

Escorts Ltd.

Sensex: 38493

CMP: INR 1157

Target Price: INR 1249



Automobile

Escorts Ltd. (EL) reported net sales of INR 10.6 bn in 1Q FY21 (~25.4% decline over INR 14.2 bn YoY) and a PAT of INR 922 mn (up 5.3% YoY). Escorts Farm Equipment (EFE) segment volume declined 13.8% while Escorts Construction Equipment (ECE) segment volume a declined 78.1%. EBITDAM (excluding other income) improved by 126 bps YoY (-282 bps QoQ) on the back of improving product mix, benign commodity prices and various cost cutting measures despite negative operating leverage and no price increases taken during the quarter. RM cost as % of sales decreased 185 bps while Operating & Manufacturing Expenses decreased 268 bps while employee expenses as % of sales increased 327 bps.

Nationwide lockdown due to pandemic of Covid19 dragged volumes in both ECE and EFE divisions led de-growth.

Domestic tractor industry reported a volume decline of 13.7% for the quarter while EFE domestic volume declined 12.1%. Escorts exports registered de-growth of 50.5%. Market share in the quarter stood at 10.7% (up 20 bps YoY, down 260 bps QoQ). Combined inventory at the dealers and the company currently stands at 3-3.5 weeks compared to normal level of 6-6.5 weeks. EFE volumes were significantly impacted mainly due to supply side issues. Utilization for the quarter stood at ~50% where in the same in the month of June stood at ~95%. All of the issues from the supply side have been addressed and management expects full utilization in the 2Q FY21. ECE volume declined 78.1% YoY (down 76.3% QoQ). Served ECE industry volume comprising Backhoe Loaders, PnC and Compactors declined by 59.9% in 1QFY21. Revenue from EFE/ECE segments stood at INR 9.54 bn/525 mn falling 14%/75.3%. Revenue from Railways stood at INR 549 mn (down 53.5% YoY) while order book for the segment stood at INR 4.9 bn executable over 12-15 months.

EBITDAM improved by 126 bps YoY on the back of improving product mix, benign commodity prices and various cost cutting measures despite negative operating leverage and no price increases taken during the quarter

EBITDAM (excluding other income) improved by 126 bps YoY (down 282 bps QoQ). EBIT margin in EFE improved 356 bps YoY (down 139 bps QoQ) to 14.5% on the back of improving product mix, benign commodity prices and various cost cutting measures despite negative operating leverage. ECE division reported EBITM of -32% (down 3452 bps YoY, down 3627 bps QoQ) due to sharp fall in volumes. Cost reduction measures and improving product mix has reduced breakeven levels for the segment. Railway

equipment division reported EBITM of 2.6% (down 1740 bps YoY) for the quarter but margins are expected to stabilize at 17-18% as incremental orders in the pipeline are of lower margin newer products with higher import content which can be improved with increasing localization. Management expects single digit growth in the segment for FY21.

Other highlights

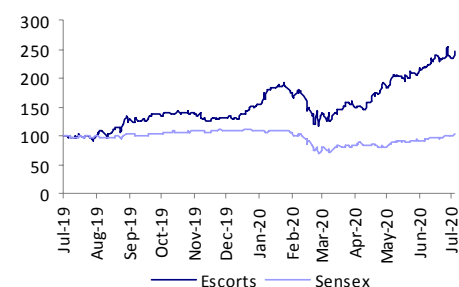
Management expect recovery in tractor volumes on the back of good rabi harvest, increased procurement by state governments and prediction of good monsoon. Management has guided for a single digit growth for the industry in FY21. Dealer addition in the quarter was muted while dealer count is expected to reach 1270 from current level of 1070. The management continued with cost rationalization measures and expect 10-15% reduction in fixed cost which currently stands at INR 6-7 bn. Southern market showing robust growth (50% in June 2020 vs 22% for the country). No issue in Tractor financing due to better cash flows at tend users.

