

ESCORTS LIMITED

Industry
Bloomberg
BSE Code
NSE Code

Automobiles
ESC IN
500495
ESCORTS

31 July 2018

RATING	BUY
CMP	907
Price Target	1050
Previous Target	1050
Potential Upside	16%

Stock Info

52wk Range H/L	1019
Mkt Capital (Rs Cr)	11,120
Free float (%)	60%
Avg. Vol 1M (,000)	969
No. of Shares (Crore)	12
Promoters Pledged %	NA

Stellar show continued, long way to go

Key Highlights

- ☑ Escorts Limited is the 4th largest tractor manufacturer in the domestic market. The company has 3 business verticals: Agri Machinery (80% of revenue), Construction Equipment (14.5% of revenue) and Railways Division (5.5% of revenue).
- ☑ The management expects overall 100bps margin improvement in FY19 on the back of improvement in product mix, higher operating leverage benefit and other cost cutting initiatives across categories.
- ☑ Under the vision FY22, the management has already earmarked Rs.1000 crores of capex which will be spent towards R&D, expansion in existing capacity and new product development.
- ☑ The company has virtually become debt free and has close to Rs.800 crores of cash in its books to finance its future capex requirements.

1Q FY19 Result:

Escort has reported a stellar quarterly performance better than our estimates in 1QFY19. Net sales grew by 32%YoY on the back of robust volume growth across segments. Agri Machinery and construction equipment volumes surged by 39% and 52%YoY respectively. EBITDA margin has expanded by 370bps YoY on account of price hike, higher spare sales in railways segment and operating leverage benefit in 1QFY19. PAT for the quarter stood at Rs.120 crores (vs. our estimates of Rs.113 crores). PAT margin also elevated to 7.9% with 240bps YoY increase on the back of higher other income and improvement in EBITDA.

View and Valuation

The management has increased the domestic tractor volume guidance to 12-15% from 9-11% and also expects margins to expand by 90-100bps YoY in FY19. The management also seemed confident on robust growth prospects of construction equipment and railways verticals also based on rural upliftment along with the development of road and railway infrastructure will provide a humongous growth opportunity for Escorts going ahead. Going ahead we expect Revenue and PAT to grow at 17% and 26% CAGR over FY18-20 respectively. We value Escorts at 20x FY20e EPS and recommend BUY with our previous target price of Rs.1050.

Key Risks to our rating and target

- ◆ uncertainty in monsoon
- ◆ Delay in infrastructure projects

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3432	4145	5059	6086	6977
EBITDA	161	309	554	698	833
EBIT	103	246	480	612	736
PAT	70	131	347	445	547
EPS (Rs)	6	13	34	43	53
EPS growth (%)	-11	122	166	28	23
ROE (%)	5	8	16	17	17
ROCE (%)	7	15	22	23	23
BV	120	158	216	256	306
P/B (X)	1.2	3.4	4.1	3.5	3.0
P/E (x)	24	42	26	21	17

Research Analyst

NAVEEN KUMAR DUBEY

naveen.dubey@narnolia.com

SWATI SINGH

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd and other Narnolia group companies does and seeks to do business with companies covered in its research reports. As a result investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

1Q FY 19 Results
Better than estimates

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,142	1,212	1,205	1,436	1,511	32.3%	5.2%	4,145	5,059	22.0%
Other Income	20	8	8	23	17	-17.2%	-24.7%	47	65	38.7%
COGS	780	808	802	968	1,022	31.0%	5.6%	2,832	3,397	20.0%
Gross Margin	32%	33%	33%	33%	32%	1.3%	-0.8%	32%	33%	1.2%
Employee Cost	115	128	105	109	121	5.0%	10.8%	451	442	-1.9%
Other Expenses	149	135	153	185	183	22.5%	-1.5%	553	666	20.4%
EBITDA	98	141	145	174	186	90.2%	6.8%	309	554	79.0%
EBITDA Margin	9%	12%	12%	12%	12%	4.8%	0.1%	7%	11%	3.5%
Depreciation	18	18	18	19	21	15.6%	9.2%	63	73	15.5%
EBIT	80	123	127	155	165	106.9%	6.5%	246	480	95.4%
Interest	8	8	6	6	3	-64%	-54.4%	32	29	-8.4%
PBT	92	123	129	171	179	94.0%	4.6%	261	516	97.9%
Exceptional	-	7	(0)	-	-	-	-	11	7	-39.8%
Tax	30	38	37	59	60	100.7%	1.5%	77	162	110.3%
PAT	63	78	92	113	120	90.8%	6.2%	131	347	165.5%
PAT Margin	5%	6%	8%	8%	8%	2.4%	0.1%	3%	7%	3.7%

