

Industry **Automobiles**
 Bloomberg **ESC IN**
 BSE CODE **500495**

Infra led demand will drive tractor industry

RATING	ACCUMULATE
CMP	748
Price Target	822
Potential Upside	10%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	834/423
Mkt Capital (Rs Cr)	9753
Free float (%)	60%
Avg. Vol 1M (,000)	7134
No. of Shares (Crs)	12
Promoters Pledged %	0%

3QFY20 Result Update

- ESCORTS revenue has declined by 1.3% YoY to Rs.1633 crores (vs our estimates of Rs. 1613 crores) in 3QFY20.
- Agri-Machinery segments revenue remained flat at Rs.1292 crores on account of 2% YoY decline in volumes while realization grew by 2%YoY. Tractor sales for the quarter stood at 25109 units. EBIT margin expanded by 420bps on sequential basis to 14.5%.
- The domestic market share in the Agri-machinery segment stands at 11.9% in 3QFY20.
- Construction equipment segments revenue declined by 19% YoY to Rs.217 crores largely on account of 26% YoY lower volumes. However, realizations grew by 7% YoY. EBIT margin for construction equipment segment went up by 220 bps YoY to 4.8%.
- The railways segment revenue grew by 29%YoY to Rs.124 crores on the back of strong order book execution. The EBIT margin stood at 18.4% in 3QFY20.
- On the railway business, the company has an order book of around Rs.450 crores and it will be executed over the next 12-15 months.
- Gross margin remained flat on sequential basis to 33.2% on account of softening commodity prices and better product mix in both Agri-machinery and construction equipment segment. However, EBITDA margin improved by 330 bps QoQ to 13% led by better operating leverage in tractor segment and reduction in discounts.
- PAT grew by 9.2%YoY to Rs.153 crores (vs our estimates of Rs.119 crores). PAT margin improved by 150 bps QoQ to 9.4%.
- Dealer inventory level in the Agri-machinery segment stands at 3- 4 weeks against 5 weeks.

View and Valuation

The tractor industry may witness some headwinds due to slow recovery in infrastructure segment in the near term. However healthy monsoon and improved MSPs for crops will keep the growth prospects intact for next couple of years. The management strategy to position itself in the higher HP segment in the long run will further drive the margins in the long run. Gradual improvement in construction equipment margins and increasing revenue pie of high margin railways business will improve the overall profitability going ahead. Factoring the gradual improvement in demand scenario, better margins in FY21 and reduction in debt level we increase our FY21 EPS estimates by 4%. We value ESCORTS at 16x FY21e EPS to arrive at target price of Rs.822 and recommend ACCUMULATE.

Key Risks to our rating and target

- Slowdown in tractor industry
- Sharp increase in commodity prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	4093	4995	6196	6118	6727
EBITDA	324	557	733	704	874
EBIT	261	485	648	601	769
PAT	160	345	484	510	629
EPS (Rs)	13	28	39	42	51
EPS growth (%)	59	115	40	5	23
ROE (%)	9.9	15.6	18.1	18.5	18.8
ROCE (%)	15.5	21.7	24.2	21.8	23.0
BV	132	181	218	225	272
P/B (X)	4.1	4.9	3.0	3.3	2.7
P/E (x)	41.2	31.3	16.3	18.0	14.6

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PAT above expectation

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,655	1,632	1,423	1,324	1,633	-1%	23%	5,059	6,262	24%
Other Income	24	17	17	21	27	9%	27%	65	92	41%
Total Income	1,679	1,649	1,440	1,345	1,660	-1%	23%	5,125	6,354	24%
COGS	1,151	1,123	982	885	1,092	-5%	23%	3,397	4,277	26%
Staff Cost	120	118	123	125	133	11%	6%	442	485	10%
Other Exp.	184	201	176	185	197	7%	6%	666	776	16%
Expenditure	1,455	1,442	1,281	1,195	1,421	-2%	19%	4,506	5,537	23%
EBITDA	200	190	142	129	212	6%	65%	554	725	31%
Depreciation	22	22	24	28	27	24%	-5%	73	87	19%
EBIT	179	168	118	101	186	4%	84%	480	637	33%
Interest	4	7	6	4	3	-32%	-24%	29	20	-34%
PBT	199	178	129	118	209	5%	78%	516	710	38%
Excpt. Item	(11)	-	-	9	-	0%	0%	7	(6)	0%
Tax	70	56	42	4	56	-19%	1278%	162	237	46%
PAT	140	121	88	105	153	9%	46%	347	477	38%

