

# Escorts

Refer to important disclosures at the end of this report

## Kubota takeover is a transformational deal; upgrade to Buy

- On Thursday (18th Nov), Escorts' board announced Kubota (a 9% shareholder) will acquire 46.9mn additional shares through preferential allotment plus open offer, and join the Nandas as a co-promoter. At Rs2,000/share (a 23% premium to Wednesday's closing price), the total deal value is Rs94bn, implying 22x NTM core P/E. After a successful open offer, Kubota's shareholding may increase to 53.5% (59.1mn shares), assuming the cancellation of 33.7mn treasury stock.
- Kubota's takeover will substantially improve Escorts' medium-term growth outlook, based on: 1) localization of existing tractor imports currently done by Kubota's India JV; 2) leveraging Escorts for global component supplies to support Kubota's global sales; 3) technology support in construction equipment, farm implements and high-end tractors.
- We raise FY23E/24E EPS by 5%/7% (without factoring in the dilution from Kubota JV buyouts/consolidation), and now forecast Revenue/EPS CAGRs of 12%/17% in FY22-24E vs. 7%/12% previously.
- We upgrade ESC to a Buy with a Dec'22 TP of Rs2,140 (Rs1,600 earlier). We value core at 22x P/E (16x P/E earlier) and (post-deal) cash at Rs423/share (0.80x book); core P/E is at a 10% premium to fair P/E (backed by DCF), and captures potential upside from farm implements in India, and higher tractor exports.

**Kubota takeover to drive medium-term growth:** We are increasing Escorts' medium-term (FY23-31E) revenue CAGR to 15% from 11%, with: 1) enhanced market presence in the domestic tractor market upon expansion of the product portfolio, especially in wet-land applications, which represent more than 10% of industry volumes; 2) higher exports by leveraging Kubota's global distribution network; 3) better market positioning in Construction Equipment (CE) on widening of the product portfolio, especially in excavators, which represent more than 20% of industry volumes; and 4) commencement of component exports to meet Kubota's global requirements. There could be upside to our medium-term estimates from component exports, considering the large sourcing potential. We also increase our medium-term (FY23-31E) EBIT CAGR to 18% from 12% on higher revenues and localization benefits (Kubota JV currently imports tractors).

**Upgrade to Buy** with a Dec'22 TP of Rs2,140, based on 22x core P/E and net cash of Rs423/share (0.80x book). While arriving at fair value, we have assumed a 5% EPS dilution, due to the merger of Kubota Agricultural Machinery India and Escorts Kubota India. Reflecting the increase in medium-term assumptions, we increase implied multiple in DCF to 20x. We apply a 10% premium to this multiple to factor in the potential upside from farm implements in India, and higher tractor exports. There could be upside to the fair value from the usage of large cash reserves for buybacks or dividends. Taking robust growth prospects into account, we do not recommend significant tendering of shares in the open offer. Key risks: delay in rural/macro recovery; regulatory hurdles leading to delays in acquisition of shares by Kubota; increase in competitive intensity; and further increase in commodity prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 9\)](#)

### Financial Snapshot (Standalone)

| (Rs mn)           | FY20   | FY21   | FY22E  | FY23E  | FY24E  |
|-------------------|--------|--------|--------|--------|--------|
| Revenue           | 57,610 | 69,293 | 75,056 | 79,496 | 93,355 |
| EBITDA            | 6,758  | 11,292 | 10,733 | 11,209 | 14,097 |
| EBITDA Margin (%) | 11.7   | 16.3   | 14.3   | 14.1   | 15.1   |
| APAT              | 4,924  | 8,741  | 9,265  | 10,280 | 12,714 |
| EPS (Rs)          | 55.4   | 86.4   | 83.8   | 93.0   | 115.1  |
| EPS (% chg)       | 4.2    | 56.0   | (3.0)  | 11.0   | 23.7   |
| ROE (%)           | 15.2   | 19.8   | 13.8   | 12.1   | 13.3   |
| P/E (x)           | 32.5   | 20.9   | 21.5   | 19.4   | 15.7   |
| EV/EBITDA (x)     | 22.3   | 13.5   | 13.6   | 12.4   | 9.3    |
| P/BV (x)          | 4.6    | 3.4    | 2.5    | 2.2    | 2.0    |

