

Industry Automobiles
Bloomberg ESC IN
BSE CODE 500495

Market share improvement continues despite demand headwinds

RATING	HOLD
CMP	645
Price Target	762
Potential Upside	18%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	993/543
Mkt Capital (Rs Cr)	7906
Free float (%)	60%
Avg. Vol 1M (,000)	1726
No. of Shares (Cr.)	12
Promoters Pledged %	0%

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4QFY19 Result Update

- ❑ ESCORTS reported net sales of 13.6% YoY to Rs.1632 crores (vs our estimates of Rs.1699 crores) in 4QFY19.
- ❑ Agri Machinery segments revenue grew by 13%YoY to Rs.1231 crores on account of 7%YoY volume growth and 6%YoY realization growth.
- ❑ Construction equipment segments revenue grew by 10% YoY to Rs.293 crores largely on the back of 17%YoY growth in realization while volumes declined by 6% YoY.
- ❑ The railways business revenue also grew by 36%YoY to Rs.103 crores on the back of strong order book execution.
- ❑ Gross margin improved by 75 bps QoQ to 31.2% because of softening commodity prices and price hike taken by the company. However, EBITDA margin declined by 48 bps QoQ to 11.6% change in product mix and higher other expenses (provisions made on inventory and payouts to agencies).
- ❑ PAT grew by 7.8%YoY to Rs.121 crores (vs our estimates of Rs.127 crores). PAT margin declined by 103 bps QoQ to 7.4% due to decline in EBITDA margin higher interest cost and lower other income.
- ❑ On the railway equipment side the company has got an order book of more than Rs.490 crores and it will be executed in the next 14-15 months.
- ❑ The working capital requirement increased due to slow down in the industry leading to higher inventory level in FY19. The company will further take production cuts in order to maintain the inventory level at 2-3 weeks (currently at 3.5 to 4 weeks).

View and Valuation

The market share has improved by 100bps YoY to 11.8% in FY19 largely due to strong presence in Northern markets. The southern region has declined by 22%YoY in FY19. However, the management has lowered its growth guidance to 5-8% from earlier 8-10% in FY20 and also it will be tilted towards 2HFY20. The growth in 1HFY20 is expected to be subdued based on elections, high base, decline in subsidy based volumes (largely in southern states) and low reservoir levels in central and southern regions. On the export front the growth will be driven by European markets and with JV Kubota Corporation with volume target of 4500-5000 units with a growth of 45-50% YoY in FY20. Going ahead we expect margin improvement of 40bps in line with management's guidance of 40-50bps on the back of decline in commodity prices, increasing export volumes and improvement in construction equipment margins. Factoring the near term demand weakness and increased debt level due to working capital requirement we reduce our FY20e EPS estimate by 6%. We value ESCORTS at 17x FY20e EPS to arrive at target price of Rs.762 and maintain HOLD rating.

Key Risks to our rating and target

- ❑ Slowdown in tractor industry
- ❑ Sharp increase in commodity prices

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	3432	4145	5059	6262	7038
EBITDA	161	309	554	725	847
EBIT	103	246	480	637	761
PAT	70	131	347	477	550
EPS (Rs)	6	11	28	39	45
EPS growth (%)	(11)	86	166	38	15
ROE (%)	5	8	16	18	17
ROCE (%)	7	15	22	24	24
BV	120	132	181	218	258
P/B (X)	1.2	4.1	4.9	3.0	2.5
P/E (x)	24.3	50.6	31.1	16.6	14.4

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4QFY19 Results

Result below expectation

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,436	1,511	1,398	1,655	1,632	14%	-1%	5,059	6,262	24%
Other Income	23	17	22	24	17	-23%	-29%	65	92	41%
Total Income	1,459	1,528	1,420	1,679	1,649	13%	-2%	5,125	6,354	24%
COGS	968	1,022	944	1,151	1,123	16%	-2%	3,397	4,277	26%
Staff Cost	109	121	113	120	118	8%	-1%	442	485	10%
Other Exp.	185	183	184	184	201	8%	9%	666	776	16%
Expenditure	1,262	1,326	1,241	1,455	1,442	14%	-1%	4,506	5,537	23%
EBITDA	174	186	157	200	190	9%	-5%	554	725	31%
Depreciation	19	21	21	22	22	16%	1%	73	87	19%
EBIT	155	165	136	179	168	8%	-6%	480	637	33%
Interest	6	3	4	4	7	19%	75%	29	20	-34%
PBT	171	179	154	199	178	4%	-11%	516	708	37%
Excpt. Item	-	-	-	(11)	-	0%	0%	7	(6)	0%
Tax	59	60	52	70	56	-4%	-19%	162	237	46%
PAT	113	120	103	140	121	8%	-13%	347	477	38%