Concall Highlights

• Agri Machinery Business:-

- The domestic tractor industry has declined by 6% YoY in 3QFY20. North and central region de-grew by 4.2%, whereas industry de-grew by 8.1% in South and west region.
- The management expects 4% YoY growth in 4QFY20 and positive growth momentum in FY21 while full recovery is expected in FY22.
- The agri sector will continue to drive growth whereas infrastructure sector may take some time to recover (35-40% of sales).
- Farmtrac and Powertrac sales ratio stands at 39:61 (41:59 in 2QFY20).
- The industry share of 41-50HP tractors have improved by 100bps to 48.5%.
- Dealer inventory remains at 3-4 weeks against 5 weeks at industry level.
- Non tractor contribution stand at around 10% of sales.
- Capacity utilization stands at ~78%..

• Update on JV with Kubota:-

- The company has contract manufacturing agreement with Kubota
- Phase 1 investment done in FY19 and phase 2 investment of approx. Rs. 60 cr. in FY20
- Escorts Products offering under Joint Branding "E Kubota" to Global market.
- Export started from Q3FY20.
- The JV manufacturing facility is expected to start from 2QFY21.

• Construction Equipment Business :-

- The served industry (Backhoe Loaders, Pick n carry crane and Compactors) went down by 22.3% YoY in 9MFY20.
- The company has over 40% market share in Crane segment.
- The segment margin stands at 4.8% (2.7% in 2QFY20).
- The management plans to launch new products in next 12-15 months.
- Capacity utilization stands at ~40%.

• Railways Equipment Division:-

- The order book stands at Rs.450 crores to be executed over 12-15 months.
- The management expects growth of 25% over next 2 years.
- Localization level stands at 60% and it is expected to improve further from FY22.

• Other Details:-

- Capex guidance of Rs.250 crores each for FY20 and 21.
- The management expects increasing commodity price impact to come in from 1QFY21.
- The cash and cash equivalent stands around Rs.700 crores.

Exhibit: Escorts Agri-Machinery Volume Trend

Volume growth declined by 2% YoY due to slowdown in demand sentiments across various markets

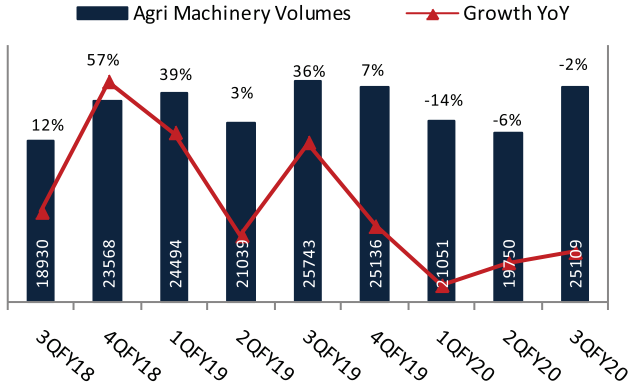


Exhibit: Escorts Agri-Machinery Realisation Trend

Realization increased by 2% QoQ on the back of change in product mix towards higher HP segment