Source: Company, Emkay Research

| CMP                                   | Target Price              |
|---------------------------------------|---------------------------|
| Rs 1,803<br>as of (November 19, 2021) | Rs 2,140 (▲)<br>12 months |
| Rating                                | Upside                    |
| BUY (▲)                               | 18.7 %                    |

### Change in Estimates

|                         |           |
|-------------------------|-----------|
| EPS Chg FY22E/FY23E (%) | (2.8)/4.7 |
| Target Price change (%) | 33.8      |
| Target Period (Months)  | 12        |
| Previous Reco           | HOLD      |

### Emkay vs Consensus

| EPS Estimates           |          |       |
|-------------------------|----------|-------|
|                         | FY22E    | FY23E |
| Emkay                   | 83.8     | 93.0  |
| Consensus               | 81.0     | 88.8  |
| Mean Consensus TP (12M) | Rs 1,537 |       |

### Stock Details

|                              |               |
|------------------------------|---------------|
| Bloomberg Code               | ESC IN        |
| Face Value (Rs)              | 10            |
| Shares outstanding (mn)      | 135           |
| 52 Week H/L                  | 1,825 / 1,098 |
| M Cap (Rs bn/USD bn)         | 243 / 3.27    |
| Daily Avg Volume (nos.)      | 1,827,595     |
| Daily Avg Turnover (US\$ mn) | 36.0          |

### Shareholding Pattern Sep '21

|                   |       |
|-------------------|-------|
| Promoters         | 36.6% |
| FIIs              | 21.5% |
| DIIIs             | 7.6%  |
| Public and Others | 34.3% |

### Price Performance

| (%)           | 1M | 3M | 6M | 12M |
|---------------|----|----|----|-----|
| Absolute      | 16 | 47 | 54 | 27  |
| Rel. to Nifty | 21 | 37 | 31 | (8) |

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

#### Raghunandhan N L

raghunandhan.nl@emkayglobal.com  
+91 22 6624 2428

#### Mumuksh Mandlesha

mumuksh.mandlesha@emkayglobal.com  
+91 22 6612 1334

#### Bhargava Perni

bhargava.perni@emkayglobal.com  
+91 22 6624 2429

## Kubota does a 'Kaizen' for Escorts

**Kubota's holding to increase to 53.5%:** Kubota's shareholding will increase through the preferential allotment of 9.4mn equity shares and open offer for another 37.5mn shares, at a price of Rs2,000/share, or Rs94bn, implying a NTM Core P/E of 22x. Kubota's shareholding is expected to increase to 53.5%, on a revised share capital of 111mn shares, post cancellation of treasury stock and successful completion of the open offer. **To reach 50.1% shareholding, the minimum shares to be tendered in the open offer stands at 33.7mn.** The shareholding of Nanda family, at 15.6mn shares, will remain unchanged and there is a lock-in clause for five years. In addition, Nikhil Nanda will remain as CMD and control will remain in the hands of existing management. However, Kubota will be able to increase its presence on the board by adding two more directors, taking its representation to four directors (similar to Nanda family's representation). A complete takeover of management control and the Nanda family's shareholding by Kubota could have been considered slightly more positive. After the completion of the transaction, Kubota Agricultural Machinery India and Escorts Kubota India will be merged with Escorts. This should increase volume, market share, manufacturing capacities and distribution reach of the company. These mergers can lead to an equity dilution in range of 5-10%.

### Exhibit 1: Outstanding share capital to increase to 111mn shares

| Outstanding share capital                                 | (mn shares)  |
|---|--------------|
| Existing number of shares                                 | 134.8        |
| Add: New issue  | 9.4          |
| Less: Treasury shares being cancelled (announced in 2020) | 12.3         |
| Less: Treasury shares to be cancelled (announced now)     | 21.4         |
| <b>Revised number of shares</b>                           | <b>110.5</b> |

Source: Company, Emkay Research

### Exhibit 2: Kubota's shareholding to increase to 53.5%, assuming success of open offer and cancellation of treasury shares

| Kubota shareholding             | (mn shares)  |
|---------------------------------|--------------|
| Existing shares                 | 12.3         |
| Add: New issue                  | 9.4          |
| Add: Open offer                 | 37.5         |
| <b>Revised number of shares</b> | <b>59.1</b>  |
| <b>Shareholding (%)</b>         | <b>53.5%</b> |