Revenue growth across verticals

Net sales grew by 14% YoY to Rs.1632 crores (vs our estimates of Rs.1699 crores). Domestic agri-machinery volumes grew by 5%YoY while export volumes grew robustly by 84% YoY. The segment reported the revenue of Rs.1231 crores with 13% YoY growth and EBIT margin of 13.1%.

Construction Equipment segment also performed decently and posted revenue of Rs.293 crores with a growth of 10% YoY. However, the volumes declined by 6% YoY due to slow down in the infrastructure industry. Realization increased by 17%YoY largely driven by price hike taken during the quarter. The segment EBIT margin was on 7.1%.

Railways Equipment division revenue grew by 36%YoY to Rs.103 crores during the quarter. The company's order book stands at Rs.490 crores which will get executed over next 14-15 months. Railways division margins stand at 20.1% during 4QFY19.

EBITDA margin contracted due to higher other expenses

Gross margin improved by 75 bps QoQ to 31.2% due to softening of commodity prices and price hike taken by the company. The company has taken a price hike of 4-5% during the quarter to set off full cost pressure in the construction equipment segment. However, EBITDA margin declined by 48 bps QoQ to 11.6% due to higher other expenses led by provisions made on inventory and payouts to agencies.

PAT margin declined due to higher interest cost

PAT grew by 7.8% YoY to Rs. 121 crores (vs our estimates of Rs.127 crores). PAT margin declined by 103 bps QoQ to 7.4% due higher interest cost and lower other income.

Concall highlights

Tractor Industry :-

- The management expects 5-8%YoY volume growth for the tractor industry in FY20.
- Q1FY20 is expected to remain subdued due to the elections and high base and after harvesting period, the markets are expected to improve after July.
- Region Wise Outlook: - Northern and Central region are expected to grow at a faster rate than Southern and Western region due to lower reservoir level and subsidy based incentive slowdown in South. Maharashtra has been down by 50% in last few months and it is expected to continue further.
- Subsidy based tractor volumes are roughly 10% of the total industry volumes.
- Industry during the quarter in North and central region grew by 7.1%, whereas industry de-grew by 22.4% in South and west region.

Agri Machinery Business :-

- The management expects 5-8% growth in industry in FY20 and the company is expected to grow better than the industry.
- The domestic market share stands at 11.8% in FY19 and expects 100bps improvement in FY20.

Concall highlights continued:-

- The company further plans to make new launches in Farmtrac and Powertrac in FY20.
- On the exports front, the company targets to achieve 4500-5000 units in FY20 (a growth of 45-50%YoY).
- Dealer inventory level stands at 4 weeks.
- Margin improvement of 40-50 bps is expected from tractor segment.
- Replacement demand is continuing to rise and will continue to grow over a period of 5-6 years.

Construction Equipment Business:-

- The management the construction equipment industry to grow in mid teens going forward.
- There was a price increase of 4-5% taken in January in this segment to mitigate the industry inflation impact.
- EBIT margin is expected to be in the range of 4.5-5% in FY20.

Railway Business

- The management expects to post 15-20% growth in railways business in FY20.
- Order book during the quarter is more than Rs.490 crores and will be executed in the next 14-15 months.
- EBIT margin is expected to be in the range of 16-17% in FY20.

Other Highlights:-

- Overall 40-50 bps margin improvement is expected going forward.
- Other expenses were high during the quarter due to payouts to agencies and provision on inventories.
- Capex for FY20 – Rs.250-300 crores which will be spent on machining facilities, product development and JV investments.

