

ESCORTS LIMITED

UNDER REVIEW

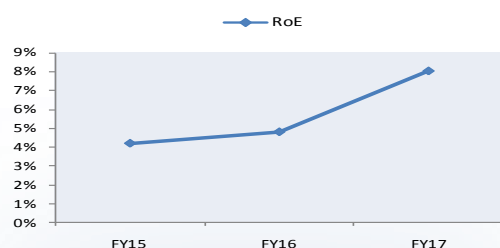
09-Feb-18

INDUSTRY - AUTOMOBILE
BLOOMBERG ESC IN
BSE Code - 500495
NSE Code - ESCORTS
NIFTY - 10577

Company Data

CMP	907
Target Price	NA
Previous Target Price	NA
Upside	
52wk Range H/L	922/376
Mkt Capital (Rs Cr)	11,116
Av. Volume (,000)	172

RoE increasing sharply

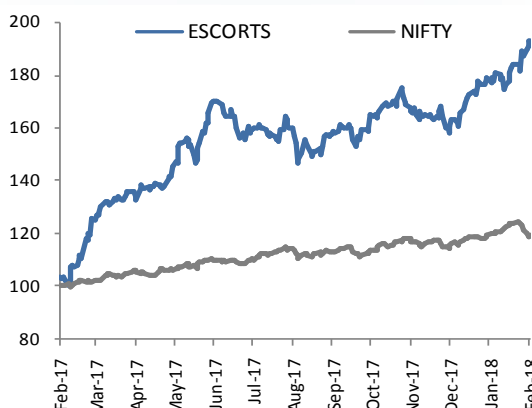


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	40.0	43.0	43.0
Public	60.0	57.0	57.0
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	16.2	29.2	132.1
Rel.to Nifty	16.6	26.5	111.5



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Gearing up for the big league

We attended the Analyst and Investor meet of Escorts Limited held on 7th February 2018. Escorts Limited is the 4th largest tractor manufacturer in India with market share of over 10%. The company has 3 business verticals; Agri Machinery, Construction Equipment and Railways Division. In the meet the respective business heads explained and shared the 'vision 2022' a road map for next 5 years.

Key takeaways from the meet:

Government focuses to double Agri- income of farmers by 2022:

The Company has 10.3% market share in the domestic tractor market. It is majorly present in the Northern part of the country with its two strong brands Farmtrac and Powertrac. The domestic tractor industry is expected to grow at 8% CAGR over next 3 years. In the recent budget, the government announced that the farm income will double by 2022. Increasing trend towards mechanization, minimum support prices for key crops, scarcity of labor and ease of credit availability from government will push the demand for tractors in India. The company is also focusing to increase the service networks in the country through various digital platforms. Escorts is striving hard to become No.2 player in next few years.

Construction Equipment business on the verge to take off: The Indian construction equipment industry's estimated revenue to touch USD 5billion by FY20. The management sees huge growth potential in the construction equipment business based on industry growth levers like; rising infrastructure investment, increasing private sector involvement in roads/airports/communication/power and growth in real estate sector. Currently, this business is at breakeven in terms of profitability.

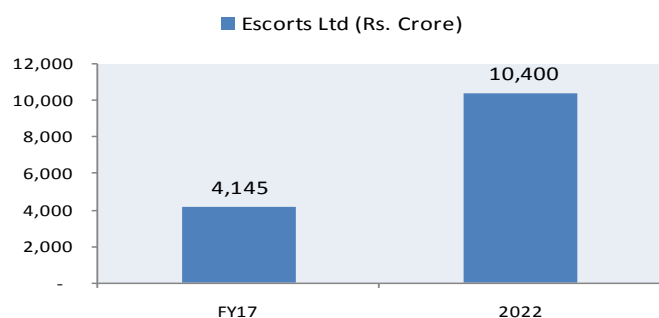
Strong Demand and Govt. Policy Support to drive Mega Investments in Railways:

The government of India's infrastructure investment in railways is estimated at around Rs.8 trillion till 2022. The government has approved Metro rail projects for 50 cities with more than 1mn population. It has also allowed 100% FDI in Railway sector which will help the Indian railways to become world class. Escorts supplies brake systems and safety equipments to Indian Railways. The company has Rs.330 crores of order book. Escorts is presently exporting railway products to South Asian, South East Asian, African, Australian and European countries.

