

Industry
Bloomberg
BSE CODE

Automobiles
ESC IN
500495

Positive rural sentiments to drive growth

RATING	ACCUMULATE
CMP	794
Price Target	880
Potential Upside	11%

Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	914/423
Mkt Capital (Rs Cr)	10199
Free float (%)	57%
Avg. Vol 1M (,000)	6275
No. of Shares (Cr)	12
Promoters Pledged %	0%

RESEARCH ANALYST

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4QFY20 Result update

- ESCORTS revenue has declined by 15.4% YoY to Rs.1381 crores (vs our estimates of Rs. 1346 crores) in 4QFY20.
- Agri-Machinery segments revenue contracted by 14%YoY to Rs.1058 crores on account of 20% YoY decline in volumes while realization grew by 6%YoY. Tractor sales for the quarter stood at 20108 units. EBIT margin expanded by 130bps on sequential basis to 15.8%.
- The domestic market share in the Agri-machinery segment stands at 13.1% (+120 bps QoQ) in 4QFY20.
- Construction equipment segments revenue declined by 28% YoY to Rs.210 crores largely on account of 32% YoY de-growth in volumes. However, realizations grew by 4% YoY. EBIT margin for construction equipment segment declined by 50 bps on sequential basis to 4.3%.
- The railways segment revenue grew by 4%YoY to Rs.108 crores on the back of strong order book execution. The EBIT margin contracted by 440bps QoQ to 14% in 4QFY20.
- On the railway business, the company has an order book of around Rs.500 crores and it will be executed over the next 12-15 months.
- Gross margin expanded by 460bps on sequential basis to 37.8% on account of inventory benefit, softening commodity prices and better product mix in both Agri-machinery and construction equipment segment. However, EBITDA margin improved by 110 bps QoQ to 14.1%.
- PAT grew by 15.7%YoY to Rs.140 crores (vs our estimates of Rs.113 crores). PAT margin improved by 80 bps QoQ to 10.2%.

View and Valuation

The Overall rural sentiments are positive based on robust Rabi crop output and favourable initial prediction of this year monsoon. The management is already witnessing pent-up demand coming from the lockdown period and estimates around 70000-80000 units of volume can come between June to October period other than normal volumes. The only concern in the near term remains supply chain disruption due to COVID -19. The company has witnessed higher sales in 40HP category and also expanding its network in opportunity markets (south & west regions). Going ahead the management is confident of railways segment to post 15% YoY revenue growth in FY21. Overall margins to maintain around 11.5-12% range. We assign ACCUMULATE rating with target price of Rs.880. Currently the company is trading at 20x FY20 EPS.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	3432	4145	5059	6262	5810
EBITDA	161	309	554	725	660
EBIT	103	246	480	637	553
PAT	70	131	347	477	472
EPS (Rs)	8	13	28	39	40
EPS growth (%)	31	59	115	40	0
ROE (%)	6.9	9.9	15.6	18.1	15.6
ROCE (%)	7.7	15.5	21.7	24.2	18.3
BV	120	132	181	218	254
P/B (X)	1.2	4.1	4.9	3.0	3.1
P/E (x)	16.9	41.2	31.3	16.3	20.0

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Result above expectation

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	1,632	1,423	1,324	1,633	1,381	-15%	-15%	6,262	5,810	-7%
Other Income	17	17	21	27	28	60%	4%	92	98	6%
Total Income	1,649	1,440	1,345	1,660	1,408	-15%	-15%	6,354	5,908	-7%
COGS	1,123	982	885	1,092	859	-23%	-21%	4,277	3,841	-10%
Staff Cost	118	123	125	133	129	10%	-3%	485	521	7%
Other Exp.	201	176	185	197	198	-2%	0%	776	788	2%
Expenditure	1,442	1,281	1,195	1,421	1,186	-18%	-17%	5,537	5,150	-7%
EBITDA	190	142	129	212	194	2%	-8%	725	660	-9%
Depreciation	22	24	28	27	28	27%	4%	87	107	23%
EBIT	168	118	101	186	167	-1%	-10%	637	553	-13%
Interest	7	6	4	3	3	-62%	-2%	20	17	-12%
PBT	178	129	118	209	192	8%	-9%	710	634	-11%
Excpt. Item	-	-	9	-	-	0%	0%	(6)	9	0%
Tax	56	42	4	56	51	-9%	-9%	237	154	-35%
PAT	121	88	105	153	140	16%	-8%	477	472	-1%

