

Escorts Ltd.

"Remain bullish over medium to long term....."

"Accumulate"

"

3rd June '14

Result update		Accumulate
CMP		126
Target Price		175
Previous		175
Upside		39%
Change from		0%
Market Data		
BSE Code		500495
NSE Symbol		ESCORTS
52wk Range		65/145
Mkt Capital		1,567
Average Daily		225,953
Nifty		7,363
Stock Performance-%		
	1M	1yr
Absolute	0.6	101.1
Rel. to Nifty	(9.4)	79.8
		YTD
		10.4
		0.6
Share Holding Pattern-%		
	4QFY14	3QFY14
		2QFY14
Promoter's	42.0	42.0
FII's	6.8	9.4
DII's	2.2	2.1
Others's	49.0	46.5
		41.0

During the quarter the company saw revenue de-growth of 1.8% to Rs 982.9 crore. EBITDA & PAT figure during the period saw a dip of 15.6% & 15.2%. Whereas, EBITDA & PAT margin witnessed a decline of 77 bps & 89 bps. This result was mirrors the continued subdued performance by company spare business and construction equipment business which dragged overall revenue despite agri segment showing continuous positive growth. In current quarter 82% of Escorts' revenues come from the sale of tractors, and it saw volumes growth of 5.3% yoy to 15556 in its tractor sales. In the month of april company witnessed a de-growth in tractor volume which stands at 5366 units lowered by 17.9% yoy. Further, management has lowered his tractor volume growth guidance and have a negative outlook in near term. Overall market condition has deteriorated over past 2-3 months post untimely monsoon and storm in few regions. We believe that company outlook remain bullish over medium to long term period however, company may witnessed a slowdown in near term. We revised our outlook on stock from buy to accumulate however, price target for the stock remain unchanged to Rs. 175

For Full Year

For the 18 months ended March 31, 2014, the company posted a net profit of Rs 244.89 crore, up 81.11%, from Rs 135.21 crore in the 18 months ended March 2013. Net sales of the company for the eighteen months ended March, 2014 rose to Rs 6,267.61 crore, up by 6.2%.

In FY14, Escorts underperformed industry growth. The low growth rates in Escorts' strong market and high growth in company's weak markets led to company underperforming the industry. Southern & Western regions have been witnessing ~25% growth compared to overall industry growth of ~10% and nearly flat growth in Northern region. Escorts has a very small presence in Southern and Western regions with market share of ~3.5-4%.

Outlook

Tractor demand turned weak in 4QFY14. Also company posted a negative growth in volume in April month of FY15. Management has lowered its guidance to 4% growth in FY15. We expect subdued growth in tractor business in FY15. The adverse macroeconomic conditions, however, will see the performance of its construction equipment segment and auto ancillary segment remaining subdued. For these businesses, the firm is looking at premium product positioning and to deliver a better than expected customer experience. In addition, it is looking at the export market as a window of opportunity especially in the auto ancillary business.

Valuation

The stock is currently trading at 9.0x FY15E EPS with a negative bias in case of construction equipment segment due to adverse macroeconomic conditions. At current price of Rs. 128, the stock is trading at P/E of 9.0 x for FY15E and 6.0 x the FY16E. Escorts could post EPS of Rs. 14.3 for FY15E and Rs. 21.4 for FY16E. In view of tractor demand turning weak, we lower our FY15 estimates. We believe that company outlook remain bullish over medium to long term period however, company may witnessed a slowdown in near term. **We revised our outlook on stock from buy to accumulate however, price target for the stock remain unchanged to Rs. 175**

Financials

	Rs, Crore				
	4QFY14	3QFY14	(QoQ)-%	4QFY13	(YoY)-%
Revenue	982.9	1159.6	-15.2%	1000.6	-1.8%
EBITDA	45.8	71.0	-35.5%	54.3	-15.6%
PAT	31.8	45.6	-30.2%	37.5	-15.2%
EBITDA Margin	4.7%	6.1%	(140) bps	5.4%	(70) bps
PAT Margin	2.7%	3.9%	(120) bps	3.6%	(90) bps

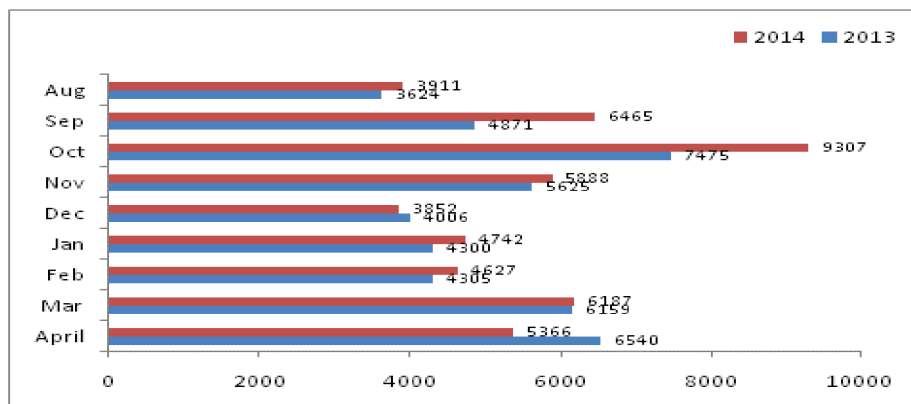
(Source: Company/ Eastwind Research)