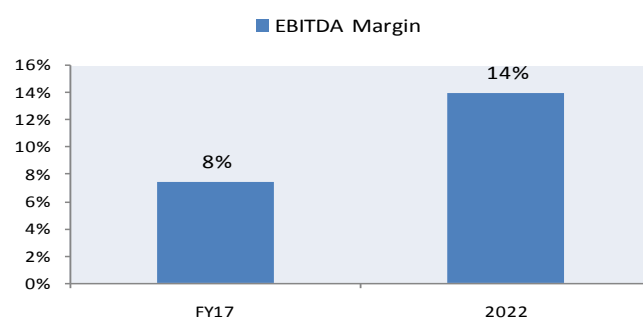
Other focus areas of Escorts: Attachment industry has a market potential of Rs.2500 crores. The management expects that revenue from this business can grow as much as 10x by FY22. They are also focusing on Engines and Genset vertical and targets its revenue to become four-fold. Export has also become one of the recent focus areas of the company and the management aspires to make it 10% of total revenue of the company by FY22.

Vision by 2022: All set to deliver exponential growth

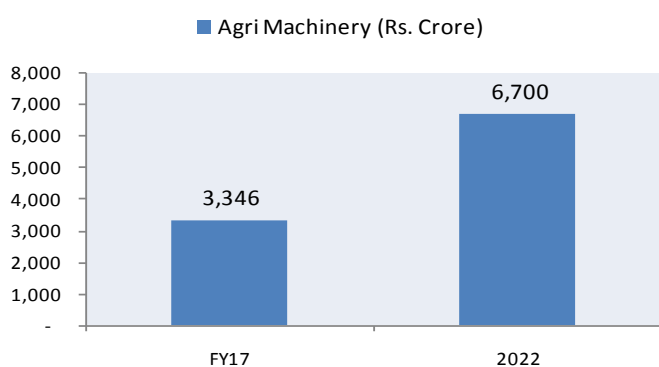
Escorts revenue to become 2.5x



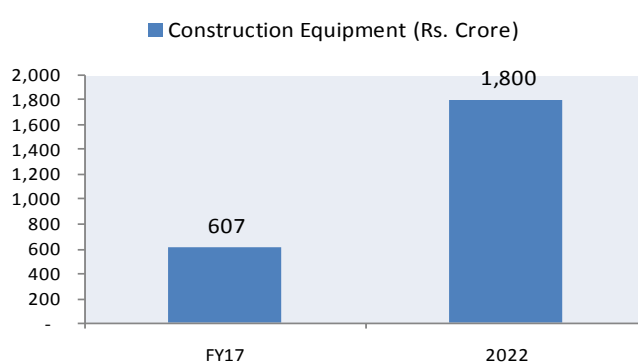
EBITDA Margin to reach 13-14%



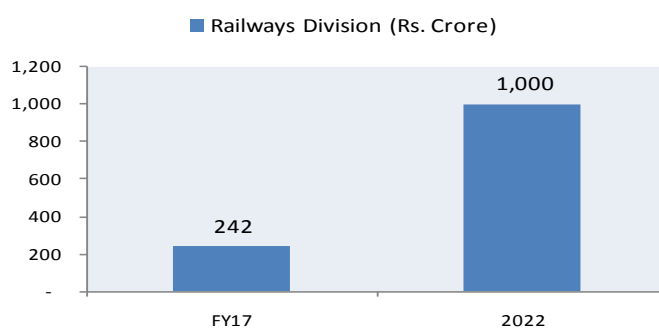
Agri Machinery revenue to become 2x



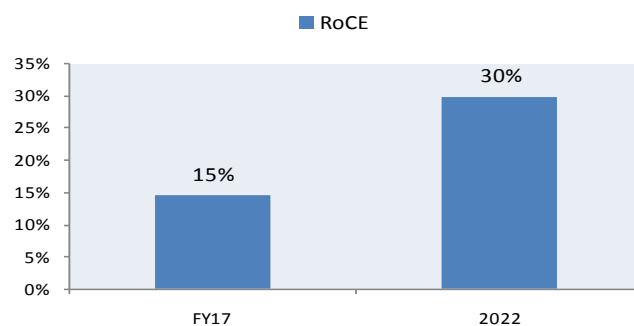
Construction Equipment revenue to become 3x