Exhibit: Escorts Agri-Machinery Volume Trend

Volume growth supported by decent sales in northern market along with healthy sales in export markets

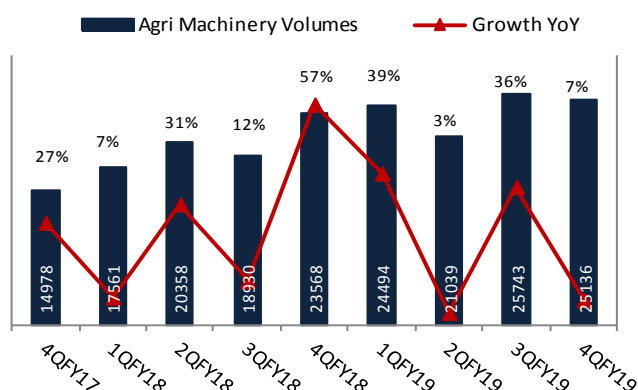


Exhibit: Escorts Agri-Machinery Realisation Trend

Realization declined by 2% QoQ due to change to product mix

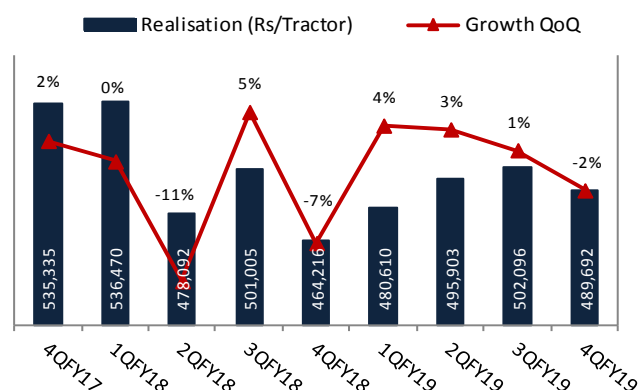


Exhibit: Escorts Agri-Machinery Revenue Trend

Revenue growth led by higher sales in exports and domestic market

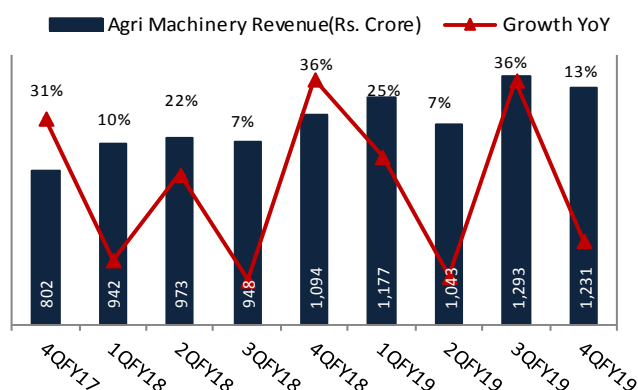


Exhibit: Escorts Agri-Machinery EBIT & EBIT Margin

Margins declined due to higher commodity prices and foreign exchange fluctuation

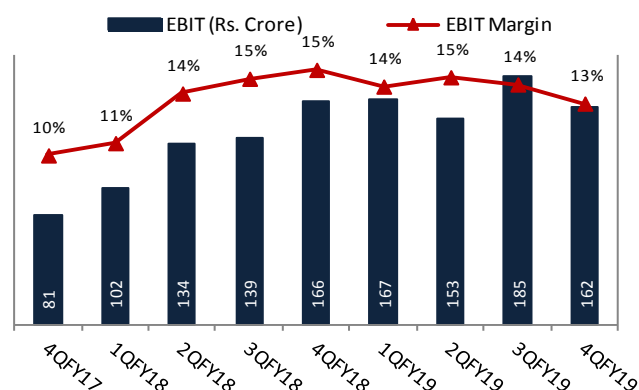


Exhibit: Escorts Construction Equipment Volume Trend

Construction equipment volumes declined by 6%YoY due to declining infrastructure development

