

Retail Equity Research

ESCORTS LTD (South India focus)

Auto – Tractors & Construction

BSE CODE : 500495

NSE CODE: ESC

BLOOMBERG CODE: ESC : IN

SENSEX : 37,319

Accumulate

12M Investment Period

Rating as per Midcap

CMP Rs 572 TARGET Rs 643 RETURN 13% ↑

(Closing: 14-05-19)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Outperformer... Fairly valued

Escorts Ltd (EL) is the third largest Agricultural tractor manufacturer in India. It has a strong presence in the north and west market, with an overall market share of 11.9% as on FY19.

- Q4FY19 revenue grew by 14%YoY in line with our estimates. The growth was largely led by 12.5%YoY revenue contribution from tractor sales and 10%YoY from the construction business.
- Despite the hike in price, margin contracted by 50bps due to higher Input cost. PAT grew by 8%YoY, marginally below our expectation due to lower other income & high base.
- Development over monsoon, especially in the southern market and Government's subsidy towards farm mechanisation will be a driving factor for volume growth in FY20.
- However 1% improvement in market share from the South & West region owing to New product launches and Marketing strategy will add incremental growth.
- We expect EL to register a revenue growth of 10% over FY19-21E and to outperform the industry.
- We rollover our valuation to FY21 and value EL at 13x FY21 EPS and upgrade our rating from Hold to Accumulate at CMP.

Outperformance to continue

Q4FY19 revenue grew by 14%YoY in line with our estimates. The growth was led by 12.5%YoY revenue contribution from tractor sales and 10%YoY from the construction business. The volume growth in the tractor segment was largely driven by demand from strong markets (UP, MP and Northern states) growing at 12%YoY. Despite the hike in price, margin contracted by 50bps due to higher Input cost. PAT only grew 8%YoY, due to lower other income and high base. Development over monsoon, especially in the southern or opportunistic markets, and Government's subsidy towards farm mechanization will be a driving factor for volume growth in FY20.

Revenue & PAT to grow by double digit.

ELs expanded portfolio & technology upgrades in tractors have resulted in improved numbers both in existing and newer geographies. Exports have grown by 57%YoY for the full year. Revenue from Construction equipment's grew by 24% for FY19 and EL outpaced the industry growth of 22%YoY. Railway segments will continue to reflect sizable improvement in FY20. Management has indicated 15% CAGR growth in Railway in the next 3 years. We are forecasting a moderation in the Tractor volume growth in FY20E, due to lower visibility and factor 2.4% & 3.1% decline in our Revenue and PAT estimate We expect 10% CAGR growth in revenue growth over FY19-21E.

Improved penetration leads to increase in market share

EL's market share improved by 160bpsYoY and 360bps QoQ to 15% in Q4FY19 and 11.9% for full year. The current market share is pooled from Powertrac and Farmtrac brands at 60%/40% respectively. Recently launched compact tractors and paddy specialist tractors at <40HP category has led to 1% increase in market share from the opportunistic market Overall share of new products in tractors stands at ~20% currently and have better margins

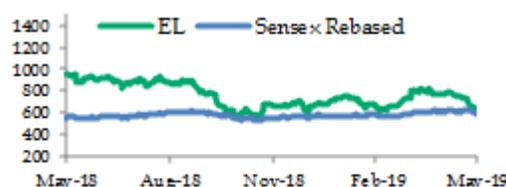
Valuations

The management expects the trend of outperformance in North and Central region to continue in FY20e as the reservoir level are low in Maharashtra and South. The guidance for tractor growth is given at 5-8% considering the fact of high base in FY19 and lower water level. However we believe that the current valuation is justifiable on the back of 13% earnings growth over FY19-21E and massive government push. We value EL at 13x FY21E EPS with a revised target price of Rs643 and upgrade our rating from Hold to Accumulate.