Source: Company, Emkay Research

### Exhibit 3: Minimum acceptance ratio for open offer stands at 51.2%; Minimum tendering of 34mn shares needed for Kubota to reach 50.1% shareholding

|   | (mn shares)  |
|---|--------------|
| Open offer (A)  | 37.5         |
| Non treasury shares                                     | 101.1        |
| Less: Nanda family (will not participate in open offer) | 15.6         |
| Less: Existing shares of Kubota                         | 12.3         |
| Remaining shares (B)                                    | 73.2         |
| <b>Minimum Acceptance ratio (%) - A/B</b>               | <b>51.2%</b> |

Source: Company, Emkay Research

**Exhibit 4: Kubota: Annualized revenues at US\$18.9bn for CY21, with Agri and CE contributing ~85% of revenues**

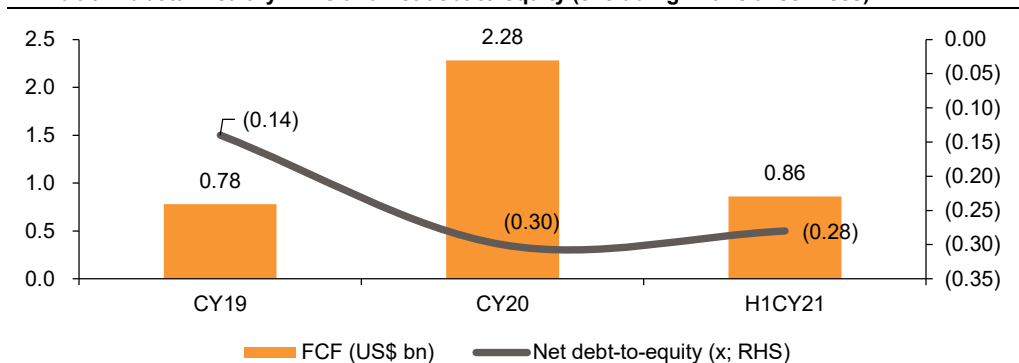
|  | CY19      | CY20      | 9MCY21    |
|--|-----------|-----------|-----------|
| Total (USD mn)                         | 17,612    | 17,357    | 14,194    |
| <b>Segmental mix</b>                   |           |           |           |
| Farm Equipment and Engines             | 65        | 66        | 67        |
| Construction Machinery                 | 16        | 16        | 18        |
| <b>Farm &amp; Industrial Machinery</b> | <b>81</b> | <b>81</b> | <b>85</b> |
| Pipe-related Products                  | 10        | 10        | 8         |
| Environment-related Products           | 7         | 7         | 6         |
| <b>Water &amp; Environment</b>         | <b>17</b> | <b>17</b> | <b>14</b> |
| Other                                  | 2         | 2         | 1         |

Source: Company, Emkay Research

**Exhibit 5: Kubota: Well-diversified presence across countries**

| Geography mix (%)  | CY19 | CY20 | 9MCY21 |
|--------------------|------|------|--------|
| Japan              | 33   | 32   | 27     |
| North America      | 35   | 35   | 37     |
| Europe             | 12   | 12   | 13     |
| Asia outside Japan | 17   | 18   | 19     |
| Other areas        | 3    | 3    | 4      |