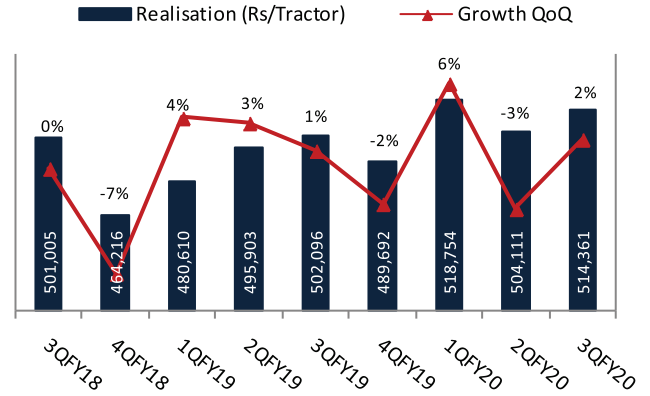


Exhibit: Escorts Agri-Machinery Revenue Trend

Revenue growth remained flat during the quarter

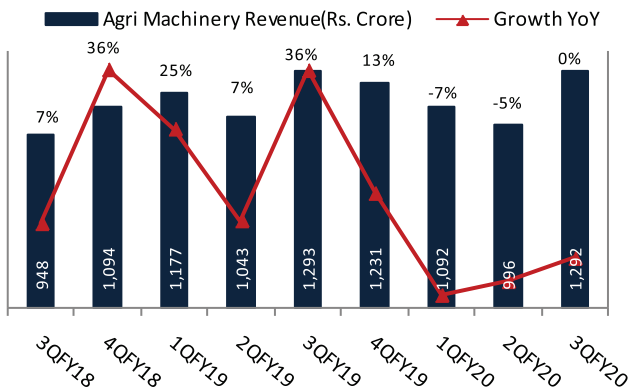


Exhibit: Escorts Agri-Machinery EBIT & EBIT Margin

Margins improved because of better product mix

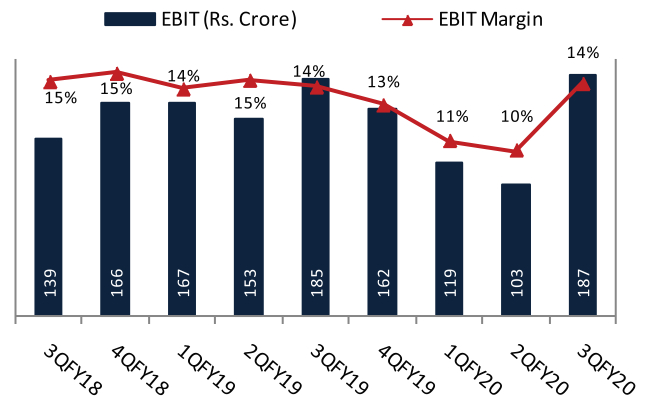


Exhibit: Escorts Construction Equipment Volume Trend

Construction equipment volumes declined by 26% YoY due to liquidity crisis and pending payments on infra projects