Concall Highlights

Agri Machinery Business

- The domestic tractor industry has declined by 9%YoY in 4QFY20. North and central region de-grew by 19%YoY, whereas industry de-grew by 3%YoY in South and west region.
- The Overall rural sentiments are positive because of a record output of Rabi crop and a favourable initial prediction of this year monsoon.
- The management is already witnessing pent-up demand coming from the lockdown period and estimates around 70000-80000 units of volume can come between June to October period other than normal volumes.
- The management is very confident on subsidy-based tractor sales in Assam, Bihar, Andhra Pradesh and Telangana regions in FY21.
- The company has gained 120bps market share on sequential basis to 13.1% in 4QFY20.
- Farmtrac: Powertac sales ratio stood at 41:59 as against 39:61 in 3QFY20.
- The company has witnessed higher sales in 40HP category (south & west regions performed well).
- The company has 1000+ dealers and it is constantly expanding its network in opportunity markets.
- The company has sufficient inventory to serve the demand till June.
- 65% showrooms and 90% of the workshops are open till date.
- The financing break-up between Private Banks and NBFC stands at 33% and 67% respectively.

Update on JV with Kubota

- The JV plant is expected to commence production from 3QFY21 (earlier 2QFY21).
- The plant will produce only premium products for Kubota as well as Escorts.

Construction Equipment Business

- The Served industry (Backhoe Loaders, Pick n carry crane and Compactors) went down by 23%YoY in FY20.
- In FY20 BHL industry down by 23%, compactor down by 22% and Cranes industry down by 24%YoY.
- The company market share in crane segment stood at 40%.
- The capacity utilization level stands at 40%.
- The management expects construction industry to pick up from 3QFY21.

Railways Equipment Division

- The company has order book of Rs.500 crores to be executed over period of 12-15 months.
- The management expects growth of 15% YoY in FY21.
- The company has recently got the RDSO approval for Microprocessor Controlled Air Brake System (MCABS) under localization program and which is currently served by only 2 foreign players. This has market size of Rs.700-800 crores.

Other Details

- Capex guidance of Rs.200-250 crores for FY21.
- The company has started production on single shift basis with 25% work force.

Exhibit: Escorts Agri-Machinery Volume Trend

Volume growth declined by 20% YoY due to slowdown in demand sentiments and lockdown.

