

Escorts Ltd

Sector: Commercial Vehicles /Mid-Cap | Earnings Update – 3QFY19

BUY

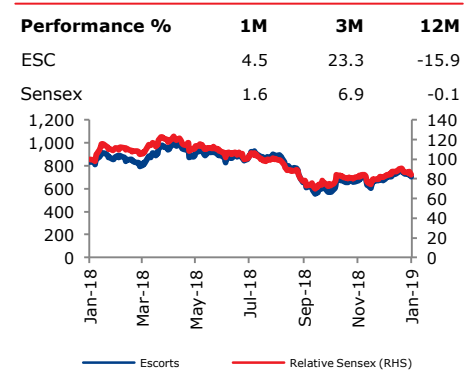
29 January 2019

Background: Escorts Ltd (ESC) is one of India's prominent players in the Automotive / Tractor industry, with an overall market share of 11.4% in the domestic tractor industry. ESC is also present in construction and material handling equipment, such as cranes, compactors and forklifts with 55% market share in material handling segment. Revenues share by segment in 3QFY19: Agri machinery (78.0 %), Construction equipment (16.0%), and Railway equipment (6.0%). The company added 47 new dealers taking the total to 920 in 3QFY19.

Sensex	35,592
Nifty	10,652
Price	INR 647
Target Price(12 Months)	INR 744
Recommendation	BUY
52 Week High/Low	INR 1,018/543
Bloomberg / Reuters	ESC IN/ESCO.BO
Equity (shares in mn)	122.6
Mkt. Cap in bn	INR79.3/\$1.1
Avg. Daily Vol. ('000)	1,780
Avg. Daily Vol. (mn)	INR 1,139/\$ 16.04

Shareholding	Dec 17	Sep 18	Dec 18
Promoters (%)	40.0	40.1	40.1
FII (%)	21.2	24.4	21.7
DII (%)	6.1	5.4	4.9
Others (%)	32.7	30.2	33.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (INR bn)			
Y/E March	2019E	2020E	2021E
Revenue	62.3	67.7	73.1
EBITDA	7.2	8.2	8.5
Adj PAT	5.1	5.9	6.1
Adj EPS	52.4	60.0	62.0
% growth	34.0	15.0	3.40
P/E	12.4	10.8	10.4
P/ BV	3.2	2.7	2.3
EV/EBITDA	10.5	9.2	8.9
EV/Sales	1.2	1.1	1.0
Div Yield (%)	0.7	0.8	0.8
ROE (%)	21.0	20.3	18.0



Strong performance across operating parameters

- In 3QFY19, Escorts' revenue grew by 37.3%YoY to INR 16.5bn as against CSEC estimate of INR16.1bn on account of strong volume growth in agri-machinery and construction equipment segments. Domestic agri-machinery volume grew by 34.2% YoY and exports volume grew by 99.8% YoY. Agri-machinery segment reported revenues of INR12.9bn and an EBIT margin of 14.3%, down by 34bps YoY. The margins in this segment were impacted due to unfavorable product mix on account of higher sale of lower margin <40HP tractors.
- Construction equipment showed a robust growth of 44.1% YoY with revenues of INR 2.65bn on the back of 30% YoY volume growth. The EBIT margins in this segment stood at 3.5% up by 127bps YoY.
- Railways grew by 34.1% YoY to INR 0.96bn, operating margin stood at 19.9%.The current order book stands at INR 4.5bn which will be executed over the next 12-13 months.
- ESC's market share improved by 33 bps QoQ (+129bps YoY) to 11.4% in 3QFY19. It aims to improve its market share to 12% by the end of FY19.
- The Company took a price hike of ~1% during the quarter in addition to the 2.25% price hike taken in 2QFY19 to set off cost pressures. ESC's dealer inventory was at 3-3.5 weeks as against ~5 week inventory levels of its peers. The management expects raw material cost pressures to soften as commodity prices are coming down.
- ESC's debt increased to INR 2.4bn from INR 2.1bn as on 3QFY19 on account of increased working capital requirements. The capex guidance for FY20 stands at INR 2.5-3bn. In addition to this, the company would also be investing INR 1.6bn-1.7bn towards its JV with Kubota and Tadano over the next 2 years.

Valuation: The management expects a 10%-12% growth in the domestic tractor industry for FY19 revised downward from 12%-14% growth expected earlier on account of higher inventory levels among other players and monsoon deficit in southern and western regions. The management believes that the Industry would grow at 3%-4% in 4QFY19 on account of a high base. We introduce and roll over our valuations to FY21E. At CMP, the stock is trading at P/E of 10.8X/10.4x on FY20E/FY21E EPS, respectively. We arrive at a revised price target of INR744 based on P/E of 12x FY21EPS (10 year average 1yr forward P/E) and maintain a **BUY** rating on the stock. **Risks:** Slow pace in infrastructure spending, further increase in commodity prices and unfavorable weather conditions in the upcoming crop season.

Results Summary 3QFY19

Y/E March (INR mn)	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth
Revenue	16,551	12,050	37.3%	13,984	18.4%
EBITDA	2,005	1,450	38.2%	1,575	27.3%
Depreciation	215	179	19.9%	215	0.1%
Interest	43	59	-27.8%	39	10.8%
Other Income	244	82	197.7%	221	10.4%
PBT	2,100	1,295	62.2%	1,543	36.1%
Tax	699	375	86.4%	516	35.4%
PAT	1,401	920	52.3%	1,026	36.5%
EBITDA Margin (%)	12.1	12.0		11.3	
Effective Tax Rate (%)	33.3	29.0		33.5	
PAT Margin (%)	8.5	7.6		7.3	

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Served as an officer, director or employee	No

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