

RETAIL EQUITY RESEARCH

Escorts Ltd

Auto - Tractors & Construction Equipment's

BSE CODE:500495

NSE CODE: ESCORTS

Bloomberg CODE: ESC :IN

SENSEX: 35,592

Hold

Rating as per mid cap

12months investment period

CMP Rs. 644 TARGET Rs. 680 RETURN 6% ↑

30th January, 2019

Revenue growth to taper in FY20E

Escorts Ltd (EL) is the third largest Agricultural tractor manufacturer in India. It has a strong presence in the north and west market, with an overall market share of 11% as on FY18.

- Revenue for the Q3FY19 grew by 37%YoY in line with our estimates. This growth was largely led by 34%YoY in the tractor sales & 30%YoY from the construction business.
- Despite taking price hike EBITDA margin improved by only 10bps which is below our expectation.
- Government's tractor subsidy schemes towards farm mechanisation and development over monsoon will be the important factors to define sales growth in coming years.
- We are forecasting moderation in sales growth from 22% during FY17-19E, to 13% in FY19E-21E, which will lead to 16% CAGR in PAT.
- Considering the near-term pressure on margins, we tweak our EBITDA estimate by -20bps and value EL at 15x FY20E EPS with a revised target price of Rs680 and downgrade our rating from buy to Hold.

Outperformance to continue

Q3FY19 revenue has witnessed a robust growth of 37%YoY led by stupendous growth of 34%YoY in the tractor sales and 30%YoY from the construction business. The volume growth in the tractor (78% of revenue) was largely driven by higher participation from strong market (UP, MP and Northern states) growing at 15%YoY. Despite taking price hike EBITDA margin improved by only 10bps which is below our expectation Adj. PAT for the quarter grew by 41%YoY due to strong operating & other income. Government's tractor subsidy schemes towards farm mechanisation and development over monsoon will be the important factors to define industry growth in the coming years and factoring 8-10% growth for FY20.

Revenue & PAT to grow by double digit.

Government initiatives towards increasing farm productivity through mechanisation is driving the demand for tractors. ELs expanded portfolio & technology upgrades in tractors have resulted in improved numbers both in existing and newer geographies. Exports have grown by 100%YoY for the quarter. Revenue from Construction equipment's grew by 44% and EL outpaced the industry growth of 20%YoY. Railway segments will continue to reflect sizable improvement in FY20. Management has indicated 19-20% CAGR growth in Railway in the next 3 years. We are forecasting moderation in sales growth from 22% during FY17-19E, to 13% in FY19E-21E, which will lead to 16% CAGR in PAT.

Improved penetration leads to increase in market share

EL's market share improved by 130bpsYoY and 30bps QoQ to 11.4% in 3QFY19. The current market share is pooled from Powertrac and Farmtrac brands at 60%/40% respectively. Recently launched compact tractors and paddy specialist tractors at <40HP category to support volume and market share gain. Overall share of new products in tractors stands at ~20% currently and have better margins.

Valuations

We marginally upgrade our Revenue estimate by 5%/4% for FY19/FY20 to factor in the price hike. We believe that the current valuation is justifiable on the back of strong earnings and massive government push. However considering near pressure on margins we tweak our EBITDA margin estimate by -20bps and value EL at 15x FY20E EPS with a revised target price of Rs680 and downgrade our rating from buy to Hold.

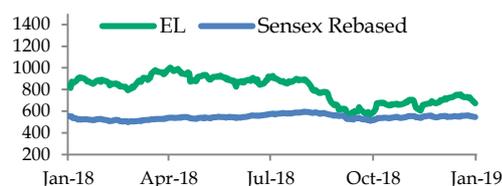
Company Data

Market Cap (cr)	Rs. 7,894
Enterprise Value (cr)	Rs. 8,029
Outstanding Shares (cr)	12.3
Free Float	60%
Dividend Yield	0.30%
52 week high	Rs. 1,018
52 week low	Rs. 543
6m average volume (cr)	0.26
Beta	1.3
Face value	Rs. 10