Outlook and Valuation

Tractor industry remains relatively well placed in current environment. We expect EL to continue to gain market share in the tractor segment on the back of inroads in the South and West markets and the benefits from the Kubota JV. We also expect improvement in margins aided by improving product mix, increasing localisation and benefit of operating leverage. We expect Revenue/EBITDA/PAT to grow at a CAGR of 13%/21.9%/21.4% from FY20 to FY22E. At CMP of INR 1157, stock is trading at 14.4x its FY22E earnings (vs average of 20.8x for last 5 years). We Recommend HOLD with a revised fair price estimate of INR 1249 in 12-18 months, 15.5x its FY22E EPS.

Shareholding (%)	Mar-20
Promoters	40.25
FII's	20.37
DII's	9.95
Others	29.43

Relative Price Performance



Key Data	
BSE Code	500495
NSE Symbol	ESCORTS
Bloomberg Code	ESC IN
Reuters Code	ESCO.BO
Shares Outstanding (mn)	122
Face Value	10
Mcap (INR bn)	156
52 Week H/L	1210/423
2W Avg. Vol, BSE+NSE	2151000
Beta	1.3

(INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	61992	57610	63084	73613
Growth (%)	24.0%	-7.1%	9.5%	16.7%
EBITDAM (%)	11.6%	11.7%	12.0%	13.6%
Adj. PAT	4849	4855	5332	7161
Growth (%)	40.7%	0.1%	9.8%	34.3%
Adj. EPS (INR)	54.6	54.6	60.0	80.6
P/E (x)	11.2	21.2	19.3	14.4
EV/EBIDTA	7.1	13.7	12.6	9.6
EV/Sales	0.9	1.8	1.6	1.4
RoACE (%)	25.4%	19.7%	18.5%	21.8%
RoAE (%)	17.4%	14.9%	14.3%	16.9%

Quarterly Financials

INR Mn	1Q FY21	1Q FY20	4Q FY20	% Chg (YoY)	% Chg (QoQ)
Revenue	10,616	14,230	13,807	-25.4	-23.1
RM Cost	7,128	9,817	8,592	-27.4	-17.0
Employee Cost	1,262	1,226	1,295	3.0	-2.5
Other Expenses	1,031	1,763	1,975	-41.5	-47.8
Total Expenditure	9,420	12,806	11,862	-26.4	-20.6
EBITDA	1,196	1,424	1,944	-16.0	-38.5
Depreciation	264	241	278	9.6	-4.8
Other Income	298	167	278	78.7	7.5
EBIT	1,230	1,350	1,944	-8.9	-36.7
Interest	19	59	28	-67.1	-32.0
Exceptional Items	-	-	-	NA	NA
PBT	1,211	1,291	1,916	-6.2	-36.8
Tax	289	417	512	-30.5	-43.5
Profit After Tax	922	875	1,404	5.3	-34.4
Equity	1,226	1,226	1,226		
Face Value	10.0	10.0	10.0		
EPS	7.5	7.1	11.5	5.3	-34.3
% of Sales				bps	bps
RM Cost	67.1	69.0	62.2	-185.3	490.4
Employee Expenses	11.9	8.6	9.4	327.3	250.8
Other Expenses	9.7	12.4	14.3	-267.9	-459.6
EBITDAM Excl Other income (%)	11.3	10.0	14.1	125.9	-281.6
PATM (%)	8.7	6.1	10.2	253.3	-148.8

Financials

Income Statement

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	61992	57610	63084	73613
% Growth	24.0%	-7.1%	9.5%	16.7%
RM Cost	42407	38196	41621	48072
% Growth	25.9%	-9.9%	9.0%	15.5%
Employee Expenses	4717	5103	5511	5952
% Growth	9.4%	8.2%	8.0%	8.0%
Oth Expense	7707	7552	8378	9546
% Growth	18.5%	-2.0%	10.9%	13.9%
Total Op Exp	54831	50851	55510	63570
EBIDTA (excl OI)	7161	6758	7574	10043
% Growth	29.8%	-5.6%	12.1%	32.6%
EBITDA Margin %	11.6%	11.7%	12.0%	13.6%
Dep./Amortization	854	1046	1096	1265
Other Income	1000	923	577	645
EBIT	7307	6635	7055	9422
EBIT Margin %	11.8%	11.5%	11.2%	12.8%
Interest Expense	185	155	39	0
Exceptional Items	109	-92	0	0
EBT	7231	6388	7015	9422
Tax Expenses	2382	1533	1684	2261
PAT	4849	4855	5332	7161
% Growth	40.7%	0.1%	9.8%	34.3%
APAT Margin %	7.8%	8.4%	8.5%	9.7%

