

**CMP : Rs.420**

**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)	5,216
52w H/L (Rs)	477/349
Avg Daily Vol (BSE+NSE)	8,711

**SHAREHOLDING PATTERN**

	%
<i>(as on 30th Jun. 2012)</i>	
Institutions	16.07
Others, Incl Public	34.48
Promoters	50.62

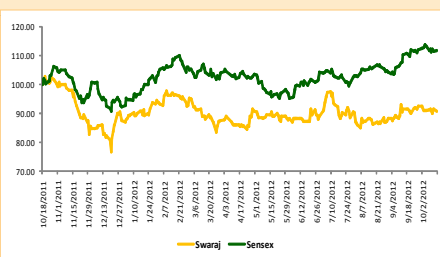
Source: BSE

**STOCK PERFORMANCE (%) 1m 3m 12m**

	1m	3m	12m
SWARAJ	-1	-2	-9
SENSEX	1	9	12

Source: Capitaline, IndiaNivesh Research

**SWARAJ ENGINES v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

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SEL reported its Q2 FY13 numbers ahead of street expectations. The company witnessed 18% YoY increase in the revenue to Rs 1.21 bn against street expectation of Rs 1.14 bn led by increase in volume and Average realization. The company's engines sales increased by 2.67% to 14,389 units. Average realization stood at Rs. 83,877 in Q2FY13 vs. Rs. 83,409 in Q1FY13 and Rs 79,492 in Q2FY12. Net profit increased by 19% YoY and 2% Q-o-Q to Rs 140 mn vs. consensus of Rs.132 mn.

Quick Fundamentals (Rs. Mn)	Q2 FY13	Q1 FY13	Q2FY12	QoQ %	YoY %	FY12	FY11	YoY%
Revenue	1218	1182	1029	3	18	4518	3666	23%
Cost of Revenues	1031	1001	876	3	18	3819	3055	25%
Raw Materials	920	907	799	1	15	3469	2781	25%
Employee Expenses	55	53	47	5	17	197	173	14%
Other Expenditure	56	42	31	33	82	152	101	51%
<b>EBIDTA</b>	<b>187</b>	<b>180</b>	<b>153</b>	<b>3.4</b>	<b>22</b>	<b>699</b>	<b>611</b>	<b>14%</b>
Depreciation	14	14	10	0	43	43	43	1%
EBIT	173	166	143	4	21	655	568	15%
Interest Expense	0.2	0.0	(19.5)			(38.8)	(58.3)	-33%
Other income	29	31	8	(7)	263	77	23	241%
PBT	201	197	170	2	18	771	649	19%
Tax	61	60	52	2	16	237	203	17%
<b>PAT</b>	<b>140</b>	<b>137</b>	<b>118</b>	<b>2</b>	<b>19</b>	<b>534</b>	<b>446</b>	<b>20%</b>
EPS (RS.)	11.3	10.8	9.5			43.0	35.9	
<b>Margin %</b>			<b>Basis Points (BPS)</b>				<b>BPS</b>	
EBITDA	15.3	15.3	14.8	6	49	15.5	16.7	(120)
EBIT	14.2	14.1	13.9	9	29	14.5	15.5	(99)
PBT	16.5	16.7	16.5	(17)	(3)	17.1	17.7	(64)
PAT	11.5	11.6	11.4	(10)	5	11.8	12.2	(35)

Source: Company Filings; IndiaNivesh Research

Decrease in Raw material prices helped EBITDA margin to remain at comfortable level at 15.3% (up by 49 bps y-o-y). Other expenses have increased (as a percentage of revenue) from 3% in Q2 FY12 to 4.6% in Q2FY13. However staff cost remained flat.

Cost Analysis (% of Revenue)	Q2 FY13	Q1 FY13	Q2FY12	bps QoQ	bps YoY	FY12	FY11	bps YoY
Raw Materials (Adj.)	75.6%	76.7%	77.6%	-116	-203	76.8%	75.9%	94
Employee Expenses	4.5%	4.5%	4.6%	7	-5	4.4%	4.7%	-35
Other Expenses	4.6%	3.5%	3.0%	104	160	3.4%	2.8%	62

Source: Company Filings; IndiaNivesh Research

The PBT margin decreased marginally by 3 bps y-o-y to 16.5% due to rise in depreciation cost. The depreciation grew by 43% to Rs 14 mn. PAT increased 19% YoY and 2% Q-o-Q to Rs 140 mn aided by rise in other income to Rs 29 mn.

**Valuation**

Domestic tractor market is showing some signs of weakness over the last couple of months on the back of slowdown in the rural sector. However, long term structural story remains intact with acceleration in the pace of mechanization of Indian

agriculture. In addition to this, 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 420 SEL is trading at 9.3x FY13E EPS. We believe current valuation is too low for a company that has large cash on its book, zero debt, has consistently paid high dividend (dividend yield 2.5%). We maintain our buy rating on the stock with target price of Rs. 612.



Trust.....we earn it.

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