Source: Company, Emkay Research

**Exhibit 6: Kubota: Healthy FCFs and net debt-to-equity (excluding financial services)**

Source: Company, Emkay Research

**Exhibit 7: Kubota: Collaborations and Acquisitions in CY21**

| Date   | Acquisitions and Collaborations across Asia, North America and Europe  |
|--------|--|
| Nov'21 | Acquisition of 9.4mn shares in Escorts, and open offer for another 37.5mn shares. Success of open offer and cancellation of treasury shares would result in shareholding of 53.5%.   |
| Oct'21 | Acquisition of Pulverizadores Fede, a Spanish manufacturer of high-tech smart spraying solutions   |
| Oct'21 | Signs with Topcon (Japan) a collaboration research agreement in the field of Smart Agriculture. Topcon has been promoting the automation of farm operations through auto-steering, crop analysis technologies and DX solutions.            |
| Oct'21 | Announces acquisition of AgJunction (US), a global provider of advanced guidance, auto-steering, and autonomy solutions for precision agriculture applications. Company was acquired at 59% premium to 30 day volume weighted share price. |
| Oct'21 | ROC Italian tractor implement manufacturer becomes Kubota group company  |
| Sep'21 | Kubota and Yamaha Motor additionally invest in US startup developing robots to automate strawberry harvesting.   |
| Feb'21 | Kubota Invests in ListenField (Thailand), a provider of farm management support services and precision agriculture technology  |

Source: Company, Emkay Research

**Increasing medium-term growth assumptions for Escorts:** We increase our medium-term (FY23-31E) revenue CAGR for Escorts to 15% from 11%, as Kubota will provide Escorts with technology/new product development support for Agri and CE divisions. Kubota can provide quality and affordable basic tractors, especially in wet-land applications, by utilizing Escorts' know-how and Kubota's accumulated product development knowledge to improve quality and productivity in the R&D, procurement and manufacturing functions. Kubota can also support the development and manufacturing of basic combine harvesters and construction machineries, especially excavators. Escorts will become the exclusive vehicle for manufacturing and selling

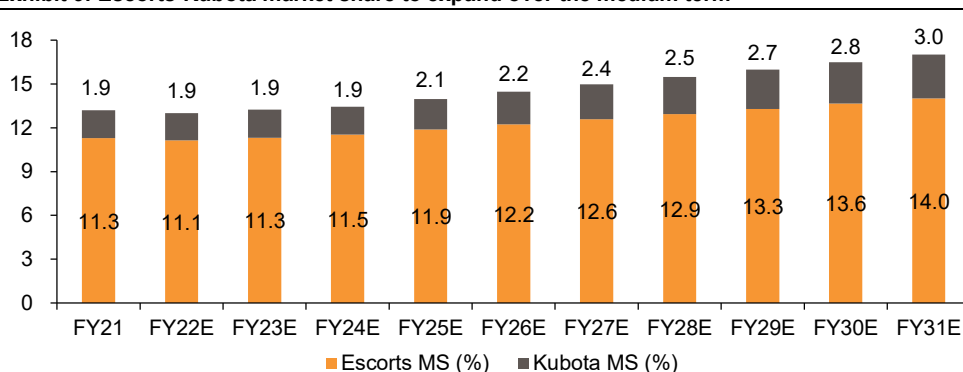
certain products in India and for sourcing from India as well. Exports should also receive a boost as a result of component manufacturing opportunity and the utilization of Kubota's global distribution network. Further, we increase our medium-term (FY23-31E), EBIT CAGR to 18% from 12% on higher revenues and localization benefits (wet-land tractors are currently imported by Kubota JV).

**Exhibit 8: Synergy mapping: Escorts to benefit from Kubota support across most segments**

|                            | New product development | Distribution support | Import localization |
|----------------------------|-------------------------|----------------------|---------------------|
| Tractor sales - domestic   | Y                       | Y                    | Y                   |
| Tractor exports            | Y                       | Y                    |                     |
| Component supply (exports) | Y                       | Y                    |                     |
| Farm implements - domestic | Y                       |                      |                     |
| Construction Equipments    | Y                       | Y                    |                     |

Source: Company, Emkay Research; Note: Shaded ones are not fully captured in DCF

**Exhibit 9: Escorts-Kubota market share to expand over the medium term**



Source: Company, Emkay Research

**Exhibit 10: Medium-term (FY23-31E) revenue growth assumptions (after factoring merger of Kubota JVs/ consolidation)**

| (Rs mn)                   | FY23E         | FY31E          | CAGR% (FY23-31E) | Remarks   |
|---------------------------|---------------|----------------|------------------|---|
| Domestic Tractors (units) | 104,258       | 232,180        | 11               | Market presence should improve in domestic tractors on expansion of product portfolio, especially for wet-land applications |
| Exports (units)           | 10,761        | 47,087         | 20               | Exports should improve on utilization of global Kubota distribution network   |
| Agri revenue              | 75,014        | 218,739        | 14               |   |
| CE revenue                | 12,355        | 34,239         | 14               | Market presence should improve in CEs on widening of product portfolio, especially in excavators                            |
| Railways revenue          | 6,610         | 17,331         | 13               |   |
| Component exports         |               | 19,656         | NM               | Commencement of component exports to meet global requirements of Kubota   |
| <b>Total revenue</b>      | <b>93,979</b> | <b>289,965</b> | <b>15</b>        | <b>Expecting 15% CAGR vs. 11% earlier</b>   |

