

Retail Equity Research (South India focus)

ESCORTS LTD

Auto – Tractors & Construction

BSE CODE : 500495

NSE CODE: ESCORTS

BLOOMBERG CODE: ESC : IN

SENSEX : 37,018

Reduce

12M Investment Period

Rating as per Smallcap

CMP Rs. 459 TARGET Rs. 419 RETURN 9% ↓

(Closing: 01-08-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Bleak outlook to continue

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.

- Q1FY20 revenue de-grew by 6%YoY below our estimates. This was largely on account of 14%YoY decline in tractor volume growth.
- Excess shortfall in delayed monsoon, Higher YoY base and lower water level at reservoirs are the key headwinds for the industry
- Despite the hike in price, margin contracted by 230bps due to high operating cost owing to production cut and lower volume across segment. PAT de-grew by 27% YoY.
- Development over monsoon, especially in the southern market & Festive demand will be the driving factors for pickup in H2.
- We expect lower visibility in volume for the near term and profitability to remain under pressure. We value EL at 10.5x FY21E EPS and downgrade our rating from Accumulate to reduce with a revised price of Rs419.

Bleak outlook to continue

Q1FY20 revenue de-grew by 6%YoY below our estimates. This was largely on account of 14%YoY decline in tractor volume growth. Excess shortfall in delayed monsoon, Higher YoY base and lower water level at reservoirs are the key headwinds for the industry. EL's construction business also registered a negative growth of 21%YoY where as Railway segment grew by 33%YoY. Despite the hike in price, margin contracted by 230bps due to high operating cost owing to production cut and lower volume across segment. PAT de-grew by 27%YoY. 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 the long term.

Industry sitting on a high base

In the last 3 years industry witnessed a strong CAGR growth of 15% during FY16-19 comparing to its historical average growth rate of 5-6% respectively. During this period state government subsidy for tractors in south and west market was all-time high. The uneven monsoon on these states are badly affecting the growth. During the quarter EL's strong markets (UP, MP and Northern states) declined by -2%YoY whereas opportunity market by significant -31%YoY. EL's 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. We are forecasting a moderation in the domestic tractor volume growth in FY20E. We lower our revenue and PAT estimate for FY20 by 9% & 22% and factor volume growth of -7% for FY20.

Marginal decline in market share

EL's market share improved by 80bpsYoY to 11.9% in FY19. During the quarter there is a marginal decline of 20bps. 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 underperformance in south and west region to continue in FY20 as the reservoir level are low in Maharashtra and South. The Initial volume guidance of 5-8% for tractor seems ambitious considering the fact of high base in FY19 and modest government subsidy in the budget. We expect lower visibility in volume for the near term and profitability to remain under pressure. We value EL at 10.5x FY21E EPS and downgrade our rating from Accumulate to reduce with a revised price of Rs419.

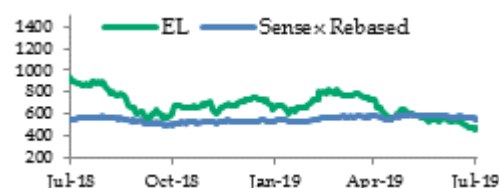
Company Data

Market Cap (cr)	Rs. 5,638
Enterprise Value (cr)	Rs. 5,888
Outstanding Shares (cr)	12.3
Free Float	60%
Dividend Yield	0.40%
52 week high	Rs. 928
52 week low	Rs. 452
6m average volume (cr)	0.26
Beta	1.6
Face value	Rs. 10

Shareholding (%)	Q3FY19	Q4FY19	Q1FY20
Promoters	40.1	40.1	40.1
FII's	21.6	21.6	24.6
MFs/Insti	4.9	4.9	3.2
Public	33.4	33.4	32.1
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-32.5%	-30.1%	-49.2%
Absolute Sensex	-5.0%	4.0%	-1.3%
Relative Return	-27.5%	-34.1%	-47.9%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	6,196	6,171	6,756
Growth (%)	24.0	-0.4	9.5
EBITDA	733	679	757
EBITDA Margin(%)	11.8	11.0	11.2
PAT Adj.	475	430	485
Growth (%)	35.0	-9.5	13.7
Adj.EPS	38.7	35.1	39.9
Growth (%)	35.0	-9.5	13.7
P/E	11.8	13.1	11.5
P/B	1.7	1.5	1.3
EV/EBITDA	8.0	8.7	7.7
ROE (%)	18.9	14.3	14.1
D/E	0.1	0.1	0.0

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	YoY Growth %
Sales	1,423	1,511	-5.8	1,632	-12.8
EBITDA	142	186	-23.2	190	-25.0
EBITDA margins	10.0	12.3	-230bps	11.6	-160bps
Depreciation	24	21	17.2	22	-10.5
EBIT	118	165	-28.3	168	-29.6
Interest	5.9	7.5	104.3	7.5	-21.6
Other Income	17	17	-	17	-
Exceptional Items	0	0	-	0	-
PBT	129	179	-27.9	178	-27.4
Tax	42	60	-30.0	56	-26.3
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
Reported PAT	88	120	-26.8	121	-27.9
Adjustments	0	0	-	0	-
Adj PAT	88	120	-26.8	121	-27.9
No. of Shares (cr)	12.3	12.3	-	12.3	-
EPS (Rs)	7.1	9.8	-26.8	9.9	-27.9