(Standalone)

Concall Highlights

- Management expects tractor volumes for the industry to grow at 4% in FY15. Company expects 1QFY14 volume growth to be negative, recovery in 2QFY14 and growth in 3QFY14, though the same will also depend upon monsoons.
- Tractor demand turned weak in 4QFY14. High discounts (around Rs 20,000 -30,000) exist in the market. Overall market condition has deteriorated over past 2-3 months post untimely monsoon and storm in few regions.
- Improved infrastructure activities will see demand for second hand tractors increasing and that will indirectly benefit demand for new tractors. However, the demand for new tractors comes with a lag of 3-4 quarters.
- In exports, the company is gearing up and expects the impact to be seen from Sep-Oct 2014. From 900 units in FY14, the company expects to export 2,000 in FY15 and 4,000 units in FY16.
- Management expects margins going forward could improve because of headcount reduction, certain high repairs cost incurred there in recent months may be absent going ahead and new model contribution increased from 6% to 20% and on these models the company has not been able to recover cost completely.
- In the construction equipment business, weak demand scenario led to poor performance. Company said that break-even levels is currently at 5,000 units annually and will bring it down further by 20%. In the material handling and the road application segments, the company did not witness market share drop. Company expects coming quarters to be positive for railway equipment division.
- Escorts is looking at new product approval and opportunity from Metro to aid growth. Current order book of Rs 360mn will be executed over the next 2-3 months.
- Management indicated restructuring of auto ancillary division. Company is announcing VRS scheme and expects to be EBITDA positive by March 2015. The company is actively scouting for strategic partner for this division.
- The Company is more focused on higher HP segment, particularly 45-50 HP & >50 HP segment. Management expects improvement in its market share due to demand for higher HP tractors.
- Company has added ~285 new dealers over last 12 months as a part of strategic initiative to improve market shares.
- Management also increased its focus on exports market with new launches. It has guided for 100% CAGR in exports volumes over next 2 years.

Tractor Volume



Key financials :

PARTICULAR	2009A	2010A	2011A	2012A	2014E 18 Months	2014A 18 Months	2015E	2016E
Performance								
Revenue	2600	3353	4101	4049	7424	6502	4345	5160
Other Income	53	27	56	48	75	83	60	72
Total Income	2653	3380	4157	4098	7499	6585	4405	5286
EBITDA	160	220	168	190	438	387	282	387
EBIT	100	172	120	139	346	321	212	303
DEPRICIATION	60	48	48	50	92	66	70	84
INTREST COST	67	18	71	97	135	112	65	65
PBT	86	181	104	90	285	295	207	309
TAX	29	49	-15	19	77	28	56	84
Reported PAT	57	132	119	71	208	267	151	226
Dividend	11	11	13	13	13	20	20	20
EPS	6.3	12.5	11.3	6.7	19.7	25.3	14.3	21.4
DPS	1.2	1.0	1.2	1.2	1.2	1.9	1.9	1.9
Yeild %								
EBITDA %	6.2%	6.6%	4.1%	4.7%	5.9%	6.0%	6.5%	7.5%
PBT %	3.2%	5.4%	2.5%	2.2%	3.8%	4.5%	4.7%	5.9%
NPM %	2.2%	3.9%	2.9%	1.7%	2.8%	4.1%	3.4%	4.3%
Earning Yeild %	5.7%	5.8%	15.9%	10.6%	17.3%	22.0%	11.4%	17.1%
Dividend Yeild %	1.1%	0.5%	1.7%	1.9%	1.1%	1.6%	1.5%	1.5%
ROE %	4.0%	7.8%	6.7%	4.3%	11.4%	14.3%	7.6%	10.3%
ROCE%	3.1%	6.3%	5.3%	3.2%	9.4%	12.0%	6.4%	8.8%
Position								
Net Worth	1425	1686	1784	1645	1834	1866	1997	2202
Total Debt	402	405	486	554	390	352	375	375
Capital Employed	1827	2091	2270	2199	2224	2218	2372	2577
No of Share	9	11	11	11	11	11	11	11
CMP	110	216	71	64	114	115	125	125
Valuation								
Book Value	157.1	159.6	168.9	155.8	173.6	176.6	189.0	208.5
P/B	0.7	1.4	0.4	0.4	0.7	0.7	0.7	0.6
Int/Coverage	1.5	9.5	1.7	1.4	2.6	2.9	3.3	4.7
P/E	17.5	17.3	6.3	9.5	5.8	4.6	8.7	5.8
Net Sales/CE	1.4	1.6	1.8	1.8	3.3	2.9	1.8	2.0
Net Sales/Equity	1.8	2.0	2.3	2.5	4.0	3.5	2.2	2.3

(Source: Company/Eastwind Research)

(Figures In crore)