Sturdy volume growth across segments resulted in 32%YoY revenue growth

Escort has reported a stellar quarterly performance better than our estimates in 1QFY19. Net sales grew by 32%YoY primarily driven by robust volume growth across segments.

Domestic agri-machinery volumes grew by 39%YoY while export volumes grew by 55%YoY. The segment reported highest ever revenue of Rs.1173 crores and EBIT margin of 14.2%.

Construction Equipment segment also performed exceptionally well and posted revenue of Rs.246 crores with a growth of 50%YoY on the back of 52%YoY volume growth. The segment EBIT margin was on 6%.

Railways Equipment division revenue grew by 35%YoY to Rs.88 crores during the quarter. The company's order book stands at Rs.300 crores which will get executed over 11-12 months. Railways division margins stand at 25% during 1QFY19.

Expansion in EBITDA margin

Gross Margin improved by 70bps YoY to 32.4%, despite sharp increase in commodity prices. However, EBITDA margin expanded by 370bps YoY to 12.3% and this was largely driven by operating leverage benefit, price hikes taken during the quarter to mitigate the increasing raw material cost and other cost cutting initiatives.

Recorded PAT growth of 91%YoY

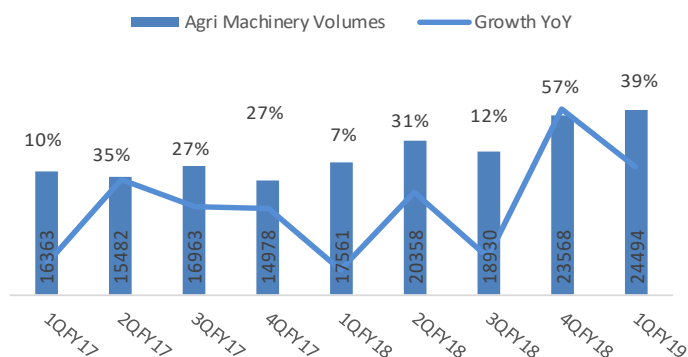
PAT for the quarter stood at Rs.120 crores (vs. our estimates of Rs.113 crores). PAT margin also elevated to 7.9% with 240bps YoY increase on the back of higher other income and improvement in EBITDA.

Concall Highlights :

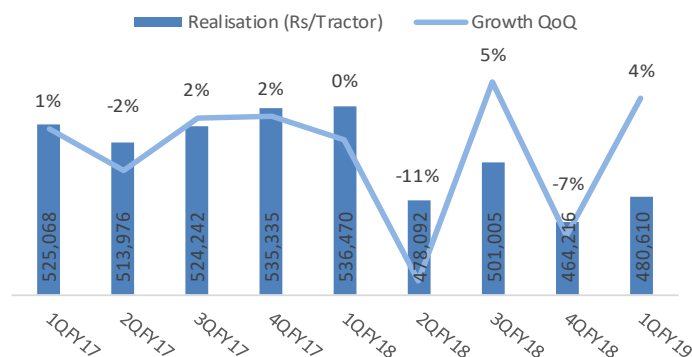
- ✓ The management has increased the domestic volume guidance from 9-11% to 12-15% for full year FY19. However exports guidance remains 50%YoY growth in FY19
- ✓ There will be some increase in commodity prices in Q2 and marginal increase in Q3.
- ✓ There will be some increase in manpower cost due to normal wage hike and the employee cost expected to remain in the range of Rs.120 crores.
- ✓ The management expect 90-100 bps margin improvement.
- ✓ The construction equipment segment expected to grow in the range of 16-18% and full year EBIT margins will be around 4-5%.
- ✓ The order book in the railways business remained at Rs.300 crores which will get executed over a period of 11-12 months.
- ✓ New emission norms in above 50 HP tractors from october 2020. Price increase of over 1 lakh units (8-9% of total volumes).
- ✓ Tax rate would be around 33% in FY19.

