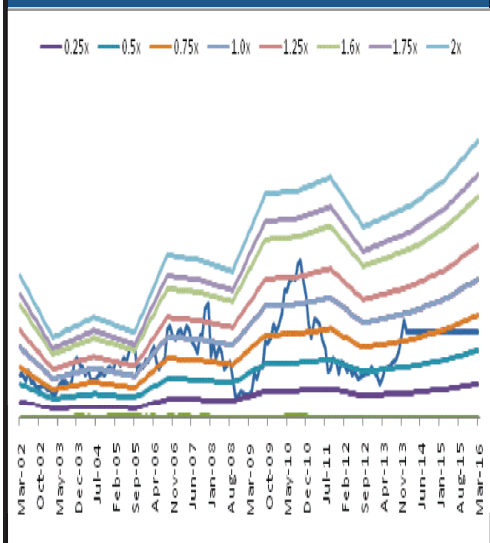


Result update	Buy
CMP	125
Target Price	175
Previous	105
Upside	40%
Change from	67%

Market Data	
BSE Code	500495
NSE Symbol	ESCORTS
52wk Range	48/96
Mkt Capital	1,505
Average Daily	225,953
Nifty	6,120

Stock Performance-%	1M	1yr	YTD
Absolute	(11.3)	62.7	147.9
Rel. to Nifty	(8.2)	61.0	140.2

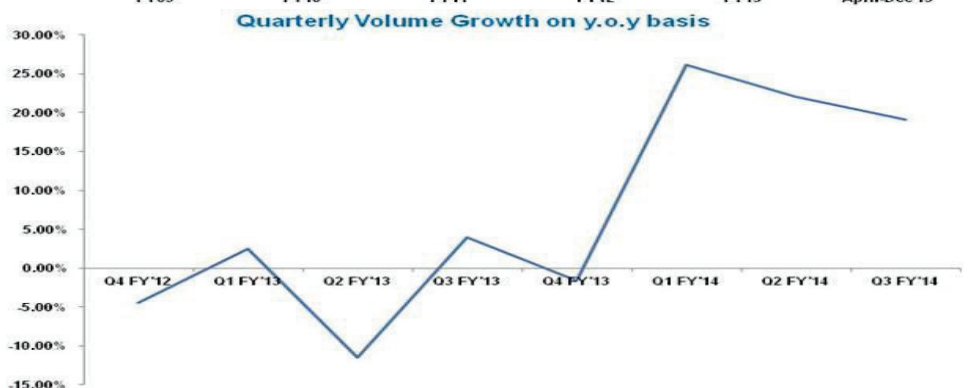
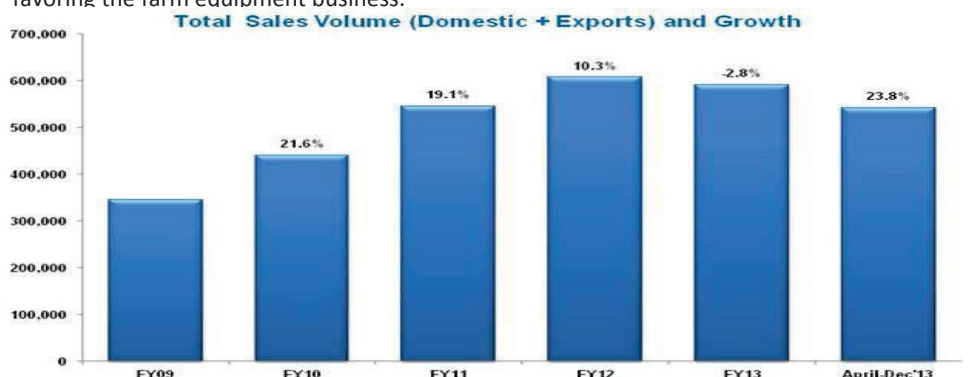
Share Holding Pattern-%	3QFY14	2QFY14	1QFY14
Promoter's	42.0	42.0	42.0
FII's	9.4	12.3	12.1
DII's	2.1	4.7	5.4
Others's	46.5	41.0	40.6