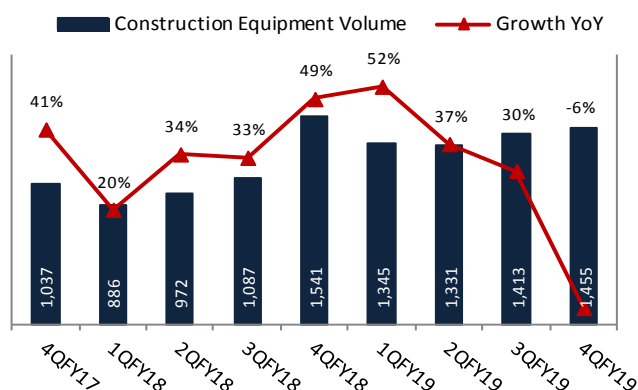


Exhibit: Escorts Construction Equipment Realisation

Shift in product mix towards higher realisation products led to 7%QoQ increase.

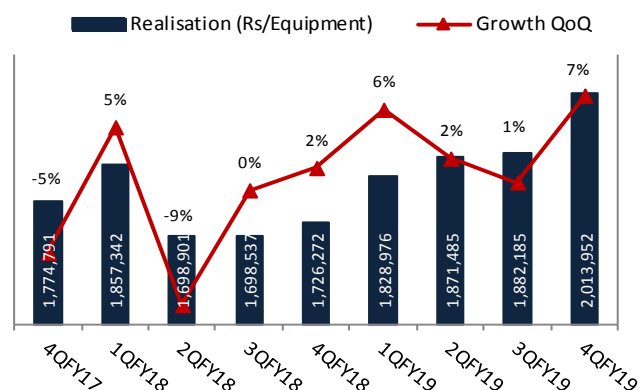


Exhibit: Escorts Construction Equipment (ECE) Revenue

Revenue grew by 10%YoY on the back of price hikes taken during the quarter

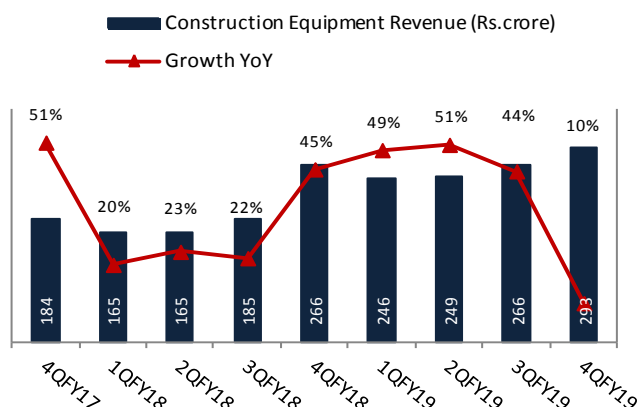


Exhibit: ECE EBIT Margin

Margins improved despite higher commodity prices and foreign exchange variation

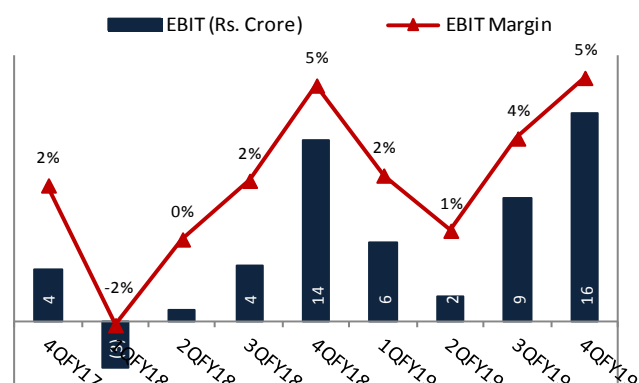


Exhibit: Escorts Railway Division Order Book

The company's order book stands at Rs.490 crores which will get executed over a period of 14-15 months