Exhibit: Escorts Agri-Machinery Volume Trend

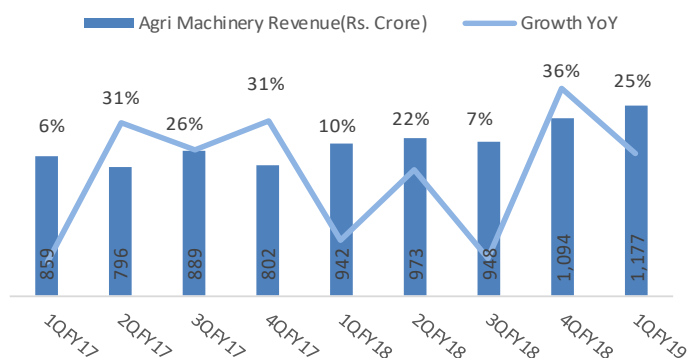
Successive normal monsoon, improving farm income and lower tractor penetration leads to 39%YoY growth


Exhibit: Escorts Agri-Machinery Realisation Trend

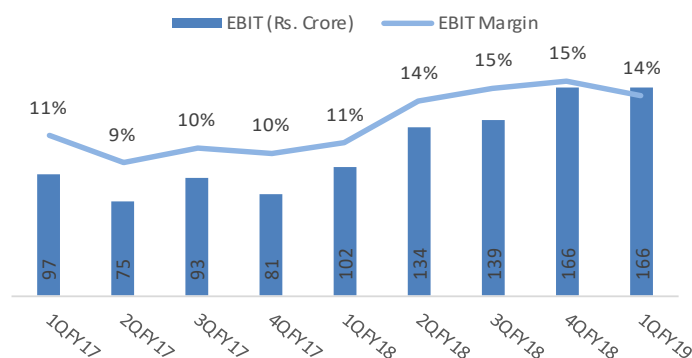
Realization increased 4%QoQ on the back of higher demand for 41-50 HP tractors


Exhibit: Escorts Agri-Machinery Revenue Trend

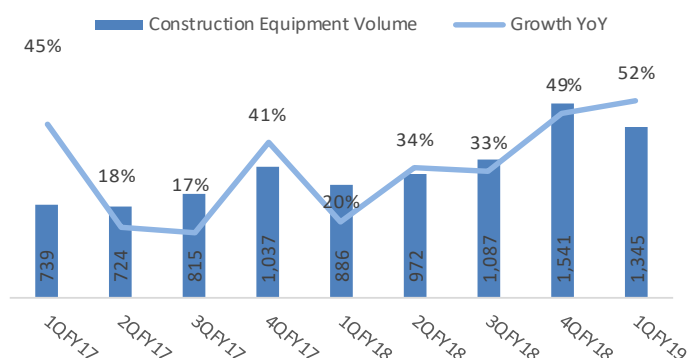
Revenue growth remained robust on the back of strong volumes during the quarter


Exhibit: Escorts Agri-Machinery EBIT & EBIT Margin

Margins declined by 40bps QoQ due to higher raw material prices


Exhibit: Escorts Construction Equipment Volume Trend

Construction equipment volumes grew by over 50%YoY on account of increasing infra spending by government.


Exhibit: Escorts Construction Equipment Realisation

Shift in product mix towards higher realisation products led to 6%QoQ increase.