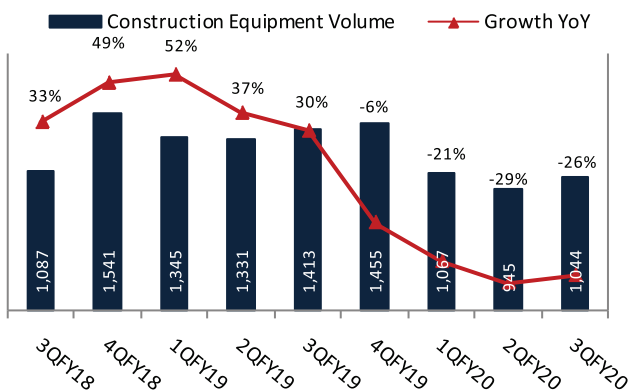


Exhibit: Escorts Construction Equipment Realisation

Shift in product mix towards lower realisation products led to 2% QoQ decrease

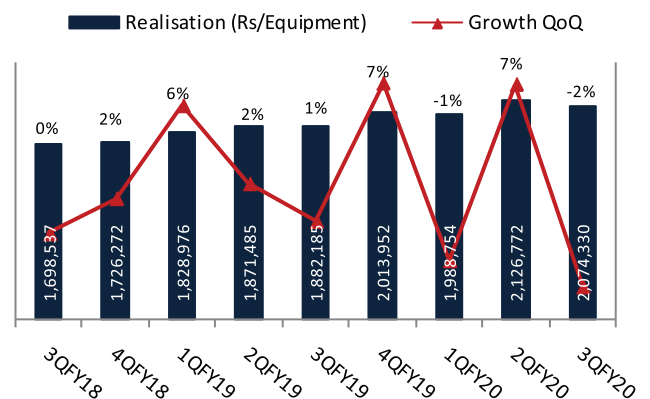


Exhibit: Escorts Construction Equipment (ECE) Revenue

Revenue de-grew by 19%YoY due to slowdown in construction activities

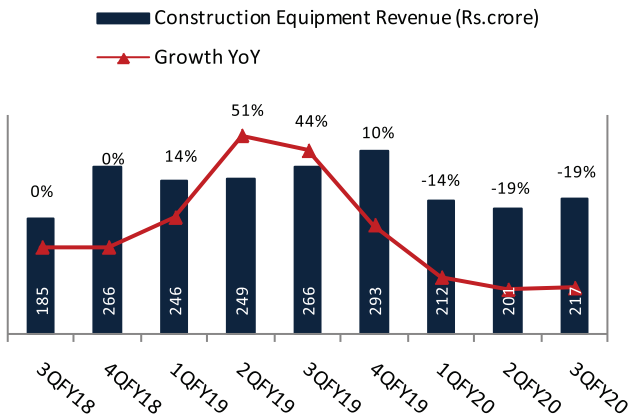


Exhibit: ECE EBIT Margin

Margins improved marginally on the back of better product mix

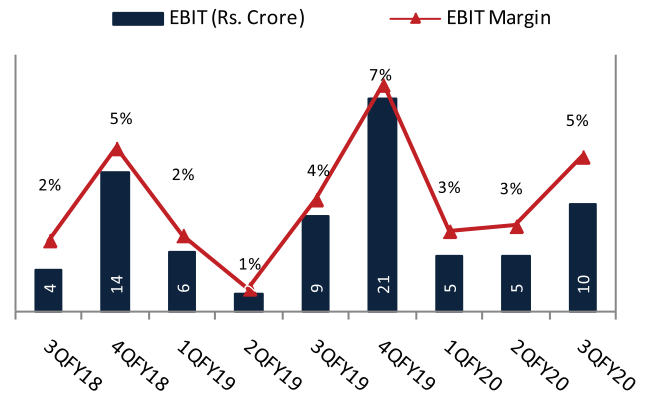


Exhibit: Escorts Railway Division Order Book

The company's order book stands at Rs.450 crores which will get executed over a period of 12-15 months

