

18th May 2019

Initiating Coverage (BUY)

ESCORTS LTD

CMP INR 558

Target Price INR 634

Stock Details

Industry	Commercial Vehicles
Bloomberg Code	ESC:IN
BSE Code	500495
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	6,851.43
52wk. Low/High (Adjusted) (Rs.)	970.00/542.50

Shareholding Pattern Dec '18

Promoter (%)	40.08
FII (%)	24.60
DII (%)	3.31
Public - Other (%)	32.01
No. of Share Outstanding (mn)	121.22

Valuation Summary

	FY 17A	FY 18A	FY 19E	FY 20P
P/E (x)*	33.17	19.62	13.88	15.50
EV/EBITDA (x)	19.90	17.10	7.84	7.80
P/BV (x)	3.91	4.40	2.49	2.40

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Cr.	FY 17A	FY 18A	FY 19A	FY 20P
Net Sales	4,145	5,059	6,262	7,544
EBITDA	310	554	822	866
Net Profit	131	347	487	496
EPS (Rs.)*	16.0	41.6	55.7	41.5

*Un adjusted

Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	7.5	10.9	13.1	11.5
EBIT Margin (%)	5.9	9.5	11.7	10.3
Net Pro. Margin (%)	3.2	6.9	7.8	6.6
Debt/Equity (x)	0.04	0.01	0.01	0.01
RoNW (%)	7.5	18.1	19.9	17.0
RoCE (%)	6.9	17.3	19.2	16.3

One Year Price / Volume



We recommend 'BUY' on ESCORTS LTD for a target of INR 634 - valuing the company at P/E 15.5x of FY20E Earning.

INVESTMENT RATIONALE:

- Escorts Limited, one of India's leading engineering companies, is a leader in farming and construction equipment manufacturing.
- Focusing on exports and on improving market share in tractors
- Tractor exports from India to grow by 6-8% CAGR, and expected to achieve 8,000 to 10,000 volume by FY22.
- Expected to gain 15-16% market share by FY22 from 11% in FY18
- Currently 900+ active dealers and expanding fast
- Construction equipment and railways businesses on a strong footing
- Constant addition of products to its range would lead to strong sales growth.

VALUATIONS AND VIEW:

Escorts on of India's leading engineering conglomerates having presence in the high growth sectors of Agri-machinery, Construction & Material handling equipment and Railway equipment over last six decades. We value the business at 15.5x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 634 per share.

RISK & CONCERNS:

- **Industry and Market:** The Domestic Agri Industry is dependence on monsoon and farmer's spending behaviour. Any subdued demand will impact the volume of the company adversely.
- **High Input Cost:** Increase in raw material may adversely affect the operating margin of the company.
- **Competition:** The Engineering & equipment Market has multi-players and the competitive landscape has become much more dynamic.

COMPANY BACKGROUND:

Escorts Ltd is one of India's leading engineering conglomerates with over six decades of experience. The company has diversified business in three different segments viz. Agri Machinery Material Handling & Construction Equipment and Railway Equipment. Escorts Ltd was incorporated in the year 1944 as Escorts Agents Ltd in Lahore. In the year 1951 Escorts established India's first private Institute of Farm Mechanisation at Delhi and in the year 1953 Escorts (Agents) Ltd and Escorts (Agriculture and Machines) Ltd merged to form Escorts Agents Pvt Ltd. The company was converted into a public limited company in December 1959 and subsequently the name was changed to Escorts Ltd in January 1960.

Businesses

The Company's segments are Agri Machinery, Auto Ancillary Products, Railway Equipment, Construction Equipments and Others. It is engaged in the business of manufacturing of engines for agricultural tractors, earth moving and material handling equipment, round and flat tubes, heating elements, double acting hydraulic shock absorbers for railways coaches, center buffer couplers, automobile shock absorbers, telescopic front fork and Mcpherson struts, brake block, internal combustion engine and various types of brake used by railways. It also trades in oils and lubricants, implements, trailers, tractors, compressor accessories and spares, construction and aero business. It offers Euro Series under Powertrac; Classic Series in 41-50 HP under Farmtrac brand, and FT 6055 Xtra Torque Tractor with approximately 20 speed transmission.

INDUSTRY OVERVIEW:

Agriculture: India has grown from an agricultural importer to be a surplus producer of food grains, through a favourable interplay of infrastructure, technology and policy support. Central Statistics Office (CSO)'s 2017-18 third advance estimates place total food grain production at 279.51 million tonnes, at par with the record-breaking production of 275.11 million tonnes in FY 2016-17. The agricultural sector employs more than half of the nation's total workforce and contributes to 17-18% of the GDP. However, policymakers recognise that with increasing scarcity of natural resources, progress in agriculture, today, can only be achieved through an increase in productivity.

Tractors: India is the largest manufacturer of farm equipment, including tractors. The country's tractor industry accounts for almost one-third of the global pie. The domestic tractor industry grew by 22.2%, in volume terms, to 7.09 lakh units in FY 2017-18, vis-à-vis 5.80 lakh units in FY 2016-17. The sector is projected to produce 12-15 lakh units by 2030 [Source: India Brand Equity Foundation].