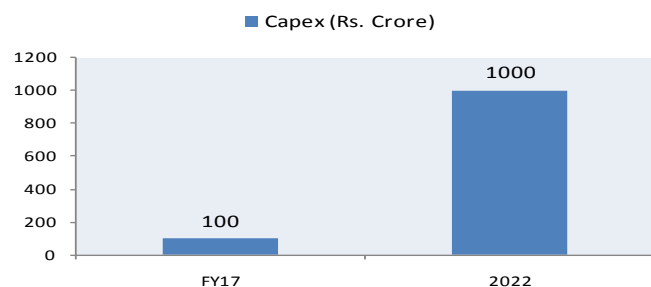
Railways division revenue to become 4x



RoCE to reach 30%



Investment towards new product, capacity and R&D



Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY12-14	FY15	FY16	FY17
Revenue from Operation	6,502	4,113	3,432	4,145
Change (%)	61%	-37%	-17%	21%
Other Operating Income				
EBITDA	387	163	161	309
Change (%)	104%	-58%	-1%	92%
Margin (%)	6%	4%	5%	7%
Dep & Amortization	86	69	58	63
EBIT	301	94	103	246
Interest & other finance cost	112	58	51	32
Other Income	83	65	61	47
EBT	272	101	113	261
Exceptional Item	(3)	31	(5)	(29)
Tax	28	(6)	12	77
Minority Int & P/L share of Ass.	(0)	0	-	-
Reported PAT	247	76	70	131
Adjusted PAT	247	76	70	131
Change (%)	234%	-69%	-8%	86%
Margin(%)	4%	2%	2%	3%

Key Ratios				
Y/E March	FY12-14	FY15	FY16	FY17
ROE	13%	4%	5%	8%
ROCE	15%	5%	7%	15%
Asset Turnover	1.8	1.2	1.2	1.3
Debtor Days	21	37	40	40
Inventory Days	33	40	46	40
Payable Days	49	66	80	80
Interest Coverage	3	2	2	8
P/E	6	20	24	51
Price / Book Value	0.7	0.8	1.2	4.1
EV/EBITDA	3	8	11	21
FCF per Share	38	5	21	30

Balance Sheet				
Rs in Crores				
Y/E March	FY12-14	FY15	FY16	FY17
Share Capital	119	119	123	123
Reserves	1,746	1,711	1,344	1,498
Networth	1,866	1,831	1,466	1,621
Debt	352	411	315	218
Other Non Current Liab	191	163	57	51
Total Capital Employed	2,011	1,937	1,556	1,680
Net Fixed Assets (incl CWIP)	1,692	1,651	1,597	1,592
Non Current Investments	368	367	30	38
Other Non Current Assets	94	96	118	109
Non Current Assets	2,154	2,115	1,746	1,739
Inventory	587	453	433	450
Debtors	372	414	375	456
Cash & Bank	271	251	253	244
Other Current Assets	10	13	103	103
Current Assets	1,488	1,388	1,189	1,445
Creditors	870	738	751	910
Provisions	82	89	133	132
Other Current Liabilities	263	256	89	118
Curr Liabilities	1,215	1,083	1,103	1,308
Net Current Assets	273	305	86	138
Total Assets	3,642	3,503	2,944	3,199

Cash Flow Statement				
Rs in Crores				
Y/E March	FY12-14	FY15	FY16	FY17
PBT	275	70	73	190
(inc)/Dec in Working Capital	3	(119)	37	55
Non Cash Op Exp	86	69	61	65
Interest Paid (+)	93	50	54	36
Tax Paid	(62)	(21)	7	(44)
others	(71)	(45)	(20)	2
CF from Op. Activities	324	5	212	304
(inc)/Dec in FA & CWIP	(125)	(55)	(49)	(66)
Free Cashflow	200	(50)	164	238
(Pur)/Sale of Investment	1	(0)	(3)	(161)
others	54	30	7	73
CF from Inv. Activities	(70)	(26)	(45)	(155)
inc/(dec) in NW	-	0	-	-
inc/(dec) in Debt	(115)	59	(132)	(103)
Interest Paid	(94)	(50)	(46)	(29)
Dividend Paid (inc tax)	(25)	(6)	(13)	(13)
others	5	(1)	(1)	31
CF from Fin. Activities	(230)	1	(191)	(113)
Inc(Dec) in Cash	24	(19)	(24)	36
Add: Opening Balance	145	271	56	33
Closing Balance	170	251	32	69



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