In 5QFY13 the company saw revenue growth of 12.8% to Rs 1159.6 crore. This result was mirrors the pent-up demand for tractor business, partly driven by improved crop cultivation and production and revival in farm equipment segment. In current quarter 84% of Escorts' revenues come from the sale of tractors, and it saw volumes growth of 11.3% to 19047 in its tractor sales. Company construction equipment business witnessed a flattish of 1.4% to Rs. 130.9 crore and stands at 11% of company total revenue during this quarter. Lower inventory levels typical of this quarter, where sales are better than in the preceding quarter, translated into a 6.1% operating margin, up 100 basis points from the year-ago period. Further, A marginal price hike in the latter part of the December quarter also propped up realizations. More importantly, the improved financial position in the farm segment eased cash flows and working capital cycles, which in turn trimmed interest costs.

Industry players expects the year 2013-14 to end with volume growth of around 15%

After an all time high sales in Oct 2013, where the industry saw a volume growth of 28.8% YoY, Nov'13 volume growth was expected on lower side. While in Dec'13, the industry came back strongly with a 21.1% growth. In April-Dec'13 period, the industry saw a healthy 23.8% growth in volume. So while high growth is expected to tilt down in lean season, overall, the industry as a whole is still expected to end the year with a volume growth of about 15% for 2013-14. Key markets that supported the growth in FY'14 are Andhra Pradesh, Madhya Pradesh, Rajasthan and Chhattisgarh. Some of these markets grew by more than 30% YoY. All macroeconomic factors such as crop prices, productivity, soil moisture, government focus on rural spending etc are favoring the farm equipment business.



Penetration to high HP Tractors

Escorts management aims to improve tractor margins from the current ~10% to 15% over the next 1-2 years led by change in focus to higher HP tractors and by cost rationalization measures. Higher tractor margins would take Escorts' company level EBITDA margins from ~6% to ~10%, as tractor segment contributes 80% to the company's overall sales. Moreover, the management's strategy to focus on higher HP tractors and increase presence in Southern markets will lead to faster-than-market growth.

Outlook on Industry

Despite being an agricultural nation, Tractors penetration in India is about 5% of total cultivable land. Going forward, we expect deeper penetration of Tractors to happen which will continue to drive strong demand for the sector. The growth in farm incomes will fuel the need for further mechanization, which will tend to accelerate as social welfare programs, urbanization and alternative occupations move farm labor to other sectors. So the demand for higher HP tractors will be the future growth within the sector. The proportion of higher power (greater than 50 HP+) segment has shown increase in total industry volume share by 380 bps from 12.6% in FY'08 to about 18% in FY'13. For tractor industry more than festive season it is the monsoons that matters a lot. The onset of positive sentiments because of monsoons, the reservoirs are full, the kharif crop sowing is more than 1,000 lakh hectares which is almost 6 percent up vis-à-vis last year. The prices of the crops declared by the government are pretty good and on top of it there are host of financiers who are financing the tractors and funds are available to prospective buyers and that is also leading to growth.