Source: Company, Emkay Research

**Exhibit 11: DCF: Increase in medium term (FY23-31E) revenue growth assumption to 15% (after factoring merger of Kubota JVs/ consolidation)**

| (Rs mn)         | FY23E        | FY24E        | FY25E        | FY31E         | CAGR (%) FY23-31E |
|-----------------|--------------|--------------|--------------|---------------|-------------------|
| Revenues        | 93,979       | 109,309      | 128,106      | 289,965       | 15                |
| EBIT            | 10,075       | 12,842       | 16,236       | 38,599        | 18                |
| NOPAT           | 7,556        | 9,631        | 12,177       | 28,949        | 18                |
| Depreciation    | 1,447        | 1,605        | 1,809        | 4,009         | 14                |
| Capex           | (3,500)      | (4,000)      | (5,969)      | (9,451)       | 13                |
| <b>FCFF</b>     | <b>5,219</b> | <b>6,712</b> | <b>7,937</b> | <b>23,366</b> | <b>21</b>         |
| <b>ROIC (%)</b> | <b>37</b>    | <b>42</b>    | <b>46</b>    | <b>46</b>     |                   |

Source: Company, Emkay Research

**Exhibit 12: DCF: Implied value stands at 20x P/E (after factoring merger of Kubota JVs/ consolidation)**

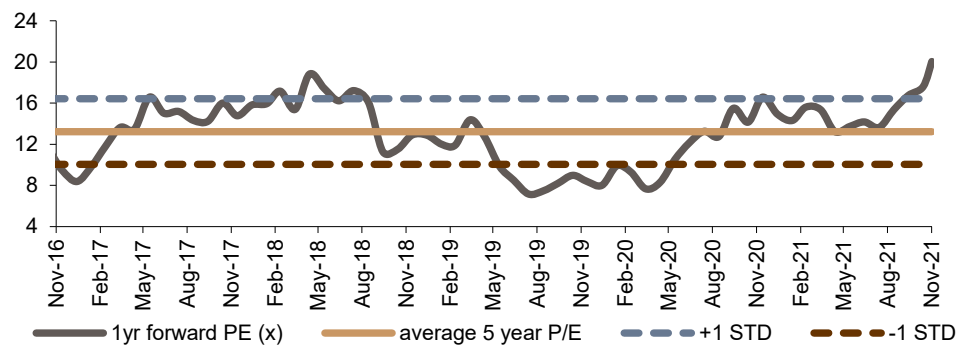
| Parameter                         | Value (Rs mn)  | Parameter                   | Value       |
|-----------------------------------|----------------|-----------------------------|-------------|
| PV of FCF in Stage 1 (FY23-31E)   | 60,239         | Risk-free rate (Rf)         | 6.25%       |
| PV of Terminal value              | 124,695        | Equity risk premium (Rm)    | 5.5%        |
| <b>Enterprise value</b>           | <b>184,934</b> | <b>Beta (x)</b>             | <b>1.1</b>  |
| Net debt (adj. for dividends)     | (59,435)       | Cost of equity (%)          | 12.5%       |
| Equity value -- Dec'22E           | 244,369        | Equity (%)                  | 100%        |
| Equity value/share -- Dec'22 (Rs) | <b>2,101</b>   | WACC                        | 12.5%       |
| <b>Implied P/E</b>                | <b>20</b>      | <b>Terminal growth rate</b> | <b>5.0%</b> |