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	40.1	40.1	40.1
FII's	24.1	22.4	21.6
MFs/Insti	5.7	6.1	4.9
Public	30.2	31.4	33.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	2.9%	-30.5%	-22.7%
Absolute Sensex	3.3%	-5.4%	-1.9%
Relative Return	-0.4%	-25.2%	-20.8%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY18A	FY19E	FY20E
Sales	4,995	6,131	6,960
Growth (%)	22.0	22.7	13.5
EBITDA	557	736	856
Margin (%)	11.2	12.0	12.3
PAT Adj	352	473	550
Growth (%)	69.5	34.5	16.2
Adj.EPS	28.7	38.6	44.8
Growth (%)	28.7	34.5	16.7
P/E	22.5	16.7	14.4
P/B	2.9	2.4	2.0
EV/EBITDA	14.4	11.1	9.6
ROE (%)	16.2	18.4	17.9
D/E	0.03	0.05	0.05

Saji John
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	9MFY19	9MFY18	YoY Growth %
Sales	1,655	1,205	37.3	4,565	3,559	5.2
EBITDA	201	145	38.6	543	384	6.8
EBITDA margins	12.1	12.0	+10bps	11.9	10.8	+110bps
Depreciation	22	18	22.2	64	54	18.5
EBIT	179	127	40.8	480	330	45.4
Interest	4	6	-27.8	11	22	-50.6
Other Income	24	8	-	64	37	72.4
Exceptional Items	11	0	-	11	-7	-
PBT	210	129	62.7	543	338	60.8
Tax	70	37	89.1	181	105	71.7
Share of profit from Associate	0	0	-	0	0	-
Reported PAT	140	92	52.3	362	233	55.8
Adjustments	-11	-	-	-11	-7	-
Adj PAT	129	92	40.7	351	239	46.9
No. of shares (cr)	12.3	12.3	-	12.3	12.3	-
EPS (Rs)	11.4	7.5	40.7	28.7	19.5	46.9

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	5,826	6,689	6,131	6,960	5.2	4.1
EBITDA	699	836	736	856	5.3	2.4
Margins (%)	12.0	12.5	12.0	12.3	-	-20bps
Adj. PAT	451	557	473	556	4.9	-
EPS	36.8	45.4	38.6	45.3	4.9	-

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	4,093	4,995	6,131	6,960	7,811
% change	21.0	22.0	22.7	13.5	12.2
EBITDA	324	557	736	856	976
% change	68.6	72.1	32.0	16.4	0.0
Depreciation	63	72	85	91	103
EBIT	261	485	651	765	873
Interest	31	29	25	35	34
Other Income	43	59	88	93	95
PBT	230	456	626	730	839
% change	115.3	83.8	42.4	13.6	0.0
Tax	76	164	241	267	304
Tax Rate (%)	0.27	0.32	0.33	0.33	0.33
Reported PAT	201	345	484	556	631
Adj*	-6	-7	11	0	0
Adj PAT	207	352	473	556	631
% change	78.8	69.5	34.5	17.4	13.5
No. of shares (mn)	12.3	12.3	12.3	12.3	12.3
Adj EPS (Rs)	16.9	28.7	38.6	45.3	51.4
% change	126.0	69.5	34.5	17.4	13.5
DPS (Rs)	4.4	1.2	1.2	1.2	0.6

Cash flow

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	334	572	797	908	1,025
Non-cash adj.	-6	-65	-20	-16	-19
Changes in W.C	61	-23	-168	-340	-416
C.F.O	394	493	622	557	603
Capital exp.	-82	-113	-161	-210	-211
Change in inv.	-185	-301	-328	-300	-550
Other invest.CF	0	0	0	0	0
C.F - investing	-267	-425	-489	-510	-761
Issue of equity	0	0	0	0	0
Issue/repay debt	-92	-80	115	40	-60
Dividends paid	-12	-14	-14	-14	-14
Other finance.CF	-	-	-	-	-
C.F - Financing	-104	-94	101	26	-74
Chg. in cash	23	-26	233	73	-233
Closing cash	70	16	237	310	77