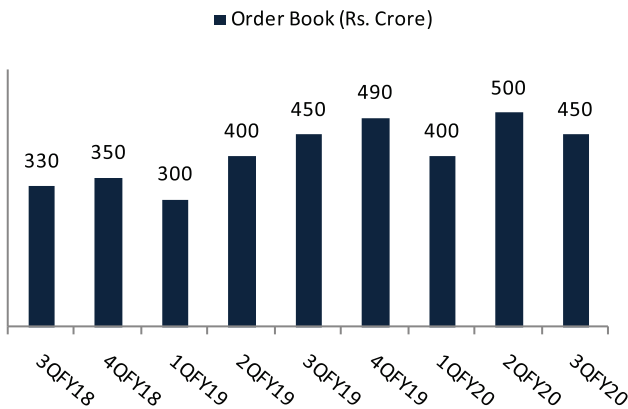


Exhibit: Escorts Railway Division Revenue Trend

Higher revenue on account of higher order execution during the quarter

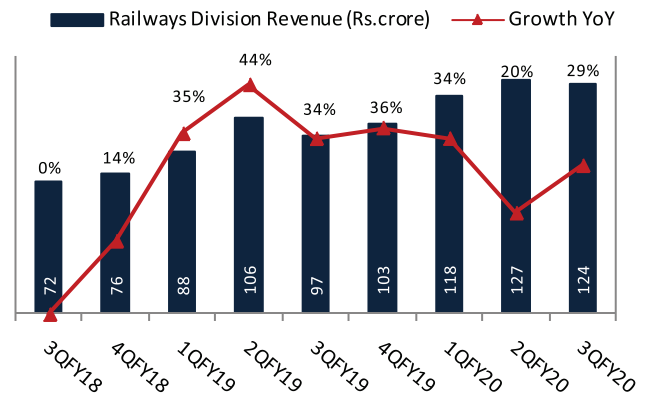


Exhibit: Escorts Railway Division EBIT and EBIT Margin

Margins remained at 18% level due to introduction of higher margin products

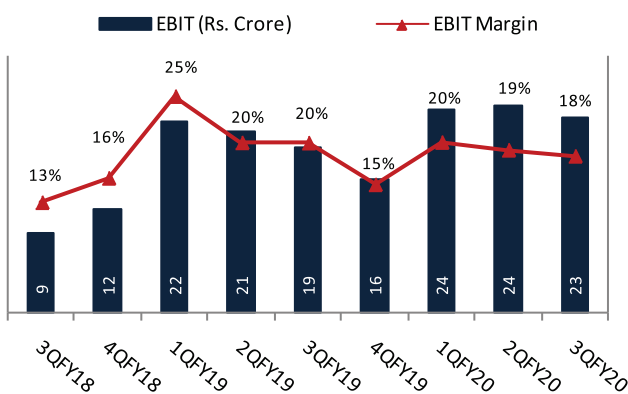
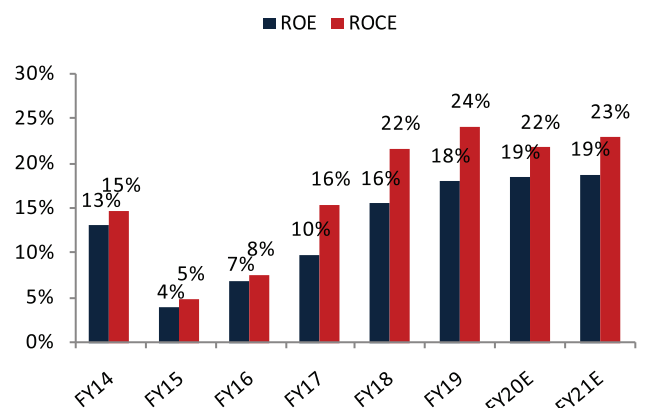


Exhibit: RoE and RoCE Trend

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	119	119	123	123	123	123	123	123
Reserves	1,746	1,711	1,344	1,498	2,093	2,551	2,630	3,217
Networth	1,866	1,831	1,466	1,621	2,215	2,673	2,752	3,339
Debt	352	411	315	218	15	273	202	151
Other Non Cur Liab	191	163	57	51	60	107	107	109
Total Capital Employed	2,011	1,937	1,556	1,680	2,230	2,677	2,752	3,339
Net Fixed Assets (incl CWIP)	1,692	1,651	1,597	1,592	1,630	1,704	1,891	2,056
Non Cur Investments	368	367	30	38	50	2	2	2
Other Non Cur Asst	94	96	118	109	141	232	232	232
Non Curr Assets	2,154	2,115	1,746	1,739	1,820	1,938	2,125	2,290
Inventory	587	453	433	450	566	857	813	894
Debtors	372	414	375	456	592	931	847	931
Cash & Bank	271	251	253	244	317	243	223	377
Other Curr Assets	10	13	103	103	151	300	296	326
Curr Assets	1,488	1,388	1,189	1,445	2,144	2,756	2,603	3,128
Creditors	870	738	751	910	1,234	1,249	1,270	1,397
Provisons (both)	82	89	133	132	133	120	119	130
Other Curr Liab	263	256	89	118	125	132	130	143
Curr Liabilities	1,215	1,083	1,103	1,308	1,684	1,649	1,668	1,819
Net Curr Assets	273	305	86	138	460	1,107	935	1,309
Total Assets	3,642	3,503	2,944	3,199	3,973	4,708	4,728	5,418