Construction Equipment: The total construction equipment industry grew by 27% in FY 2017-18. Major segments like earth-moving, material handling and road construction, reported positive movements. The served segments of backhoe loaders, Pick and Carry (PnC) cranes and compactors rose by 31.3 % in FY 2017-18. Material handling has emerged as the biggest gainer, with 82% growth, followed by backhoe loaders at 26% and compactors at 16%. The overall construction equipment sector is projected to grow by 16-18% in long-term. Expanding infrastructure investment, growing private sector involvement and progress in the real estate sector drive industry growth.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Escorts	558	13.9	6,851.4	0.36	121.4	7.83	1,631.7	13.62	2.49
VST Till. Tract.	1,126	21.1	972.5	4.44	12.4	(63.26)	178.7	(26.03)	1.65
HMT	816.4	13.9	975.6	-	-	-	-	-	4.40

*TTM

FINANCIAL OVERVIEW

Q3 FY18 Performance Highlight							
(in Million)	Mar FY18	Jun FY18	Sept FY18	Dec FY18	Mar FY19	YoY (%)	QoQ (%)
Revenue	1,436.10	1,511.29	1,398.36	1,655.06	1,631.66	13.62%	-1.41%
Other Income	22.56	16.98	22.12	24.41	17.34		
Total Income	1,458.66	1,528.26	1,420.48	1,679.48	1,649.00	13.05%	-1.81%
Expenditure	-1,268.64	-1,328.61	-1,244.73	-1,447.95	-1,449.36		
As a % of Sales	88.34%	87.91%	89.01%	87.49%	88.83%		
Interest	-6.28	-2.87	-3.86	-4.28	-7.47	18.95%	74.53%
PBDT	190.03	199.65	175.75	231.53	199.64		
As a % of Sales	13.23%	13.21%	12.57%	13.99%	12.24%		
Depreciation	-18.83	-20.57	-21.48	-21.52	-21.81		
PBT	171.2	179.08	154.27	210.01	177.83	3.87%	-15.32%
As a % of Sales	11.92%	11.85%	11.03%	12.69%	10.90%		
Tax	-58.65	-59.52	-51.62	-69.9	-56.48	-3.70%	-19.20%
Net Profit	112.54	120.7	102.74	140.11	121.35	7.83%	-13.39%
As a % of Sales	7.84%	7.99%	7.35%	8.47%	7.44%		
Equity	--	122.58	122.58	122.58	122.58	#VALUE!	0.00%
EPS (Rs)	9.42	10.1	8.6	11.72	10.15	7.75%	-13.40%
CEPS (Rs)	--	11.52	10.13	13.19	11.68		
OPM %	13.23	13.21	12.57	13.99	12.24		
NPM %	7.84	7.99	7.35	8.47	7.44		

Income Statement (Consolidated)

Y/E Mar (Rs Cr.)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P
Net Sales	4,113	3,538	4,123	5,007	6,262	7,514	9,017
Other Operating Income	-	-	22	52	-	29	44
Expenditure	3,950	3,391	3,836	4,506	5,537	6,784	8,182
EBITDA	163	146	310	554	725	760	880
Depreciation	69	61	63	73	87	90	94
EBIT	94	85	246	480	637	670	786
Interest Expenses	58	52	32	29	20	34	34
PBT	36	33	214	451	618	636	752
Tax	(6)	2	118	162	237	246	282
Other Income	65	61	47	65	92	106	120
Extraordinary Items	(31)	(15)	(12)	(7)	5	-	-
Net Income Before Adjustment	76	77	131	347	478	496	590
Minority Int./Income from Assoc.	(0)	(0)	(1)	(0)	(9)	-	-
Adjusted PAT	76	77	131	347	487	496	590

Balance Sheet (Consolidated)

Y/E Mar (Rs Cr.)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P
Equity share capita	119	119	123	123	123	123	123
Reserves & surplus	1,711	1,750	1,498	2,093	2,551	3,033	3,596
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	1,831	1,870	1,621	2,215	2,673	3,156	3,718
Minority Interest	15	13	2	(0)	6	11	11
Share Application Money	-	-	-	-	-	-	-
Loan Funds	107	88	72	29	21	17	17
Net deferred tax liability	14	12	-	20	53	53	53
Other Long-term Liabilities	35	34	17	9	11	13	16
Long-term Provisions	114	31	21	17	26	31	37
Total Liabilities	2,115	2,048	1,733	2,291	2,790	3,282	3,854
Net block	1,651	1,636	1,592	1,630	1,704	1,774	1,814
Investment, Loan & Adv.	464	462	147	190	216	344	546
Total Current Assets	1,388	1,290	1,460	2,153	2,770	3,492	4,312
Current Liabilities & Provisions	1,388	1,341	1,467	1,684	1,919	2,330	2,820
Net Current Assets	0	(51)	(7)	469	851	1,162	1,492
Total Assets	2,115	2,048	1,733	2,291	2,771	3,282	3,854

Cash Flow (Consolidated)

Y/E Mar (Rs Cr.)	FY 18A	FY 19E	FY 20P	FY 21P
Operating Cash Flow	472	500	820	551
Cash Flow from Investments	(378)	(450)	(254)	(304)
Cash Flow from Financing	0	(103)	35	42
Net Changes in Cash	94	(53)	600	290
Opening Cash	223	296	243	843
Closing Cash Balance	317	243	843	1,133

Research Analyst Details

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