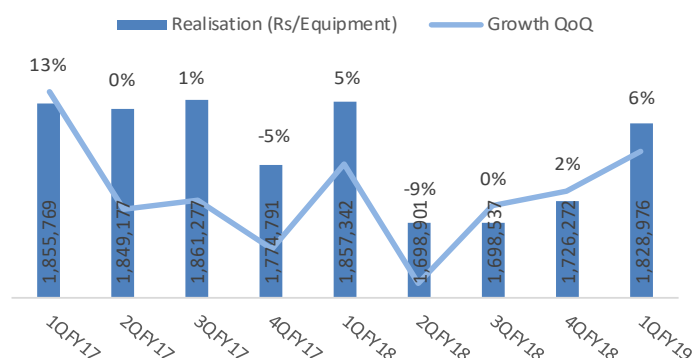
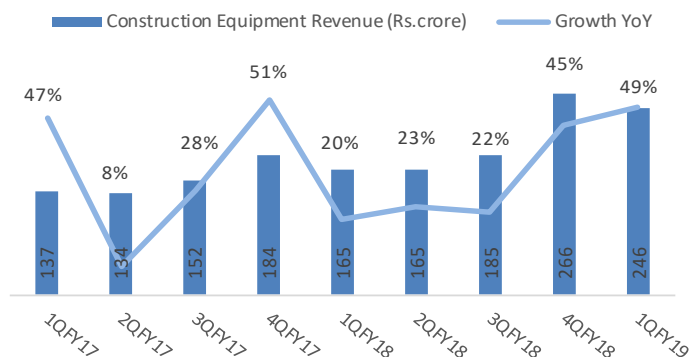
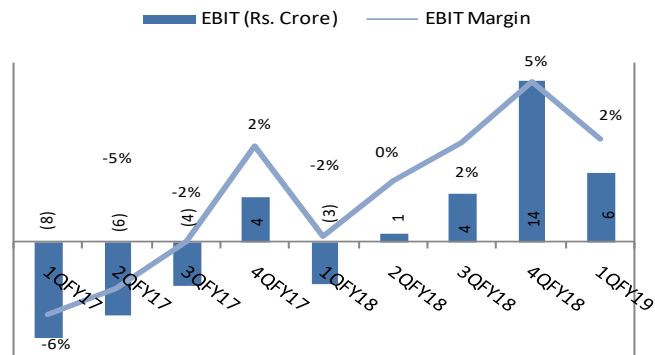


Exhibit: Escorts Construction Equipment Revenue

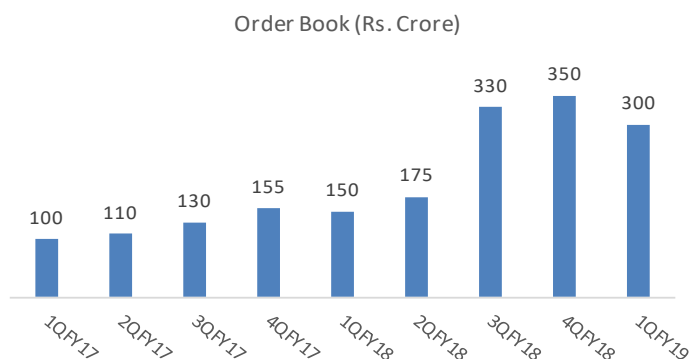
Revenue grew by 49%YoY on the back of strong volume growth of over 50%


Exhibit: Escorts Construction Equipment EBIT Margin

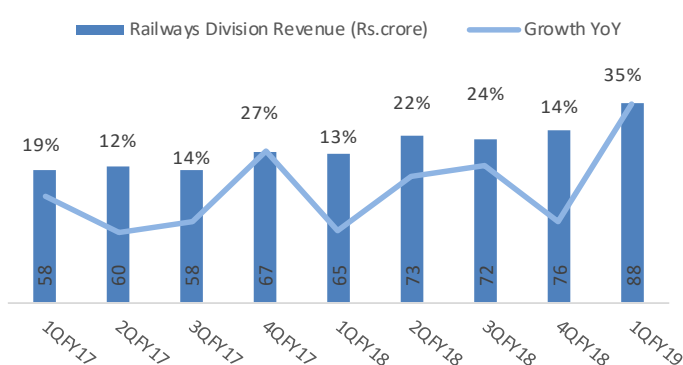
margins declined QoQ due to higher commodity prices and lower volumes in comparison to previous quarter


Exhibit: Escorts Railway Division Order Book

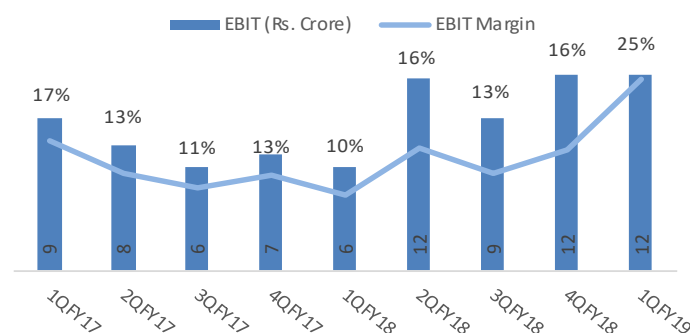
The company's order book stands at Rs.300 crores which will get executed over a period of 12 months