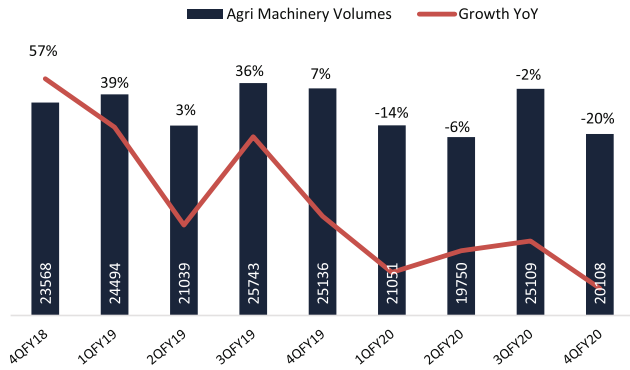


Exhibit: Escorts Agri-Machinery Realisation Trend

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

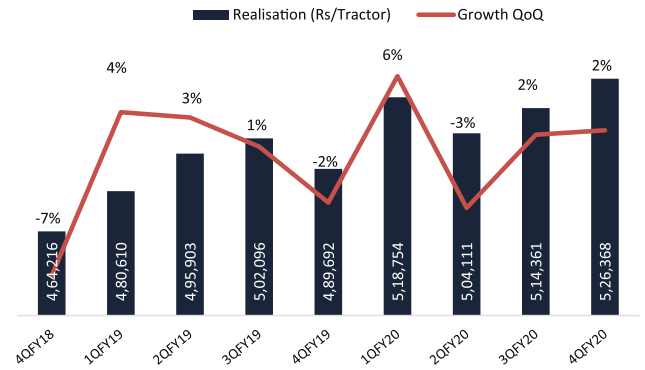


Exhibit: Escorts Agri-Machinery Revenue Trend

Revenue declined because of sharp decline in volumes.

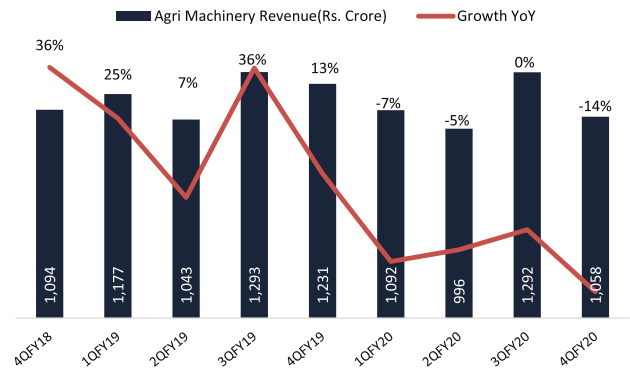


Exhibit: Escorts Agri-Machinery EBIT & EBIT Margin

Margins improved because of better product mix and softening commodity prices.

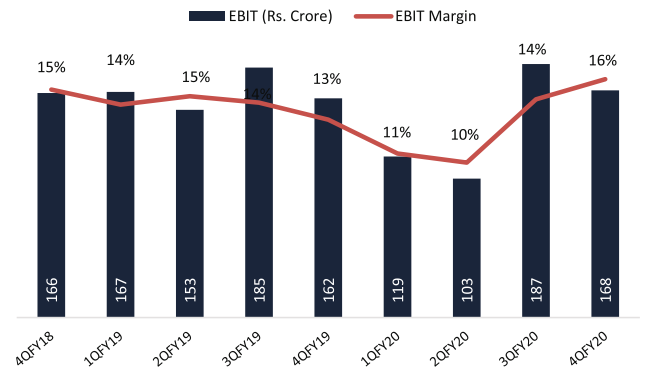


Exhibit: Escorts Construction Equipment Volume Trend

Construction equipment volumes declined by 32% YoY due to liquidity crisis and pending payments on infra projects.

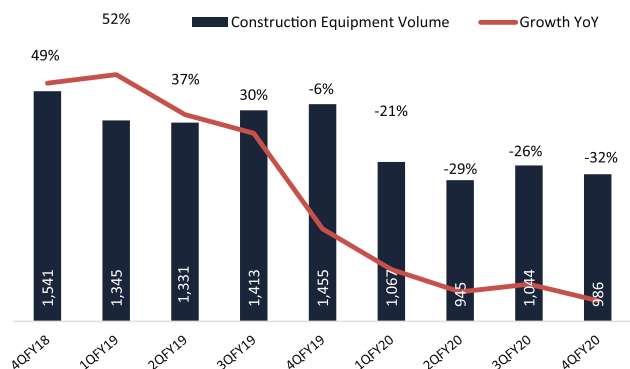


Exhibit: Escorts Construction Equipment Realisation

Shift in product mix towards higher realisation products led to 3% QoQ increase.

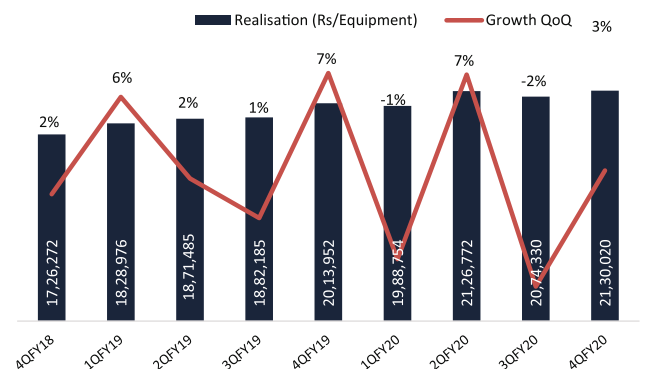


Exhibit: Escorts Construction Equipment (ECE) Revenue

Revenue de-grew by 28%YoY due to slowdown in construction activities.

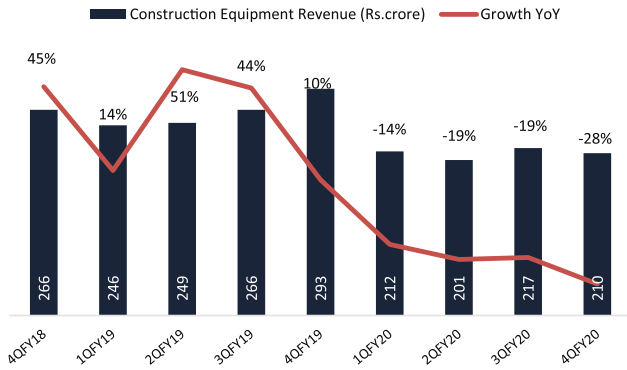


Exhibit: ECE EBIT Margin

Margins remained over 4% level.

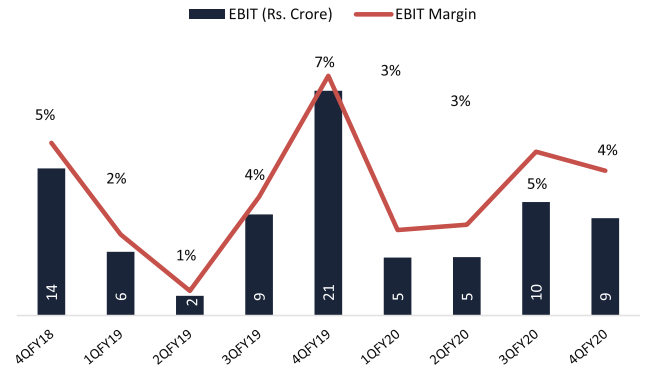


Exhibit: Escorts Railway Division Order Book

The company's order book stands at Rs.500 crores which will get executed over a period of 12-15 months.

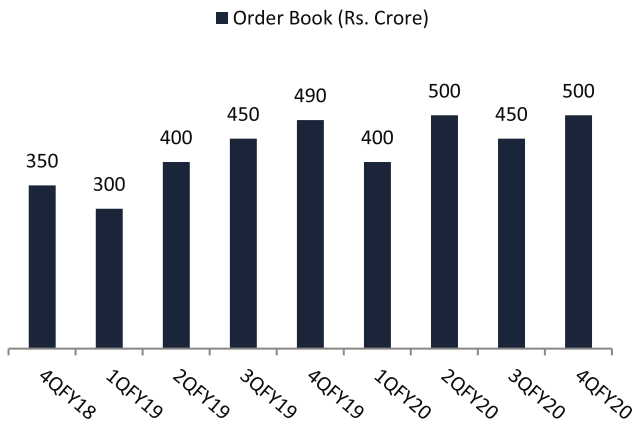


Exhibit: Escorts Railway Division Revenue Trend

Revenue increased 4%YoY on account of higher order execution during the quarter.

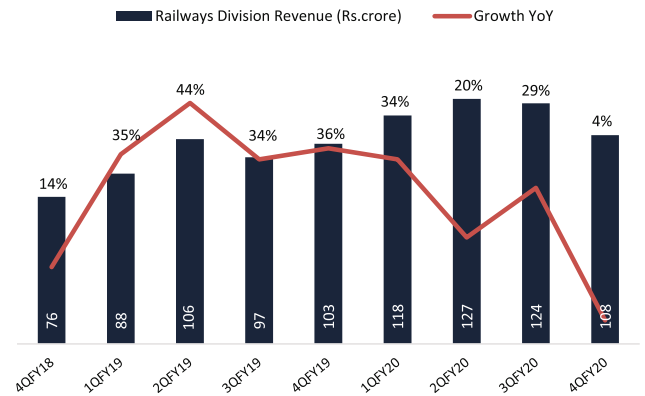


Exhibit: Escorts Railway Division EBIT and EBIT Margin

Margins declined to 14% level due to higher execution of low margin order.

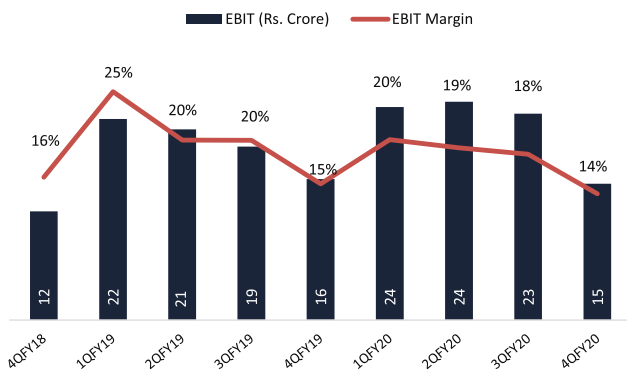
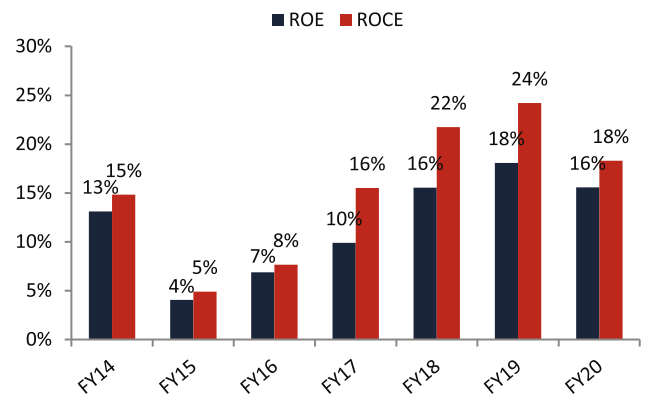


Exhibit: RoE and RoCE Trend

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	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	2,995
Networth	1,645	1,866	1,831	1,466	1,621	2,215	2,673	3,117
Debt	460	352	411	315	218	15	273	19
Other Non Cur Liab	193	191	163	57	51	60	107	93
Total Capital Employed	1,815	2,011	1,937	1,556	1,680	2,230	2,677	3,120
Net Fixed Assets (incl CWIP)	1,662	1,692	1,651	1,597	1,592	1,630	1,704	1,771
Non Cur Investments	367	368	367	30	38	50	2	2
Other Non Cur Asst	187	94	96	118	109	141	232	298
Non Curr Assets	2,216	2,154	2,115	1,746	1,739	1,820	1,938	2,104
Inventory	524	587	453	433	450	566	857	883
Debtors	468	372	414	375	456	592	931	732
Cash & Bank	145	271	251	253	244	317	243	325
Other Curr Assets	3	10	13	103	103	151	300	267
Curr Assets	1,335	1,488	1,388	1,189	1,445	2,144	2,756	2,897
Creditors	917	870	738	751	910	1,234	1,249	1,293
Provisons (both)	81	82	89	133	132	133	120	126
Other Curr Liab	243	263	256	89	118	125	132	197
Curr Liabilities	1,241	1,215	1,083	1,103	1,308	1,684	1,649	1,759
Net Curr Assets	94	273	305	86	138	460	1,107	1,138
Total Assets	3,551	3,642	3,503	2,944	3,199	3,973	4,708	5,015