Company Data			
Market Cap (cr)	Rs. 7,011		
Enterprise Value (cr)	Rs. 7,261		
Outstanding Shares (cr)	12.3		
Free Float	60%		
Dividend Yield	0.40%		
52 week high	Rs. 970		
52 week low	Rs. 543		
6m average volume (cr)	0.26		
Beta	1.6		
Face value	Rs. 10		
Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	40.1	40.1	40.1
FII's	22.4	21.6	24.6
MFs/Insti	6.1	4.9	3.2
Public	31.4	33.4	32.1
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-10.9%	-7.8%	-35.7%
Absolute Sensex	1.6%	6.9%	6.6%
Relative Return	-12.4%	-14.7%	-42.3%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	6,196	6,793	7,491
Growth (%)	24.0	9.6	10.3
EBITDA	733	829	921
EBITDA Margin(%)	11.8	12.2	12.3
PAT Adj.	475	539	607
Growth (%)	35.0	13.6	12.6
Adj.EPS	38.7	44.0	49.5
Growth (%)	35.0	13.6	12.6
P/E	14.8	13.0	11.6
P/B	2.1	1.8	1.5
EV/EBITDA	9.9	8.8	7.9
ROE (%)	18.4	17.6	16.7
D/E	0.1	0.1	0.10

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	1,632	1,436	13.6	3,287	2,641	24.4
EBITDA	190	174	9.2	319	390	22.4
EBITDA margins	11.6	12.1	-50bps	11.9	12.1	-20bps
Depreciation	22	19	15.8	12	12	-3.8
EBIT	168	155	8.4	347	282	23.0
Interest	7.5	6.3	18.9	12	12	-
Other Income	17	23	-23.1	42	31	35.7
Exceptional Items	0	0	-	10.9	0.1	-
PBT	178	171	3.9	126	96	31.4
Tax	56	59	-3.7	126	94	31.4
Share of profit from Associate	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
Reported PAT	121	113	7.8	261	205	27.8
Adjustments	0	0	-	10.9	0.1	-
Adj PAT	121	113	7.8	251	204	22.6
No. of Shares (cr)	12.3	12.3	-	12.3	12.3	-
EPS (Rs)	9.9	9.2	7.8	20.4	16.7	22.6

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	6,960	7,811	6,793	7,491	-2.4	-3.5
EBITDA	856	976	829	921	-3.2	-4.9
Margins (%)	12.3	12.5	12.2	12.3	(10bps)	(20bps)
Adj. PAT	556	631	539	607	-3.1	-3.2
EPS	45.3	51.4	44.3	49.5	-3.1	-3.2

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	4,093	4,995	6,196	6,793	7,491
% change	21.0	22.0	24.0	9.6	10.3
EBITDA	324	557	733	829	921
% change	68.6	72.1	31.6	13.0	11.2
Depreciation	63	72	85	91	89
EBIT	261	485	648	738	833
Interest	31	29	16	24	23
Other Income	43	59	81	90	95
PBT	230	456	631	713	809
% change	115.3	83.8	42.1	11.1	0.0
Tax	76	164	238	264	298
Tax Rate (%)	0.27	0.32	0.33	0.33	0.33
Reported PAT	201	345	486	539	607
Adj.	-6	-7	11	0	0
Adj. PAT	207	352	475	539	607
% change	78.8	69.5	35.0	13.6	12.6
No. of shares (cr)	12.3	12.3	12.3	12.3	12.3
Adj EPS (Rs)	16.9	28.7	38.7	44.0	49.5
% change	126.0	69.5	35.0	13.5	12.6
DPS (Rs)	1.5	2.0	2.0	2.0	2.0

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	334	572	796	889	995
Non-cash adj.	-6	-65	-39	-43	-48
Changes in W.C	61	-22	-161	-344	-346
C.F. Operation	394	494	609	507	599
Capital exp.	-82	-113	-161	-210	-211
Change in inv.	-185	-301	-328	-300	-450
Other invest.CF	0	0	0	0	0
C.F - Investment	-267	-425	-489	-510	-661
Issue of equity	0	0	0	0	0
Issue/repay debt	-92	-80	115	40	-60
Dividends paid	-12	-14	-14	-14	-14
Other finance.CF	-	-	-	-	-
C.F - Finance	-104	-94	101	26	-74
Chg. in cash	23	-25	220	22	-136
Closing cash	70	17	225	248	112