Key Ratios

Y/E	FY19	FY20	FY21E	FY22E
Per Share Data (INR)				
Reported EPS	54.6	54.6	60.0	80.6
Adj. EPS	54.6	54.6	60.0	80.6
CEPS	64.2	66.4	72.3	94.8
DPS	2.5	5.5	6.0	16.1
BVPS	340.1	391.6	445.6	510.0
Return Ratios (%)				
RoACE	25.4%	19.7%	18.5%	21.8%
RoANW	17.4%	14.9%	14.3%	16.9%
Liquidity Ratios				
Net Debt/Equity	0.0	(0.0)	(0.0)	(0.1)
Interest Coverage Ratio	39.5	NA	NA	NA
Current Ratio	1.4	1.7	1.8	1.9
Quick Ratio	0.3	0.5	0.5	0.5
Efficiency Ratios				
Asset Turnover Ratio	1.3	1.1	1.1	1.2
Inventory Days	55	59	59	59
Debtor Days	55	48	53	53
Creditor Days	81	91	89	89
Valuation Ratios				
P/E (x)	11.2	21.2	19.3	14.4
P/BV (x)	1.8	3.0	2.6	2.3
P/CEPS (x)	9.5	17.4	16.0	12.2
Dividend Yield (%)	0.4	0.5	0.5	1.4
EV/Net Sales (x)	0.9	1.8	1.6	1.4
EV/EBIDTA (x)	7.1	13.7	12.6	9.6

Balance Sheet

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Share Capital	1226	1226	1226	1226
Reserves and Surplus	29003	33575	38373	44102
Total Networth	30229	34801	39599	45328
Long Term Debt	2	417	0	0
Short Term Debt	2692	660	0	0
Total Debt	2694	1077	0	0
Net Deferred Tax Liability	529	303	309	315
Other Liabilities	526	418	449	506
Sources of Funds	49969	53121	58126	66591
Net Block	16074	15997	17400	18636
Investments	4886	5419	5744	6089
Current Assets	27079	28389	31448	37934
Current Liabilities	18685	17183	17769	20441
Net Current Assets	8394	11206	13679	17493
Application of Funds	49969	53121	58126	66591

Cash Flow

Y/E	FY19	FY20	FY21E	FY22E
PBT	7,231	6,388	7,015	9,422
Add: Depreciation	854	1,046	1,096	1,265
Add: Interest paid	185	155	39	-
Change in Working Capital	(5,497)	(993)	(2,279)	(1,009)
Less: Taxes	(2,382)	(1,533)	(1,684)	(2,261)
Cash Flow from operations (a)	(609)	4,140	3,611	6,772
Change in Fixed Assets	(1,349)	(968)	(2,500)	(2,500)
Change in CWIP	(63)	(513)	(21)	(21)
Change in Investments	379	(3,005)	(325)	(345)
Others	1,246	(284)	418	331
Cash Flow from Investing (b)	213	(4,770)	(2,428)	(2,535)
Change in Equity	40	(40)	-	-
Debt Raised/(Repaid)	(135)	415	(417)	-
Dividend paid	(222)	(486)	(533)	(1,432)
Interest paid	(185)	(155)	(39)	-
Cash Flow from Financing (c)	(422)	(22)	(989)	(1,432)
Net Change in Cash (a+b+c)	(818)	(653)	193	2,805
Opening Cash	3,119	2,301	1,648	1,842
Closing Cash	2,301	1,648	1,842	4,646

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