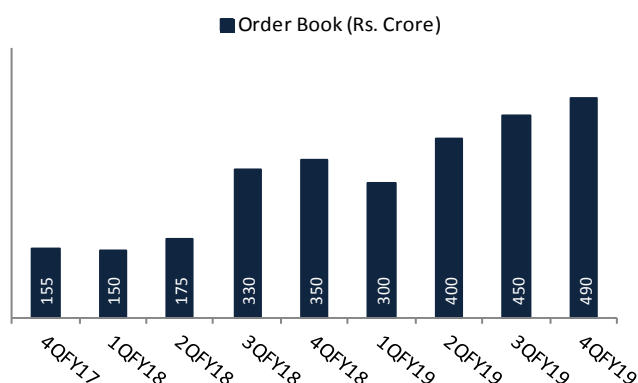


Exhibit: Escorts Railway Division Revenue Trend

Revenue increased on account of higher order execution during the quarter

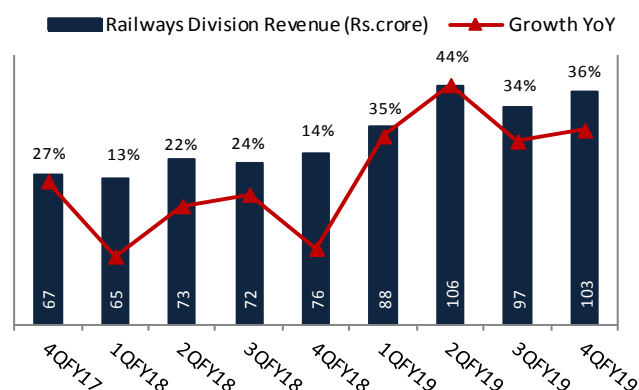


Exhibit: Escorts Railway Division EBIT and EBIT Margin

Margins remained at 15% level due to higher import content during the quarter

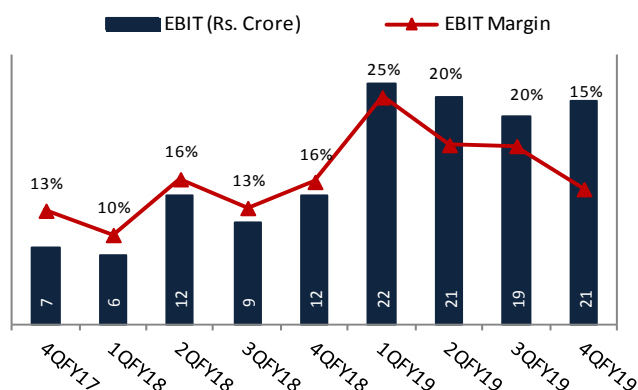
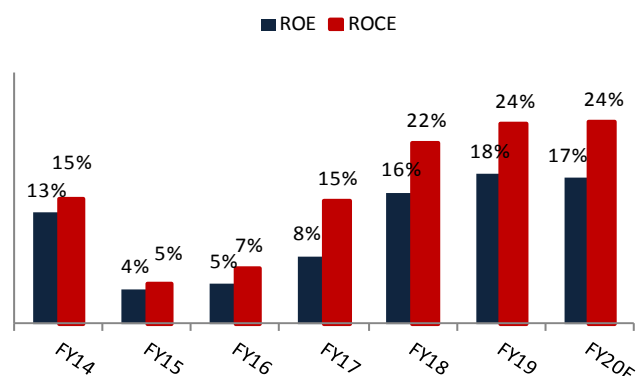


Exhibit: RoE and RoCE Trend

Increase in profitability will lead to expansion in return ratios going ahead



Financial Details

Balance Sheet

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	119	119	119	123	123	123	123	123
Reserves	1,526	1,746	1,711	1,344	1,498	2,093	2,551	3,040
Networth	1,645	1,866	1,831	1,466	1,621	2,215	2,673	3,163
Debt	460	352	411	315	218	15	273	202
Other Non Cur Liab	193	191	163	57	51	60	107	110
Total Capital Employed	1,815	2,011	1,937	1,556	1,680	2,230	2,677	3,163
Net Fixed Assets (incl CWIP)	1,662	1,692	1,651	1,597	1,592	1,630	1,704	1,889
Non Cur Investments	367	368	367	30	38	50	2	2
Other Non Cur Asst	187	94	96	118	109	141	232	232
Non Curr Assets	2,216	2,154	2,115	1,746	1,739	1,820	1,938	2,123
Inventory	524	587	453	433	450	566	857	926
Debtors	468	372	414	375	456	592	931	964
Cash & Bank	145	271	251	253	244	317	243	417
Other Curr Assets	3	10	13	103	103	151	300	337
Curr Assets	1,335	1,488	1,388	1,189	1,445	2,144	2,756	3,230
Creditors	917	870	738	751	910	1,234	1,249	1,446
Provisions (both)	81	82	89	133	132	133	120	135
Other Curr Liab	243	263	256	89	118	125	132	148
Curr Liabilities	1,241	1,215	1,083	1,103	1,308	1,684	1,649	1,878
Net Curr Assets	94	273	305	86	138	460	1,107	1,352
Total Assets	3,551	3,642	3,503	2,944	3,199	3,973	4,708	5,353