Source: Company, Emkay Research

**Exhibit 13: Changes in estimates (before factoring in merger with Kubota JV buyouts)**

| Rs mn      | FY22E   |         |          |           | FY23E   |         |          |          | FY24E   |         |          |         |
|------------|---------|---------|----------|-----------|---------|---------|----------|----------|---------|---------|----------|---------|
|            | Earlier | Revised | % Change | % YoY     | Earlier | Revised | % Change | % YoY    | Earlier | Revised | % Change | % YoY   |
| Volumes    | 102,738 | 102,738 | 0.0      | (3.8)     | 98,328  | 99,853  | 1.6      | (2.8)    | 106,563 | 111,990 | 5.1      | 12.2    |
| Net Sales  | 75,056  | 75,056  | 0.0      | 8.3       | 76,956  | 79,496  | 3.3      | 5.9      | 86,474  | 93,355  | 8.0      | 17.4    |
| EBITDA     | 10,733  | 10,733  | 0.0      | (5.0)     | 10,851  | 11,209  | 3.3      | 4.4      | 13,058  | 14,097  | 8.0      | 25.8    |
| Margin (%) | 14.3    | 14.3    | 0 bps    | (200) bps | 14.1    | 14.1    | 0 bps    | (20) bps | 15.1    | 15.1    | 0 bps    | 100 bps |
| APAT       | 8,723   | 9,265   | 6.2      | 6.0       | 8,989   | 10,280  | 14.4     | 11.0     | 10,927  | 12,714  | 16.4     | 23.7    |
| EPS        | 86.2    | 83.8    | (2.8)    | (3.0)     | 88.9    | 93.0    | 4.7      | 11.0     | 108.0   | 115.1   | 6.5      | 23.7    |

