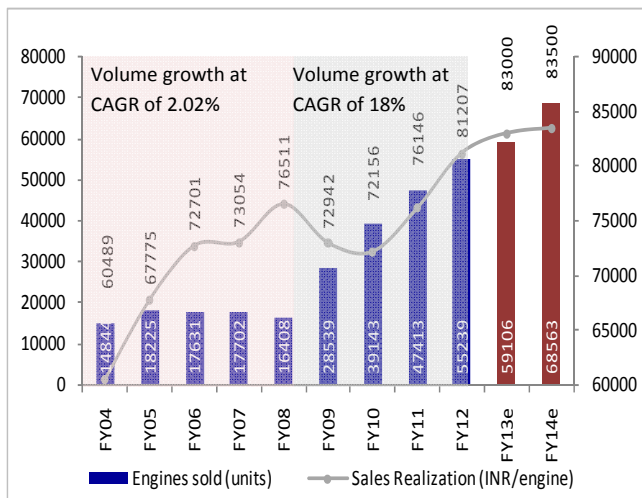
Healthy earnings, strong cash flows, zero debt; Valuations attractive: With revenue growth at a CAGR of 21%; PAT growth at CAGR of 26% post acquisition and stable margins at ~15%, the company is poised to grow further and capable of sustaining its healthy earnings. Despite the capex of INR58crore, the company has strong cash flows. Furthermore, the company is debt free and is likely to earn ROE of 27% over FY14e.

Exhibit 1. Swaraj Engines Ltd- Financial Performance (All Data in INR Crores except per share and %)

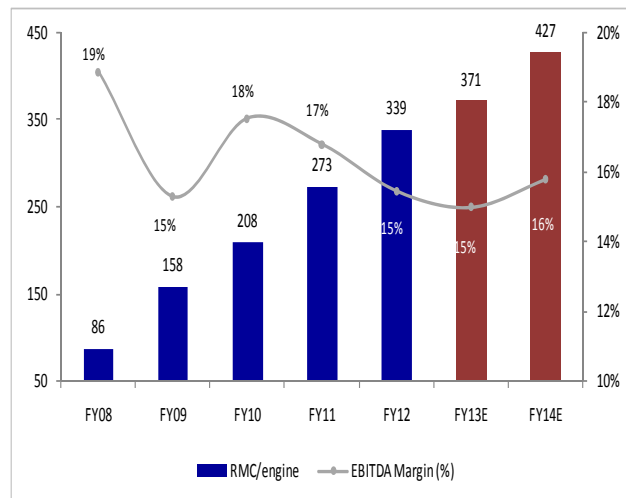
Particulars	FY2009A	FY2010A	FY2011A	FY2012A	FY2013E	FY2014E
Net Sales	208	282	361	449	491	572
Growth	66.15%	35.68%	27.83%	24.25%	9.36%	16.70%
EBITDA	32	50	61	69	74	90
EBITDA Margin	15.31%	17.55%	16.80%	15.46%	15.00%	15.80%
Net Profit	21	37	44	53	54	67
Net Profit Margin	10.22%	13.22%	12.16%	11.77%	11.07%	11.74%
Net Profit Growth	48.19%	75.52%	17.56%	20.29%	2.84%	23.71%
EPS	17.13	30.07	35.35	42.53	43.73	54.10
P/E(x)	5.55	9.65	12.14	9.43	10.63	8.59
P/BV(x)	1.22	2.94	3.50	2.67	2.56	2.12
ROE	23.65%	34.00%	31.94%	31.21%	26.38%	26.96%

Source: Company Data, Microsec Research

Robust Earnings; Higher Volumes to drive future growth



Source: Company Data, Microsec Research



Source: Company Data, Microsec Research

Key Downside risks & Concerns:

- Dependence on Indian agriculture industry where tractor is mostly used. Factors like heavy rain, floods, droughts, lower realizations can affect the farm income, which would directly impact the tractor sales.
- Dependence on single client "Mahindra & Mahindra".
- Decline in availability of agricultural credit due to macro-economic circumstances could adversely affect growth.
- Fluctuation in commodity prices which could affect the operating margins.

Valuation:

We had recommended Swaraj Engines Ltd a "BUY" at INR430 in our report dated 23rd November, 2012 with a Target price of INR529. The stock had today surpassed our Target price of INR529, giving a return of 23% in just 15 days time on 10th Dec, 2012.

At the CMP of INR465, the stock discounts its FY13E EPS of INR43.73 by 10.63x and its FY14E EPS of INR54.10 by 8.59x. Given such strong earnings, incremental production, leading supplier to M&M, we have assigned a discounted P/E multiple of 10x on FY2014E EPS of INR54.10 per share and arrived at a target price of INR541 per share for the company i.e. an upside of 16%.