Income Statement

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	4,049	6,502	4,113	3,432	4,145	5,059	6,262	7,038
Change (%)	(1)	61	(37)	(17)	21	22	24	12
Other Income	48	83	65	61	47	65	92	74
EBITDA	190	387	163	161	309	554	725	847
Change (%)	13	104	(58)	(1)	92	79	31	17
Margin (%)	4.7	6.0	4.0	4.7	7.5	10.9	11.6	12.0
Depr & Amor.	50	86	69	58	63	73	87	86
EBIT	139	301	94	103	246	480	637	761
Int. & other fin. Cost	97	112	58	51	32	29	20	21
EBT	91	272	101	113	261	516	710	815
Exp Item	(1)	(3)	31	(5)	(29)	7	(6)	-
Tax	19	28	(6)	12	77	162	237	265
Minority Int & P/L share of Ass.	1	(0)	0	-	-	-	-	-
Reported PAT	74	247	76	70	131	347	477	550
Adjusted PAT	74	247	76	70	131	347	477	550
Change (%)	(42)	234	(69)	(8)	86	166	38	15
Margin(%)	1.8	3.8	1.9	2.0	3.1	6.9	7.6	7.8

Financial Details

Key Ratios

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	4%	13%	4%	5%	8%	16%	18%	17%
ROCE	8%	15%	5%	7%	15%	22%	24%	24%
Asset Turnover	1.14	1.79	1.17	1.17	1.30	1.27	1.33	1.31
Debtor Days	42	21	37	40	40	43	54	50
Inv Days	47	33	40	46	40	41	50	48
Payable Days	83	49	66	80	80	89	73	75
Int Coverage	1	3	2	2	8	16	33	-
P/E	10	6	20	24	51	31	17	14
Price / Book Value	0	1	1	1	4	5	3	2
EV/EBITDA	4	3	8	12	22	20	11	10

Cash Flow Statement

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	92	275	70	73	190	509	710	815
(inc)/Dec in Working Capital	(96)	3	(119)	37	55	(18)	(894)	93
Non Cash Op Exp	50	86	69	61	65	73	87	86
Int Paid (+)	82	93	50	54	36	22	20	21
Tax Paid	(37)	(62)	(21)	7	(44)	(102)	(237)	(265)
others	(33)	(71)	(45)	(20)	2	(15)	1	14
CF from Op. Activities	58	324	5	212	304	460	(280)	763
(inc)/Dec in FA & CWIP	(108)	(125)	(55)	(49)	(66)	(105)	(161)	(270)
Free Cashflow	(50)	200	(50)	164	238	355	(441)	493
(Pur)/Sale of Inv	(4)	1	(0)	(3)	(161)	(311)	95	(162)
others	(18)	54	30	7	73	34	-	-
CF from Inv. Activities	(130)	(70)	(26)	(45)	(155)	(374)	(18)	(432)
inc/(dec) in NW	-	-	0	-	-	-	-	-
inc/(dec) in Debt	68	(115)	59	(132)	(103)	(213)	258	(71)
Int. Paid	(81)	(94)	(50)	(46)	(29)	(22)	(20)	(21)
Div Paid (inc tax)	(17)	(25)	(6)	(13)	(13)	(16)	(36)	(42)
others	3	5	(1)	(1)	31	250	-	-
CF from Fin. Activities	(28)	(230)	1	(191)	(113)	(1)	202	(133)
Inc(Dec) in Cash	(100)	24	(19)	(24)	36	85	(96)	198
Add: Opening Balance	245	145	271	56	33	69	317	243
Closing Balance	145	170	251	32	69	154	239	423

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Analyst's ownership of the stocks mentioned in the Report	NIL
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