Source: Company, Emkay Research

**Exhibit 14: Escorts: One year forward P/E (Average: 13x; +1sd: 16x; -1sd: 10x)**

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

| Y/E Mar (Rs mn)                  | FY20          | FY21          | FY22E         | FY23E         | FY24E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                   | <b>57,610</b> | <b>69,293</b> | <b>75,056</b> | <b>79,496</b> | <b>93,355</b> |
| <b>Expenditure</b>               | <b>50,851</b> | <b>58,001</b> | <b>64,323</b> | <b>68,287</b> | <b>79,259</b> |
| <b>EBITDA</b>                    | <b>6,758</b>  | <b>11,292</b> | <b>10,733</b> | <b>11,209</b> | <b>14,097</b> |
| Depreciation                     | 1,046         | 1,157         | 1,294         | 1,447         | 1,605         |
| <b>EBIT</b>                      | <b>5,713</b>  | <b>10,135</b> | <b>9,439</b>  | <b>9,762</b>  | <b>12,492</b> |
| Other Income                     | 923           | 1,546         | 2,964         | 3,999         | 4,507         |
| Interest expenses                | 155           | 110           | 132           | 145           | 159           |
| <b>PBT</b>                       | <b>6,481</b>  | <b>11,571</b> | <b>12,271</b> | <b>13,616</b> | <b>16,840</b> |
| Tax                              | 1,556         | 2,831         | 3,006         | 3,336         | 4,126         |
| Extraordinary Items              | (69)          | 0             | 0             | 0             | 0             |
| Minority Int./Income from Assoc. | 0             | 0             | 0             | 0             | 0             |
| <b>Reported Net Income</b>       | <b>4,855</b>  | <b>8,741</b>  | <b>9,265</b>  | <b>10,280</b> | <b>12,714</b> |
| <b>Adjusted PAT</b>              | <b>4,924</b>  | <b>8,741</b>  | <b>9,265</b>  | <b>10,280</b> | <b>12,714</b> |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY20          | FY21          | FY22E         | FY23E         | FY24E          |
|--|---------------|---------------|---------------|---------------|----------------|
| Equity share capital                       | 1,226         | 1,348         | 1,105         | 1,105         | 1,105          |
| Reserves & surplus                         | 33,575        | 52,568        | 79,540        | 88,792        | 100,235        |
| <b>Net worth</b>                           | <b>34,801</b> | <b>53,916</b> | <b>80,645</b> | <b>89,897</b> | <b>101,340</b> |
| <b>Minority Interest</b>                   | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>       |
| <b>Loan Funds</b>                          | <b>67</b>     | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>       |
| Net deferred tax liability                 | 303           | 230           | 168           | 100           | 16             |
| <b>Total Liabilities</b>                   | <b>35,170</b> | <b>54,146</b> | <b>80,813</b> | <b>89,997</b> | <b>101,356</b> |
| <b>Net block</b>                           | <b>16,651</b> | <b>17,132</b> | <b>16,576</b> | <b>18,145</b> | <b>20,056</b>  |
| <b>Investment</b>                          | <b>11,892</b> | <b>23,748</b> | <b>48,248</b> | <b>55,748</b> | <b>63,248</b>  |
| <b>Current Assets</b>                      | <b>23,194</b> | <b>30,192</b> | <b>32,280</b> | <b>33,083</b> | <b>37,849</b>  |
| Cash & bank balance                        | 3,185         | 13,165        | 13,080        | 12,529        | 13,712         |
| Other Current Assets                       | 3,099         | 2,285         | 2,475         | 2,621         | 3,078          |
| <b>Current liabilities &amp; Provision</b> | <b>17,951</b> | <b>17,887</b> | <b>19,514</b> | <b>20,686</b> | <b>23,988</b>  |
| <b>Net current assets</b>                  | <b>5,244</b>  | <b>12,305</b> | <b>12,766</b> | <b>12,397</b> | <b>13,860</b>  |
| Misc. exp                                  | 139           | 317           | 317           | 317           | 317            |
| <b>Total Assets</b>                        | <b>35,170</b> | <b>54,146</b> | <b>80,813</b> | <b>89,997</b> | <b>101,356</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY20           | FY21           | FY22E           | FY23E          | FY24E          |
|---------------------------------------|----------------|----------------|-----------------|----------------|----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>5,466</b>   | <b>10,026</b>  | <b>9,307</b>    | <b>9,617</b>   | <b>12,333</b>  |
| Other Non-Cash items                  | 0              | 0              | 0               | 0              | 0              |
| Chg in working cap                    | 3,436          | 2,636          | (816)           | (383)          | (680)          |
| <b>Operating Cashflow</b>             | <b>7,244</b>   | <b>9,671</b>   | <b>6,951</b>    | <b>7,522</b>   | <b>9,363</b>   |
| Capital expenditure                   | (1,898)        | (1,166)        | (3,000)         | (3,500)        | (4,000)        |
| <b>Free Cash Flow</b>                 | <b>5,345</b>   | <b>8,505</b>   | <b>3,951</b>    | <b>4,022</b>   | <b>5,363</b>   |
| Investments                           | (2,831)        | (10,658)       | (24,500)        | (7,500)        | (7,500)        |
| Other Investing Cash Flow             | 431            | 451            | 0               | 0              | 0              |
| <b>Investing Cashflow</b>             | <b>(3,375)</b> | <b>(9,827)</b> | <b>(24,536)</b> | <b>(7,001)</b> | <b>(6,993)</b> |
| Equity Capital Raised                 | 0              | 10,576         | (243)           | 0              | 0              |
| Loans Taken / (Repaid)                | (2,705)        | (112)          | 0               | 0              | 0              |
| Dividend paid (incl tax)              | (260)          | (245)          | (926)           | (1,028)        | (1,271)        |
| Other Financing Cash Flow             | 67             | 0              | 18,802          | 102            | 243            |
| <b>Financing Cashflow</b>             | <b>(2,984)</b> | <b>10,137</b>  | <b>17,500</b>   | <b>(1,071)</b> | <b>(1,187)</b> |
| <b>Net chg in cash</b>                | <b>884</b>     | <b>9,980</b>   | <b>(85)</b>     | <b>(551)</b>   | <b>1,183</b>   |
| Opening cash position                 | 2,301          | 3,185          | 13,165          | 13,080         | 12,529         |
| <b>Closing cash position</b>          | <b>3,185</b>   | <b>13,165</b>  | <b>13,080</b>   | <b>12,529</b>  | <b>13,712</b>  |

Source: Company, Emkay Research

**Key Ratios**

| <b>Profitability (%)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin            | 11.7        | 16.3        | 14.3         | 14.1         | 15.1         |
| EBIT Margin              | 9.9         | 14.6        | 12.6         | 12.3         | 13.4         |
| