

Industry
Bloomberg
BSE CODE

Automobiles
ESC IN
500495

Focus on fixed cost reduction coupled with network expansion in southern markets

RATING	ACCUMULATE
CMP	1099
Price Target	1215
Potential Upside	11%

Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	1210/423
Mkt Capital (Rs Cr)	13466
Free float (%)	60%
Avg. Vol 1M (,000)	2507
No. of Shares (Cr)	12
Promoters Pledged %	0%

RESEARCH ANALYST

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1QFY21 Result update

- ESCORTS posted revenue de-growth of 25.4% YoY to Rs. 1062 crores (vs. expect. Rs. 1221 crores) impacted by the outbreak COVID-19 and consequent lockdown across all regions.
- Agri Machinery segment revenue de-grew by 13% YoY to Rs. 954 crores led by volume de-growth of 14% YoY while realization grew by 1% YoY. Tractor sales for the quarter stood at 18150 units. EBIT margin has declined by 139 bps on sequential basis to 14.5%.
- The domestic market share in Agri Machinery segment was up by 20 bps on YoY basis and segment stood at 10.7% in 1QFY21.
- Railway Equipments segment revenue also de-grew by 54% YoY to Rs. 55 crores on account of disrupted operations due to lockdown in various cities. However, realization grew strongly by 13% YoY due to BS VI transition. EBIT margin for the segment has declined by 1141 bps, on sequential basis to 2.6%. The company has an order book of around Rs.480 crores and it will be executed over the next 12-15 months.
- Construction Equipments segment revenue de-grew by 75% YoY to Rs. 53 crores led by volume de-growth of 78% YoY. However, realization grew strongly by 13% YoY due to BS VI transition. EBIT margin was negative for the segment at 32%.
- Gross margin contracted by 490 bps on sequential basis to 32.9% due to reversal of inventory benefit impact. EBITDA margin has also declined by 282 bps QoQ to 11.3% due to company cost savings done by company by lowering other expenses.
- PAT grew by 5.3% YoY to Rs.92 crores (vs expect Rs. 83 crores). PAT margin declined by 149 bps QoQ to 8.7%.

View and Valuation

The demand sentiment in Tractor segment continues to be strong driven by healthy crop output and reservoir levels. Though, construction equipment and railways division sales hampered due to recurring lockdowns in various cities. The supply chain constraints persist in the system and may take another 2-3 weeks to normalize as per the management. However, the company has witnessed higher sales in 40HP and above segment with increased contribution of 500bps on sequential basis. The company continues to focus on network expansion in southern markets through new small sales outlets. Going ahead we expect margins to be maintained over 12% on account of reduction in fixed cost. We largely maintain our FY21 EPS estimates. We value ESCORTS at 24x FY22e EPS to arrive at a target price of Rs.1215 and maintain ACCUMULATE.

Key Risks to our rating and target

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

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	5059	6262	5810	5497	6655
EBITDA	554	725	660	663	857
EBIT	480	637	553	559	733
PAT	347	477	472	502	678
EPS (Rs)	28	39	40	40	51
EPS growth (%)	115	40	0	1	26
ROE (%)	15.6	18.1	15.6	10.6	11.8
ROCE (%)	21.7	24.2	18.3	12.4	14.3
BV	181	218	254	376	427
P/B (X)	4.9	3.0	2.6	2.9	2.6
P/E (x)	31.3	16.3	16.7	27.4	21.7

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Sales below expectation

1QFY21 Results

Qtrly - Stand. & Annl - conso./Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	1,423	1,324	1,633	1,381	1,062	-25%	-23%	6,262	5,810	-7%
Other Income	17	21	27	28	30	79%	7%	92	98	6%
Total Income	1,440	1,345	1,660	1,408	1,091	-24%	-23%	6,354	5,908	-7%
COGS	982	885	1,092	859	713	-27%	-17%	4,277	3,841	-10%
Staff Cost	123	125	133	129	126	3%	-3%	485	521	7%
Other Exp.	176	185	197	198	103	-42%	-48%	776	788	2%
Expenditure	1,281	1,195	1,421	1,186	942	-26%	-21%	5,537	5,150	-7%
EBITDA	142	129	212	194	120	-16%	-38%	725	660	-9%
Depreciation	24	28	27	28	26	10%	-5%	87	107	23%
EBIT	118	101	186	167	93	-21%	-44%	637	553	-13%
Interest	6	4	3	3	2	-67%	-32%	20	17	-12%
PBT	129	118	209	192	121	-6%	-37%	710	634	-11%
Excpt. Item	-	9	-	-	-	0%	0%	(6)	9	0%
Tax	42	4	56	51	29	-31%	-43%	237	154	-35%
PAT	88	105	153	140	92	5%	-34%	477	472	-1%

Concall Highlights

- After government authorities' approval, ESCORTS started operations in single shift from 2nd week of May 2020.
- Demand: In June 2020, overall the situation was positive in almost every market except West Bengal and Chhattisgarh. Moreover, demand in Sothern region grew by 50%.
- Demand: Oct–Nov 2020 is expected to have quiet good demand, industry may see peak of demand in that period. COVID-19 is not expected to impact demand as all macro factors are right, the demand is very fundamental and now the company is making sales through digital platforms.
- Currently the company has inventory of 3-4 weeks for the complete cycle as against 6-7 weeks of inventory for same cycle.
- The company reached 95% of capacity in June 2020 but it has reduced operations to 50-55% of capacity.
- The suppliers are facing issues related to COVID-19 since last 3.5-4 weeks, the whole auto industry is affected by same and for next 3-4 months the market would be driven by suppliers.
- Recently, in last 3-4 days suppliers have recovered drastically and therefore the company is expecting to reach to full capacity production by mid of August 2020.
- Kubota and Escorts: Kubota and Escorts would continue to compete each other in market. Their joint development plans are broadly discussed and new products are not yet decided as of now.
- The company's BEP level sales volume is of 232-250 machines in a month.
- Volume is expected to grow by low single digit in FY21. It is expected be in range of 10% for 9MFY21.
- Railway Equipment's segment: The company had issues in delivery due to COVID-19 that impacted the segment in the quarter. If localized contents are approved then the company may say see great jump in EBITDA in this year.
- Exports: The company is targeting to reach 8000-10,000 export volumes in tractor.
- By FY22, Escorts will possibly start exporting Kubota JV tractors.
- The company has currently 1017 dealers as against optimum level of 1200 dealers for two brands. In 2QFY21 100 more dealers would be added and the company is targeting to reach optimum level by end of FY21. It has churn rate of 5-7% i.e. 50-70 dealers are re-appointed every quarter.
- In FY21, the company has decided to cut fixed cost by 10%.
- In 1QFY21, the commodity prices remained soft in 1QFY21 and same is expected to continue in 2QFY21.
- The company's expected capex for FY21 is in range of Rs.225-250 crs.

Exhibit: Escorts Agri-Machinery Volume Trend

Volume declined by 14% on YoY basis due to COVID-19 led headwinds in the industry.

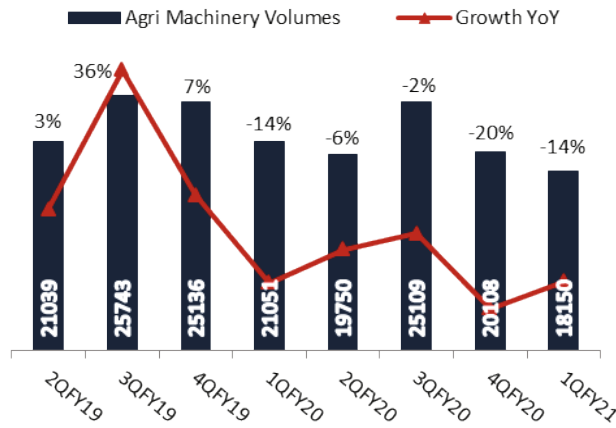


Exhibit: Escorts Agri-Machinery Realisation Trend

Realization remained flat in the quarter on QoQ basis.

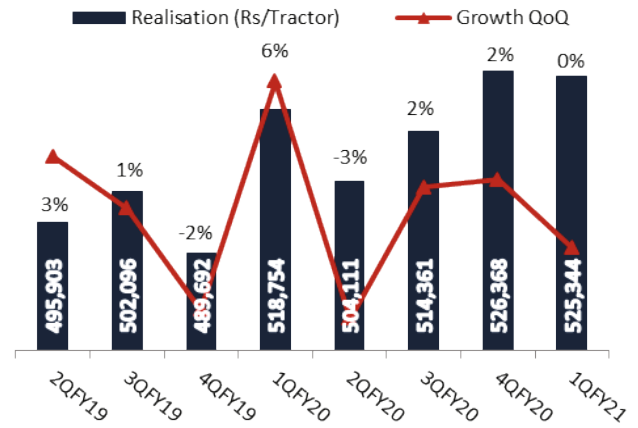


Exhibit: Escorts Agri-Machinery Revenue Trend

Revenue declined because of decline in volumes due to COVID-19 led headwinds.

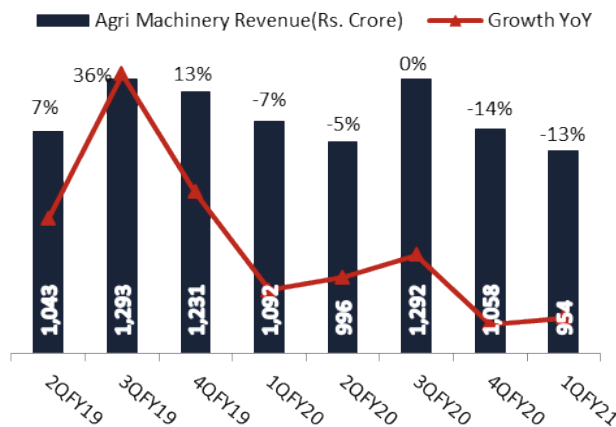


Exhibit: Escorts Agri-Machinery EBIT & EBIT Margin

EBIT margins went up by 356 bps YoY due to improved product mix, lower costs and soft commodity prices.

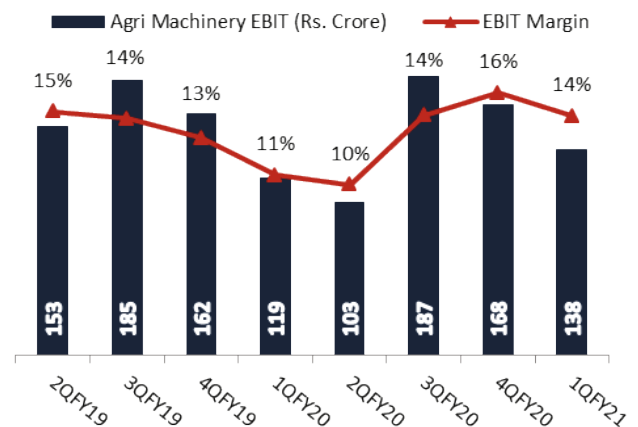


Exhibit: Escorts Construction Equipment Volume Trend

Construction equipment volumes impacted due to nationwide lockdown for major part of the quarter.

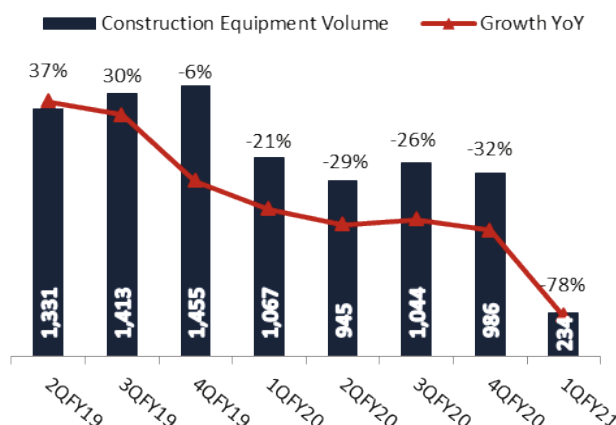


Exhibit: Escorts Construction Equipment Realisation

Shift in product mix towards higher realisation products led to 5% QoQ increase.

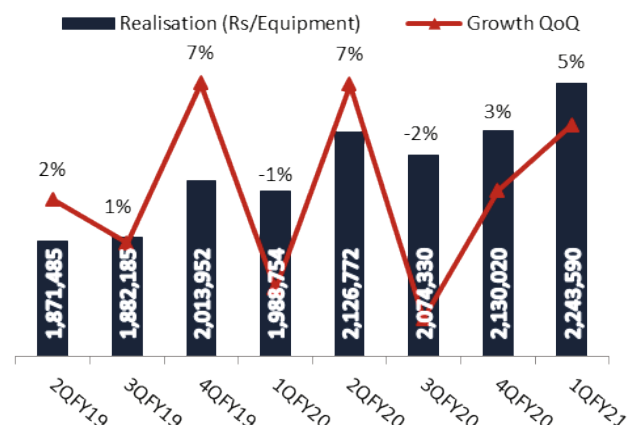


Exhibit: Escorts Construction Equipment (ECE) Revenue

Revenue de-grew by 75% YoY led by decline in volumes due to COVID-19 led headwinds.

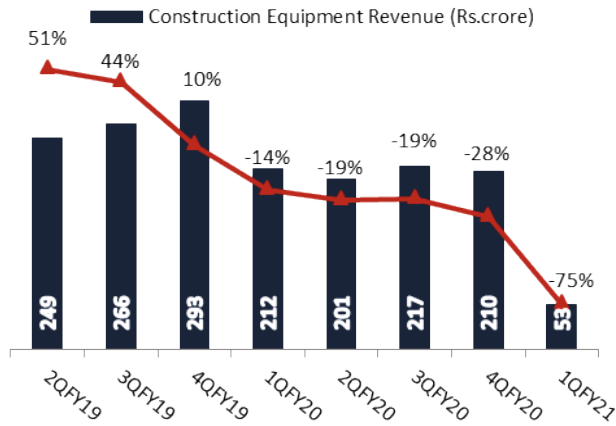


Exhibit: ECE EBIT Margin

ECE EBIT was at negative ₹ 16.8 Crore in the quarter due to lower sales volumes.

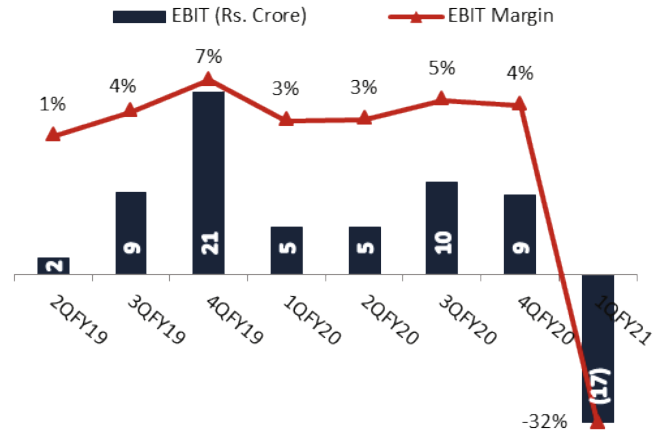


Exhibit: Escorts Railway Division Order Book

The company's current order book is more-than ₹ 480 crore that will be executed in the next 12-15 months.

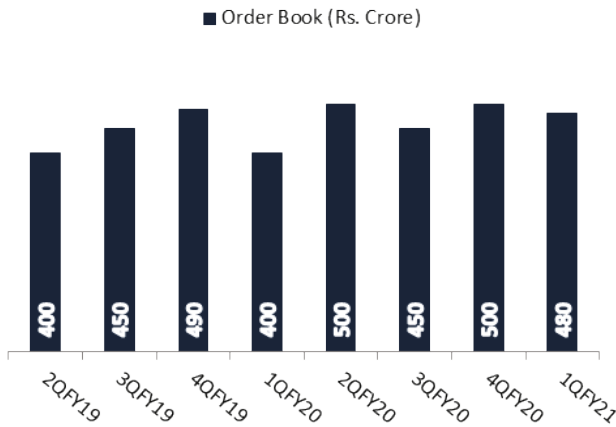


Exhibit: Escorts Railway Division Revenue Trend

Revenue declined 54% YoY due to outbreak of COVID-19 pandemic.

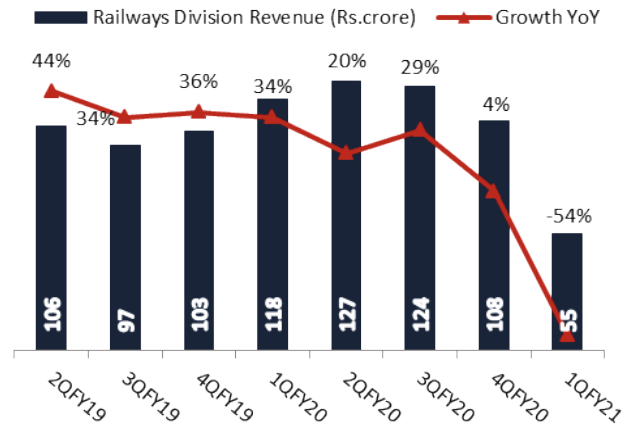


Exhibit: Escorts Railway Division EBIT and EBIT Margin

EBIT margin declined to 2.6% in quarter mainly due to reduced sales.

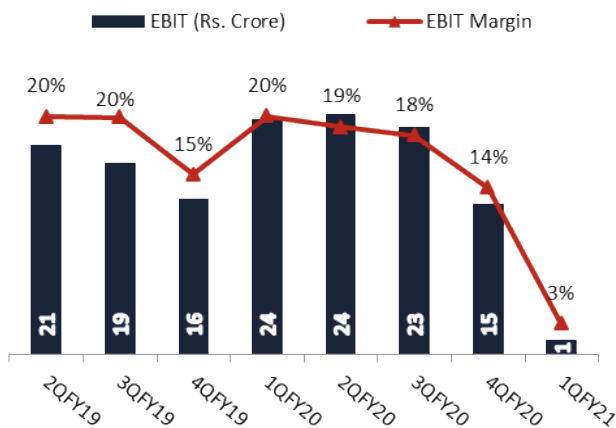
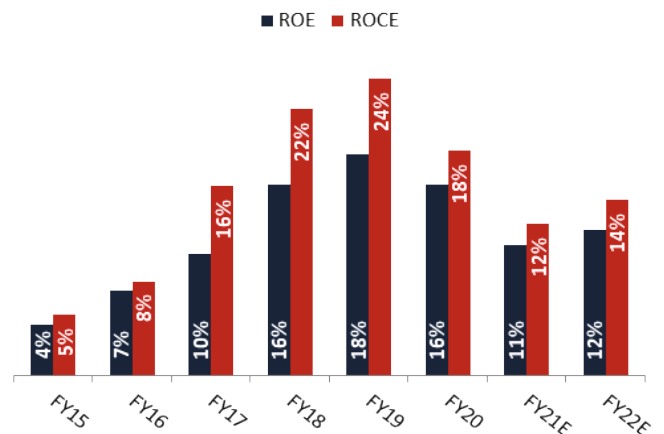


Exhibit: RoE and RoCE Trend

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



Financial Details

Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	119	123	123	123	123	123	123	123
Reserves	1,711	1,344	1,498	2,093	2,551	2,995	4,486	5,113
Networth	1,831	1,466	1,621	2,215	2,673	3,117	4,609	5,236
Debt	411	315	218	15	273	19	12	9
Other Non Cur Liab	163	57	51	60	107	93	91	97
Total Capital Employed	1,937	1,556	1,680	2,230	2,677	3,120	4,609	5,236
Net Fixed Assets (incl CWIP)	1,651	1,597	1,592	1,630	1,704	1,771	1,937	1,949
Non Cur Investments	367	30	38	50	2	2	2	2
Other Non Cur Asst	96	118	109	141	232	298	298	298
Non Curr Assets	2,115	1,746	1,739	1,820	1,938	2,104	2,271	2,283
Inventory	453	433	450	566	857	883	738	893
Debtors	414	375	456	592	931	732	723	875
Cash & Bank	251	253	244	317	243	325	1,447	1,670
Other Curr Assets	13	103	103	151	300	267	253	306
Curr Assets	1,388	1,189	1,445	2,144	2,756	2,897	4,032	4,947
Creditors	738	751	910	1,234	1,249	1,293	1,129	1,367
Provisions (both)	89	133	132	133	120	126	119	144
Other Curr Liab	256	89	118	125	132	197	186	226
Curr Liabilities	1,083	1,103	1,308	1,684	1,649	1,759	1,578	1,880
Net Curr Assets	305	86	138	460	1,107	1,138	2,454	3,067
Total Assets	3,503	2,944	3,199	3,973	4,708	5,015	6,317	7,244