Income Statement

Fig in Rs Cr

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	4,049	6,502	4,113	3,432	4,145	5,059	6,262	5,810
Change (%)	(1)	61	(37)	(17)	21	22	24	(7)
Other Income	48	83	65	61	47	65	92	98
EBITDA	190	387	163	161	309	554	725	660
Change (%)	13	104	(58)	(1)	92	79	31	(9)
Margin (%)	4.7	6.0	4.0	4.7	7.5	10.9	11.6	11.4
Depr & Amor.	50	86	69	58	63	73	87	107
EBIT	139	301	94	103	246	480	637	553
Int. & other fin. Cost	97	112	58	51	32	29	20	17
EBT	91	272	101	113	261	516	710	634
Exp Item	(1)	(3)	31	(5)	(29)	7	(6)	9
Tax	19	28	(6)	12	77	162	237	154
Minority Int & P/L share of Ass.	1	(0)	0	-	-	-	-	-
Reported PAT	74	247	76	70	131	347	477	472
Adjusted PAT	74	247	76	70	131	347	477	472
Change (%)	(42)	234	(69)	(8)	86	166	38	(1)
Margin(%)	1.8	3.8	1.9	2.0	3.1	6.9	7.6	8.1

Financial Details

Key Ratios

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	4.2%	13.1%	4.1%	6.9%	9.9%	15.6%	18.1%	15.6%
ROCE	7%	15%	5%	8%	16%	22%	24%	18%
Asset Turnover	1.14	1.79	1.17	1.17	1.30	1.27	1.33	1.16
Debtor Days	42	21	37	40	40	43	54	46
Inv Days	47	33	40	46	40	41	50	55
Payable Days	83	49	66	80	80	89	73	81
Int Coverage	1	3	2	2	8	16	33	-
P/E	11	6	20	17	41	31	16	20
Price / Book Value	0	1	1	1	4	5	3	3
EV/EBITDA	4	3	8	12	22	20	11	15
FCF/Share	14	38	5	21	30	47	(7)	80

Cash Flow Statement

Fig in Rs Cr

Y/E March	SY12	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	92	275	70	73	190	509	716	625
(inc)/Dec in Working Capital	(96)	3	(119)	37	55	(18)	(745)	327
Non Cash Op Exp	50	86	69	61	65	73	87	107
Int Paid (+)	82	93	50	54	36	22	12	14
Tax Paid	(37)	(62)	(21)	7	(44)	(102)	(217)	(175)
others	(33)	(71)	(45)	(20)	2	(15)	(68)	(72)
CF from Op. Activities	58	324	5	212	304	471	(234)	797
(inc)/Dec in FA & CWIP	(108)	(125)	(55)	(49)	(66)	(105)	(147)	(182)
Free Cashflow	(50)	200	(50)	164	238	367	(381)	615
(Pur)/Sale of Inv	(4)	1	(0)	(3)	(161)	(311)	129	(210)
others	(18)	54	30	7	73	34	42	31
CF from Inv. Activities	(130)	(70)	(26)	(45)	(155)	(374)	(17)	(421)
inc/(dec) in NW	-	-	0	-	-	-	-	-
inc/(dec) in Debt	68	(115)	59	(132)	(103)	(213)	231	(261)
Int. Paid	(81)	(94)	(50)	(46)	(29)	(22)	(14)	(10)
Div Paid (inc tax)	(17)	(25)	(6)	(13)	(13)	(16)	(29)	(26)
others	3	5	(1)	(1)	31	250	3	-
CF from Fin. Activities	(28)	(230)	1	(191)	(113)	(1)	191	(300)
Inc(Dec) in Cash	(100)	24	(19)	(24)	36	96	(61)	75
Add: Opening Balance	245	145	271	56	33	69	154	93
Closing Balance	145	170	251	32	69	165	93	169

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