Exhibit: Escorts Railway Division Revenue Trend

Revenue increased on account of higher order execution during the quarter


Exhibit: Escorts Railway Division EBIT and EBIT Margin

Margins jumped to 25% level due to higher spare sales, better product mix and export orders



Financial Details

Balance Sheet

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	119	119	119	123	123	123	123	123
Reserves	1,526	1,746	1,711	1,344	1,498	2,093	2,506	3,015
Networth	1,645	1,866	1,831	1,466	1,621	2,215	2,629	3,138
Debt	460	352	411	315	218	15	4	-
Other Non Current Liab	193	191	163	57	51	60	43	46
Total Capital Employed	1,815	2,011	1,937	1,556	1,680	2,230	2,633	3,138
Net Fixed Assets (incl CWIP)	1,662	1,692	1,651	1,597	1,592	1,630	1,834	1,977
Non Current Investments	367	368	367	30	38	50	63	63
Other Non Current Assets	187	94	96	118	109	141	141	141
Non Current Assets	2,216	2,154	2,115	1,746	1,739	1,820	2,037	2,180
Inventory	524	587	453	433	450	566	667	765
Debtors	468	372	414	375	456	592	712	765
Cash & Bank	145	271	251	253	244	317	373	428
Other Current Assets	3	10	13	103	103	151	182	209
Current Assets	1,335	1,488	1,388	1,189	1,445	2,144	2,626	3,042
Creditors	917	870	738	751	910	1,234	1,485	1,491
Provisions	81	82	89	133	132	133	160	183
Other Current Liabilities	243	263	256	89	118	125	151	173
Curr Liabilities	1,241	1,215	1,083	1,103	1,308	1,684	1,987	2,038
Net Current Assets	94	273	305	86	138	460	639	1,004
Total Assets	3,551	3,642	3,503	2,944	3,199	3,973	4,663	5,222

Income Statement

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	4,049	6,502	4,113	3,432	4,145	5,059	6,086	6,977
Change (%)	(1)	61	(37)	(17)	21	22	20	15
Other Income								
EBITDA	190	387	163	161	309	554	698	833
Change (%)	13	104	(58)	(1)	92	79	26	19
Margin (%)	5	6	4	5	7	11	11	12
Depr & Amor.	50	86	69	58	63	73	87	97
EBIT	139	301	94	103	246	480	612	736
Int. & other fin. Cost	97	112	58	51	32	29	8	-
Other Income	48	83	65	61	47	65	72	88
EBT	91	272	101	113	261	516	676	823
Exp Item	(1)	(3)	31	(5)	(29)	7	-	-
Tax	19	28	(6)	12	77	162	231	276
Minority Int & P/L share of Ass.	1	(0)	0	-	-	-	-	-
Reported PAT	74	247	76	70	131	347	445	547
Adjusted PAT	74	247	76	70	131	347	445	547
Change (%)	(42)	234	(69)	(8)	86	166	28	23
Margin(%)	2	4	2	2	3	7	7	8

Financial Details

Key Ratios

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	4.5%	13.2%	4.2%	4.8%	8.1%	15.6%	16.9%	17.4%
ROCE	7.7%	15.0%	4.9%	6.6%	14.6%	21.5%	23.2%	23.5%
Asset Turnover	1.1	1.8	1.2	1.2	1.3	1.3	1.3	1.3
Debtor Days	42.2	20.9	36.8	39.9	40.2	42.7	42.7	40.0
Inv Days	47.3	33.0	40.2	46.0	39.6	40.8	40.0	40.0
Payable Days	82.7	48.8	65.5	79.8	80.1	89.1	89.1	78.0
Int Coverage	1.4	2.7	1.6	2.0	7.6	16.3	79.7	-
P/E	10.3	5.6	19.9	24.3	42.3	26.0	20.9	17.0
Price / Book Value	0.5	0.7	0.8	1.2	3.4	4.1	3.5	3.0
EV/EBITDA	4.2	3.2	8.4	12.3	18.4	16.3	13.4	11.3
FCF per Share	14.0	37.6	5.1	21.3	36.1	78.4	85.1	74.3