Microsec Research: Phone No.: 91 33 30512100 Email: microsec_research@microsec.in

Ajay Jaiswal: President, Investment Strategies, Head of Research: ajaiswal@microsec.in

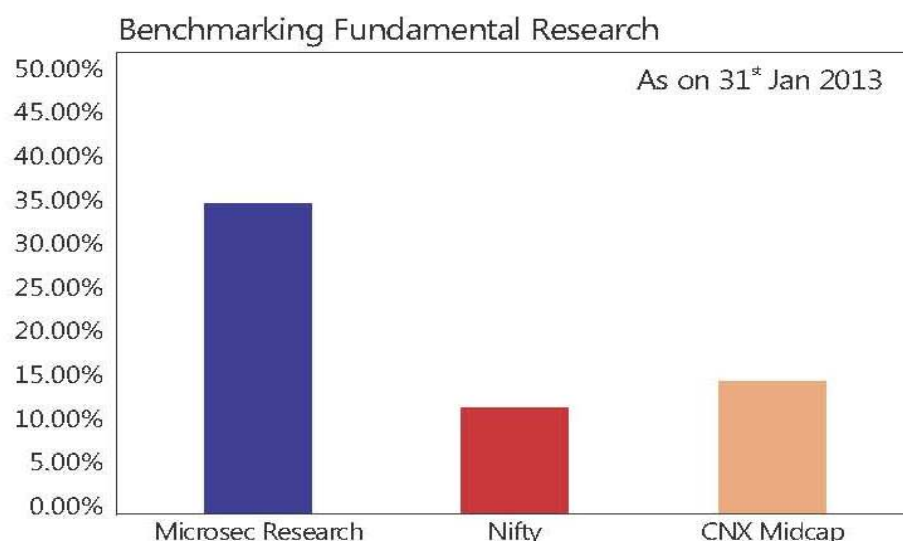
Fundamental Research			
Name	Sectors	Designation	Email ID
Nitin Prakash Daga	IT, Telecom & Entertainment	AVP-Research	npdaga@microsec.in
Naveen Vyas	Midcaps, Market Strategies	AVP-Research	nvyas@microsec.in
Gargi Deb	Agriculture & Pharma	Research Analyst	gdeb@microsec.in
Sutapa Roy	Economy	Research Analyst	s-roy@microsec.in
Sanjeev Jain	BFSI	Research Analyst	sjain@microsec.in
Anik Das	Mid Cap	Research Analyst	adas4@microsec.in
Neha Majithia	Mid Cap	Research Analyst	nmajithia@microsec.in
Soumyadip Raha	Mid Cap	Executive Research	sraha@microsec.in
Saroj Singh	Mid Cap	Executive Research	ssingh2@microsec.in
Kapil Bhati	Mid Cap	Executive Research	kbhati@microsec.in
Technical & Derivative Research			
Vinit Pagaria	Derivatives & Technical	VP	vpagaria@microsec.in
Ranjit Saha	Technical Research	Sr. Manager	rksaha@microsec.in
Institutional Desk			
Dhruwa Mittal	Institutional Equities	Sr. Manager	dmittal@microsec.in
Puja Shah	Institutional Desk	Dealer	pdshah@microsec.in
PMS Division			
Siddharth Sedani	PMS Research	AVP	ssedani@microsec.in
Ketan Mehta	PMS Sales	AVP	ksmehta@microsec.in
Research: Financial Planning Division			
Shrivardhan Kedia	FPD Products	Manager Research	skedia@microsec.in
Research-Support			
Subhabrata Boral	Research Support	Asst. Manager Technology	sboral@microsec.in

Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

MICROSEC RESEARCH IS ALSO ACCESSIBLE ON BLOOMBERG AT <MCLI>

Research?

Microsec Benchmark its Research



An amount of ₹ 1,00,000 invested individually in all 186 stocks ie, ₹ 1,86,00,000 investment as and when recommended has appreciated to ₹ 2,50,00,780 giving a return of 34.4 percent. On the same basis Nifty has given a return of 11.6 percent and CNXMID CAP has given a return of 13.9 percent.

Microsec benchmark its Research and the same is updated on our website at www.microsec.in. Come, strike the right balance through Benchmarking Research.

Plan and monitor your resources through
www.prpsolutions.com



- Investment Banking
- Equity, Commodity & Currency Broking
- Wealth Management
- Insurance Broking
- Club Kautilya
- prpsolutions.com



accountable... answerable, always



Kolkata

Investment Banking
Azimganj House, 2nd Floor,
7, Camac Street, Kolkata- 700 017, India
Tel.: 91 33 2282 9330, Fax: 91 33 2282 933

Brokerage and Wealth Management
Shivam Chambers, 1st Floor,
53, Syed Amir Ali Avenue, Kolkata- 700 019, India
Tel.: 91 33 3051 2100, Fax: 91 33 3051 20205

Mumbai

42A & 74A, Mittal Tower,
4th & 7th floor 210, Nariman Point,
Mumbai- 400 021, India
Tel.: 91 22 2285 5544, Fax: 91 22 2285 5548

New Delhi

417, World Trade Centre, 4th Floor, Babar Road,
Connaught Place, New Delhi- 110 001, India
Tel.: 91 11 4152 8152



E-mail: info@microsec.in Website: www.microsec.in

Disclaimer:

This document is prepared by the research team of Microsec Capital Ltd. (hereinafter referred as "MCL") circulated for purely information purpose to the authorized recipient and should not be replicated or quoted or circulated to any person in any form. This document should not be interpreted as an Investment / taxation/ legal advice. While the information contained in the report has been procured in good faith, from sources considered to be reliable, no statement in the report should be considered to be complete or accurate. Therefore, it should only be relied upon at one's own risk.

MCL is not soliciting any action based on the report. No indication is intended from the report that the transaction undertaken based on the information contained in this report will be profitable or that they will not result in losses. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors, as they believe necessary.

Neither the Firm, nor its directors, employees, agents nor representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.