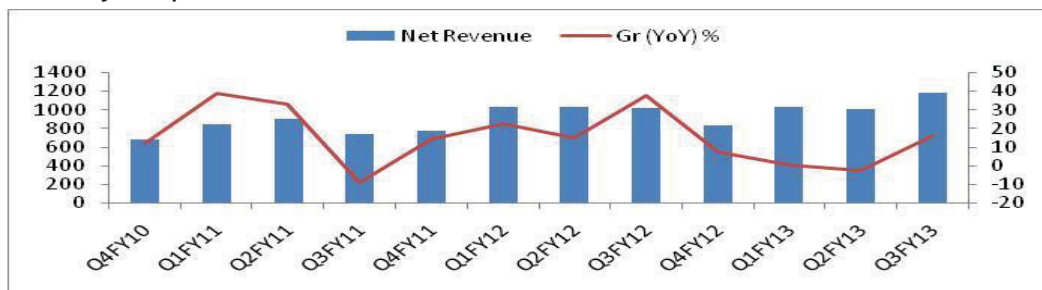
Company Outlook

The stock is currently trading at 6.5x FY14E EPS with a negative bias in case of construction equipment segment due to adverse macroeconomic conditions. At current price of Rs. 117, the stock is trading at P/E of 7.1 x for FY13E and 6.5 x the FY14E. Escorts could post EPS of Rs. 12.13 for FY14E and Rs. 12.98 for FY15E. An increase in volumes is an indication of healthy demand. Tractor sales revival has enabled the company to register strong result. Escorts' EBITDA margin and bottom-line exceeded our expectations. **Going forward, we remain positive on the company's growth prospects particularly in AMP segment. We expect demand to improve further in FY2014E with the economic recovery. However, we remain cautious with regards to growth in Construction Equipment segment in near-to-medium. Thus, We revise our estimates upwards to factor in the strong CY13 tractor volume performance. We therefore revised our rating on the stock from "Reduce" to "Buy" and advised to our investors to enter at current level with Revised price target of Rs. 175**

Escorts Ltd.

Graphical representations :

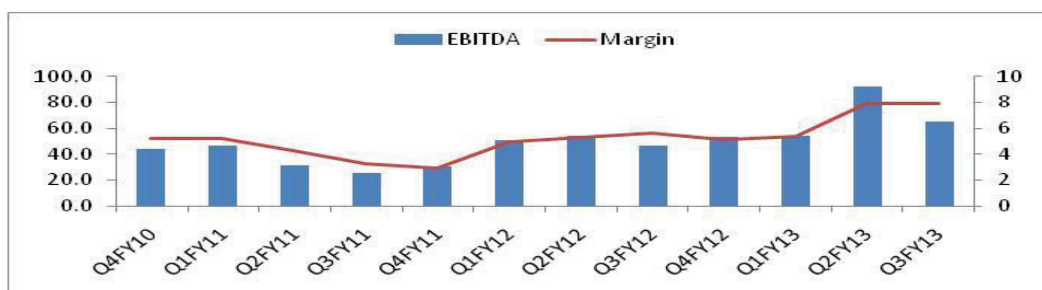
Revenue from operation :



(Source: Eastwind Research)

(Figures in crore)

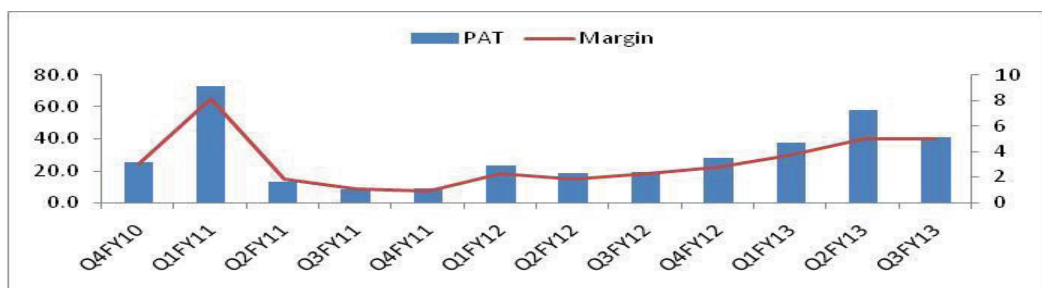
Operating profit :



(Source: Eastwind Research)

(Figures in crore)

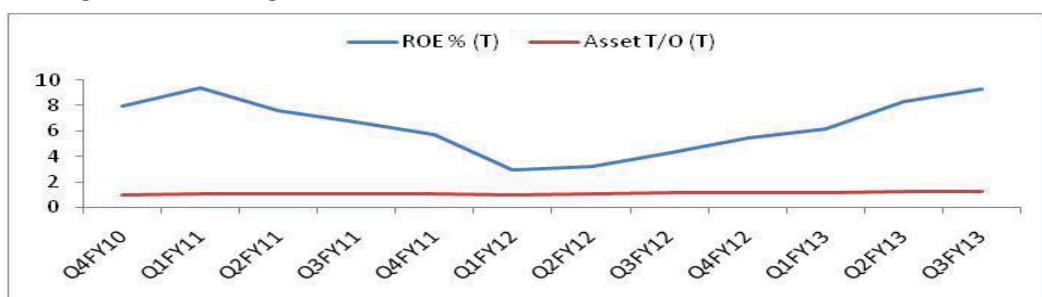
Net Profit :



(Source: Eastwind Research)

(Figures in crore)

Trailing ROE % & Trailing Asset T/O :



(Source: Eastwind Research)

(Figures in crore)