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	6,793	7,491	6,171	6,705	-9.1	-10.5
EBITDA	829	921	679	751	-18.1	-18.5
Margins (%)	12.2	12.3	11.0	11.2	(120bps)	(110bps)
Adj. PAT	539	607	430	485	-20.2	-20.1
EPS	44.3	49.5	35.1	39.6	-20.2	-20.1

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	4,093	4,995	6,196	6,171	6,756
% change	21.0	22.0	24.0	-0.4	9.5
EBITDA	324	557	733	679	757
% change	68.6	72.1	31.6	-7.4	0.0
Depreciation	63	72	85	91	89
EBIT	261	485	648	588	668
Interest	31	29	16	27	26
Other Income	43	59	81	75	80
PBT	230	456	631	561	642
% change	115.3	83.8	42.1	-12.1	13.5
Tax	76	164	238	206	233
Tax Rate (%)	0.27	0.32	0.33	0.32	0.32
Reported PAT	201	345	486	430	489
Adj.	-6	-7	11	0	0
Adj. PAT	207	352	475	430	489
% change	78.8	69.5	35.0	-9.5	13.7
No. of shares (cr)	12.3	12.3	12.3	12.3	12.3
Adj EPS (Rs)	16.9	28.7	38.7	35.1	39.6
% change	126.0	69.5	35.0	-9.5	13.7
DPS (Rs)	4.4	1.2	1.2	1.2	1.2

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	334	572	796	721	813
Non-cash adj.	-6	-65	-39	-34	-38
Changes in W.C	61	-22	-161	-305	-278
C.F. Operation	394	494	609	387	494
Capital exp.	-82	-113	-161	-210	-211
Change in inv.	-185	-301	-328	-250	-250
Other invest.CF	0	0	0	0	0
C.F - Investment	-267	-425	-489	-460	-461
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	-47	-41
Closing cash	70	17	225	178	137

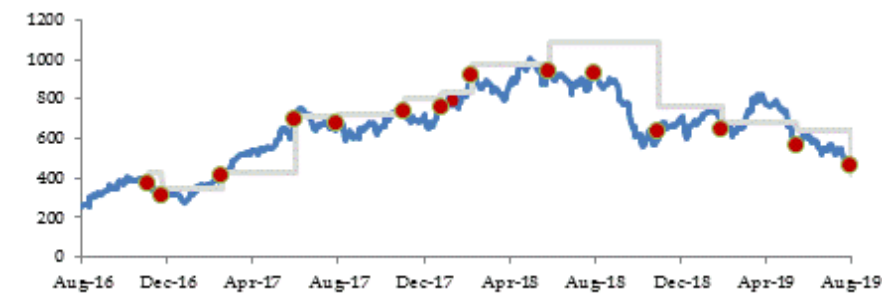
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	70	17	225	178	137
Accounts Receivable	458	600	713	710	777
Inventories	429	541	674	668	731
Other Cur. Assets	307	370	458	456	500
Investments	634	954	1289	1539	1792
Gross Fixed Assets	2490	2566	2716	2916	3116
Net Fixed Assets	1511	1522	1587	1696	1807
CWIP	27	64	75	85	96
Intangible Assets	44	36	36	36	36
Def. Tax (Net)	47	112	151	185	224
Other Assets	8	17	18	18	18
Total Assets	3,535	4,232	5,226	5,570	6,117
Current Liabilities	232	323	372	368	403
Provisions	151	205	255	254	278
Debt Funds	215	135	250	290	230
Other Liabilities	894	1225	1545	1439	1513
Equity Capital	123	123	123	123	123
Reserves & Surplus	1884	2221	2681	3097	3571
Shareholder's Fund	2006	2343	2804	3219	3693
Total Liabilities	3,535	4,232	5,226	5,570	6,117
BVPS	196	229	274	315	361

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	7.9	11.2	11.8	11.0	11.2
EBIT margin (%)	6.4	9.7	10.5	9.5	9.9
Net profit mgn.(%)	5.1	7.0	7.7	7.0	7.2
ROE (%)	10.8	16.2	18.4	14.3	14.0
ROCE (%)	6.5	9.4	10.0	8.1	8.4
W.C & Liquidity					
Receivables (days)	37.8	38.7	38.7	42.1	40.3
Inventory (days)	54.0	52.6	52.3	58.3	55.7
Payables (days)	28.1	30.1	29.9	32.1	30.7
Current ratio (x)	3.3	2.9	3.4	3.3	3.2
Quick ratio (x)	2.3	1.9	2.5	2.4	2.3
Turnover & Leverage					
Gross asset T.O (x)	1.7	2.0	2.4	2.2	2.3
Total asset T.O (x)	1.2	1.3	1.3	1.1	1.1
Int. covge. ratio (x)	8.4	17.0	39.3	21.8	25.4
Adj. debt/equity (x)	0.1	0.03	0.05	0.05	0.04
Valuation					
EV/Sales (x)	1.4	1.2	0.9	1.0	0.9
EV/EBITDA (x)	18.0	10.3	8.0	8.7	7.7
P/E (x)	27.1	16.0	11.8	13.1	11.5
P/BV (x)	2.4	2.0	1.7	1.5	1.3

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

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
02.08.2019	Reduce	419

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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

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