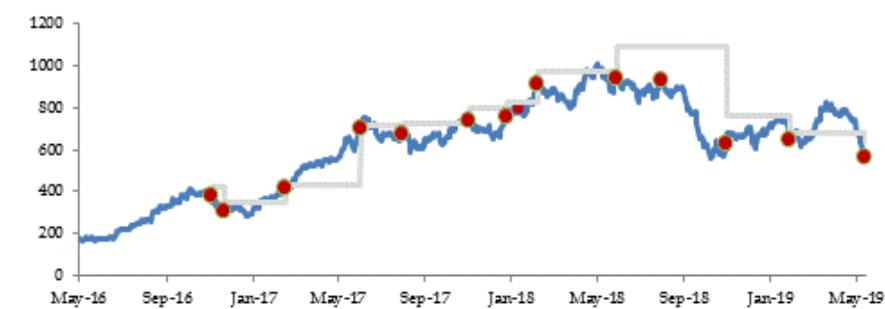
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	70	17	225	248	112
Accounts Receivable	458	600	713	782	862
Inventories	429	541	674	735	811
Other Cur. Assets	307	370	458	502	554
Investments	634	954	1,289	1,592	2,046
Gross Fixed Assets	2,490	2,566	2,716	2,916	3,116
Net Fixed Assets	1,511	1,522	1,587	1,696	1,807
CWIP	27	64	75	85	96
Intangible Assets	44	36	36	36	36
Def. Tax (Net)	47	112	151	194	242
Other Assets	8	17	18	18	18
Total Assets	3,535	4,232	5,226	5,888	6,583
Current Liabilities	232	323	372	406	447
Provisions	151	205	255	279	308
Debt Funds	215	135	250	290	230
Other Liabilities	894	1,225	1,545	1,584	1,677
Equity Capital	123	123	123	123	123
Reserves & Surplus	1,884	2,221	2,681	3,206	3,798
Shareholder's Fund	2,006	2,343	2,804	3,328	3,921
Total Liabilities	3,535	4,232	5,226	5,888	6,583
BVPS	196	229	274	325	383

RATIOS

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	7.9	11.2	11.8	12.2	12.3
EBIT margin (%)	6.4	9.7	10.5	10.9	11.1
Net profit mgn.(%)	5.1	7.0	7.7	7.9	8.1
ROE (%)	10.8	16.2	18.4	17.6	16.7
ROCE (%)	6.5	9.4	10.0	9.7	9.7
W.C & Liquidity					
Receivables (days)	37.8	38.7	38.7	40.2	40.0
Inventory (days)	54.0	52.6	52.3	55.6	55.3
Payables (days)	28.1	30.1	29.9	30.7	30.5
Current ratio (x)	3.3	2.9	3.4	3.4	3.2
Quick ratio (x)	2.3	1.9	2.5	2.5	2.2
Turnover & Leverage					
Gross asset T.O (x)	1.7	2.0	2.4	2.5	2.5
Total asset T.O (x)	1.2	1.3	1.3	1.2	1.2
Int. covge. ratio (x)	8.4	17.0	39.3	30.3	35.6
Adj. debt/equity (x)	0.1	0.03	0.05	0.05	0.03
Valuation					
EV/Sales (x)	1.8	1.4	1.2	1.1	1.0
EV/EBITDA (x)	22.3	12.8	9.9	8.8	7.9
P/E (x)	33.8	19.9	14.8	13.0	11.6
P/BV (x)	3.0	2.5	2.1	1.8	1.5

Recommendation summary (Last 3 Years)



Dates	Rating	Target
03-11-2016	Buy	425
23-11-2016	Buy	245
16-02-2017	Hold	432
02-06-2017	Hold	713
31-07-2017	Hold	720
02-11-2017	Accumulate	800
26-12-2017	Accumulate	829
07-02-2018	Accumulate	973
30-05-2018	Buy	1,090
31.07.2018	Buy	1,091
02.11.2018	Buy	763
30.01.2019	Hold	680
15.05.2019	Accumulate	643

Source: Bloomberg, Geojit Research.

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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