Income Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	4,113	3,432	4,145	5,059	6,262	5,810	5,497	6,655
Change (%)	(37)	(17)	21	22	24	(7)	(5)	21
Other Income	65	61	47	65	92	98	126	184
EBITDA	163	161	309	554	725	660	663	857
Change (%)	(58)	(1)	92	79	31	(9)	0	29
Margin (%)	4.0	4.7	7.5	10.9	11.6	11.4	12.1	12.9
Depr & Amor.	69	58	63	73	87	107	104	123
EBIT	94	103	246	480	637	553	559	733
Int. & other fin. Cost	58	51	32	29	20	17	13	11
EBT	101	113	261	516	710	634	672	907
Exp Item	31	(5)	(29)	7	(6)	9	-	-
Tax	(6)	12	77	162	237	154	169	229
Minority Int & P/L share of Ass.	0	-	-	-	-	-	-	-
Reported PAT	76	70	131	347	477	472	502	678
Adjusted PAT	76	70	131	347	477	472	502	678
Change (%)	(69)	(8)	86	166	38	(1)	6	35
Margin(%)	1.9	2.0	3.1	6.9	7.6	8.1	9.1	10.2

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	4.1%	6.9%	9.9%	15.6%	18.1%	15.6%	10.6%	11.8%
ROCE	5%	8%	16%	22%	24%	18%	12%	14%
Asset Turnover	1.17	1.17	1.30	1.27	1.33	1.16	0.87	0.92
Debtor Days	37	40	40	43	54	46	48	48
Inv Days	40	46	40	41	50	55	49	49
Payable Days	66	80	80	89	73	81	75	75
Int Coverage	2	2	8	16	33	-	-	-
P/E	20	17	41	31	16	17	27	22
Price / Book Value	1	1	4	5	3	3	3	3
EV/EBITDA	8	12	22	20	11	12	19	14
FCF/Share	5	21	30	47	(7)	80	71	73

Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	70	73	190	509	716	625	672	907
(inc)/Dec in Working Capital	(119)	37	55	(18)	(745)	327	(14)	(53)
Non Cash Op Exp	69	61	65	73	87	107	104	123
Int Paid (+)	50	54	36	22	12	14	13	11
Tax Paid	(21)	7	(44)	(102)	(217)	(175)	(169)	(229)
others	(45)	(20)	2	(15)	(68)	(72)	-	-
CF from Op. Activities	5	212	304	471	(234)	797	605	760
(inc)/Dec in FA & CWIP	(55)	(49)	(66)	(105)	(147)	(182)	(270)	(136)
Free Cashflow	(50)	164	238	367	(381)	615	335	624
(Pur)/Sale of Inv	(0)	(3)	(161)	(311)	129	(210)	(182)	(331)
others	30	7	73	34	42	31	-	-
CF from Inv. Activities	(26)	(45)	(155)	(374)	(17)	(421)	(452)	(467)
inc/(dec) in NW	0	-	-	-	-	-	-	-
inc/(dec) in Debt	59	(132)	(103)	(213)	231	(261)	(7)	(3)
Int. Paid	(50)	(46)	(29)	(22)	(14)	(10)	(13)	(11)
Div Paid (inc tax)	(6)	(13)	(13)	(16)	(29)	(26)	(44)	(51)
others	(1)	(1)	31	250	3	-	-	-
CF from Fin. Activities	1	(191)	(113)	(1)	191	(300)	(64)	(65)
Inc(Dec) in Cash	(19)	(24)	36	96	(61)	75	90	228
Add: Opening Balance	271	56	33	69	154	93	325	1,447
Closing Balance	251	32	69	165	93	169	415	1,675

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