Cash Flow Statement

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	92	275	70	73	190	516	676	823
(inc)/Dec in Working Capital	(96)	3	(119)	37	55	33	54	(122)
Non Cash Op Exp	50	86	69	61	65	73	87	97
Int Paid (+)	82	93	50	54	36	29	8	-
Tax Paid	(37)	(62)	(21)	7	(44)	(162)	(231)	(276)
others	(33)	(71)	(45)	(20)	2	6	9	-
CF from Op. Activities	58	324	5	212	304	693	583	522
(inc)/Dec in FA & CWIP	(108)	(125)	(55)	(49)	(66)	(111)	(290)	(240)
Free Cashflow	(50)	200	(50)	164	238	582	293	282
(Pur)/Sale of Inv	(4)	1	(0)	(3)	(161)	(325)	(174)	(184)
others	(18)	54	30	7	73	-	-	-
CF from Inv. Activities	(130)	(70)	(26)	(45)	(155)	(448)	(477)	(424)
inc/(dec) in NW	-	-	0	-	-	-	-	-
inc/(dec) in Debt	68	(115)	59	(132)	(103)	(203)	(11)	(4)
Int. Paid	(81)	(94)	(50)	(46)	(29)	(29)	(8)	-
Div Paid (inc tax)	(17)	(25)	(6)	(13)	(13)	(24)	(31)	(39)
others	3	5	(1)	(1)	31	-	-	-
CF from Fin. Activities	(28)	(230)	1	(191)	(113)	(257)	(50)	(43)
Inc(Dec) in Cash	(100)	24	(19)	(24)	36	(12)	56	55
Add: Opening Balance	245	145	271	56	33	175	163	206
Closing Balance	145	170	251	32	69	163	219	261

Disclosures: The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations). Narnolia Financial Advisors Ltd. (Formerly Microsec Capital Ltd) (MCL) is a SEBI Registered Research Analyst having registration no. INH300002407. MCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services, Merchant Banking, Portfolio Management & distribution of various financial products. MCL is a subsidiary company of G Raj & Company Consultants Ltd. (GRaj). MCL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE), Bombay Stock Exchange Limited (BSE) and Metropolitan Stock Exchange Of India Ltd. (MSEI) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. MCL is also SEBI registered Category 1 Merchant Banker & Portfolio Manager. Details of associate entities of MCL is available on the website at www.narnolia.com

No penalties have been levied on MCL by any Regulatory/Statutory authority. MCL, its associates, Research Analyst or their relative may have any financial interest in the subject company. MCL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MCL and/or its associates may have received any compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MCL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of MCL or its associates during twelve months preceding the date of distribution of the research report. MCL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. MCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Terms & Conditions: This report has been prepared by MCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MCL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MCL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement Companies where there is interest

Analyst's ownership of the stocks mentioned NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MCL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MCL & its group companies to registration or licensing requirements within such jurisdictions.

Disclaimer: The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MCL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MCL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sell in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com. Registered Office Address: Shivam Chambers, 1st Floor, 53, Syed Amir Ali Avenue, Kolkata 700 091. Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-4054 1766.

Registration details Company & Group entities: MCL: SEBI Registration: INZ000166737 (BSE/NSE/MSE); CDSL: IN-DP-424-2007; NSDL: IN-DP-NSDL-245-2005; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI: ARN 3087

SEBI Registration: BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 G. Raj & Company Consultants Ltd (G RAJ), MCX/NCDEX Commodities Broker: INZ000051636 Microsec Commerce Limited, PMS: INP000005109Narnolia Velox Advisory Ltd., Investment Adviser: INA300005439 Eastwind Capital Advisors Pvt Ltd. (EASTWIND),IRDA License No.134 (Microsec Insurance Brokers Limited), AMFI: ARN 20558, PFRDA NPS POP: 35012016 Narnolia Securities Ltd. (NSL), RBI Registered NBFC:B.05.02568 Narnolia Capital Advisors Pvt. Ltd.