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	6,292	3,986	3,367	4,093	4,995	6,196	6,118	6,727
Change (%)	62	(37)	(16)	22	22	24	(1)	10
Other Income	81	61	56	43	59	81	82	88
EBITDA	381	161	177	324	557	733	704	874
Change (%)	109	(58)	10	83	72	32	(4)	24
Margin (%)	6.1	4.0	5.3	7.9	11.2	11.8	11.5	13.0
Depr & Amor.	83	66	57	63	72	85	103	105
EBIT	298	95	119	261	485	648	601	769
Int. & other fin. Cost	111	57	50	31	29	18	21	15
EBT	269	99	126	273	516	710	662	841
Exp Item	(4)	31	12	(44)	7	(11)	-	-
Tax	28	(6)	12	76	164	238	152	212
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	245	75	101	160	345	484	510	629
Adjusted PAT	245	75	101	160	345	484	510	629
Change (%)	252	(69)	35	59	115	40	5	23
Margin(%)	3.9	1.9	3.0	3.9	6.9	7.8	8.3	9.4

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13.1%	4.1%	6.9%	9.9%	15.6%	18.1%	18.5%	18.8%
ROCE	15%	5%	8%	16%	22%	24%	22%	23%
Asset Turnover	1.79	1.17	1.17	1.30	1.27	1.33	1.31	1.25
Debtor Days	21	37	40	40	43	54	50	50
Inv Days	33	40	46	40	41	50	48	48
Payable Days	49	66	80	80	89	73	75	75
Int Coverage	3	2	2	8	16	33	-	-
P/E	6	20	17	41	31	16	18	15
Price / Book Value	1	1	1	4	5	3	3	3
EV/EBITDA	3	8	12	22	20	11	13	11
FCF/Share	38	5	21	30	47	(7)	87	80

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	275	70	73	190	509	716	657	850
(inc)/Dec in Working Capital	3	(119)	37	55	(18)	(745)	150	(41)
Non Cash Op Exp	86	69	61	65	73	87	103	105
Int Paid (+)	93	50	54	36	22	12	21	15
Tax Paid	(62)	(21)	7	(44)	(102)	(217)	(166)	(214)
others	(71)	(45)	(20)	2	(15)	(68)	14	-
CF from Op. Activities	324	5	212	304	471	(234)	780	715
(inc)/Dec in FA & CWIP	(125)	(55)	(49)	(66)	(105)	(147)	(290)	(270)
Free Cashflow	200	(50)	164	238	367	(381)	490	445
(Pur)/Sale of Inv	1	(0)	(3)	(161)	(311)	129	1	(177)
others	54	30	7	73	34	42	-	-
CF from Inv. Activities	(70)	(26)	(45)	(155)	(374)	(17)	(289)	(447)
inc/(dec) in NW	-	0	-	-	-	-	-	-
inc/(dec) in Debt	(115)	59	(132)	(103)	(213)	231	(71)	(50)
Int. Paid	(94)	(50)	(46)	(29)	(22)	(14)	(21)	(15)
Div Paid (inc tax)	(25)	(6)	(13)	(13)	(16)	(29)	(38)	(49)
others	5	(1)	(1)	31	250	3	-	-
CF from Fin. Activities	(230)	1	(191)	(113)	(1)	191	(130)	(114)
Inc(Dec) in Cash	24	(19)	(24)	36	96	(61)	361	154
Add: Opening Balance	145	271	56	33	69	154	243	223
Closing Balance	170	251	32	69	165	93	586	359

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