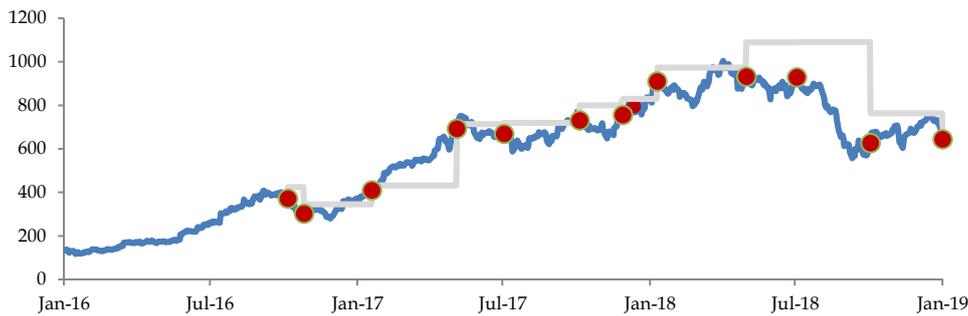
Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	70	16	237	310	77
Accounts Receivable	458	600	706	801	963
Inventories	429	541	665	751	842
Other Cur. Assets	307	370	454	515	578
Investments	634	954	1288	1593	2148
Gross Fixed Assets	2490	2566	2716	2916	3116
Net Fixed Assets	1511	1522	1587	1696	1793
CWIP	27	64	75	85	96
Intangible Assets	44	36	36	36	36
Def. Tax (Net)	47	112	132	148	167
Other Assets	8	17	18	18	18
Total Assets	3535	4231	5197	5952	6716
Current Liabilities	232	322	367	414	464
Provisions	151	205	252	286	321
Debt Funds	215	135	250	290	230
Other Liabilities	894	1225	1526	1618	1741
Equity Capital	123	123	123	123	123
Reserves & Surplus	1884	2221	2679	3221	3837
Shareholder's Fund	2006	2343	2802	3343	3959
Total Liabilities	3535	4231	5197	5952	6716
BVPS (Rs)	196	229	274	327	387

Ratios

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	7.9	11.2	12.0	12.3	12.5
EBIT margin (%)	6.4	9.7	10.6	11.0	11.2
Net profit mgn.(%)	5.1	7.0	7.7	8.0	8.1
ROE (%)	10.8	16.2	18.4	18.1	17.3
ROCE (%)	6.5	9.4	10.2	10.1	10.1
W.C & Liquidity					
Receivables (days)	37.8	38.7	38.9	39.5	41.2
Inventory (days)	54.0	52.7	52.6	54.7	54.9
Payables (days)	28.1	30.1	30.0	30.2	30.3
Current ratio (x)	3.3	2.9	3.4	3.4	3.2
Quick ratio (x)	2.3	1.9	2.6	2.7	2.2
Turnover & Levq.					
Gross asset T.O (x)	1.7	2.0	2.4	2.5	2.6
Total asset T.O (x)	1.2	1.3	1.3	1.2	1.2
Int. covge. ratio (x)	8.4	17.0	26.0	21.8	25.8
Adj. debt/equity (x)	0.1	0.03	0.05	0.05	0.03
Valuation ratios					
EV/Sales (x)	2.0	1.6	1.3	1.2	1.0
EV/EBITDA (x)	25.0	14.4	11.1	9.6	8.3
P/E (x)	38.0	22.5	16.7	14.2	12.5
P/BV (x)	3.4	2.9	2.4	2.0	1.7

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
03-11-2016	Buy	425
23-11-2016	Buy	245
16-02-2017	Hold	432
02-06-2017	Hold	713
31-07-2017	Hold	720
02-11-2017	Accumulate	800
26-12-2017	Accumulate	829
07-02-2018	Accumulate	973
30-05-2018	Buy	1,090
31.07.2018	Buy	1,091
02.11.2018	Buy	763
29.01.2019	Hold	680

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. NEUTRAL-The analyst has no investment opinion on the stock, under review

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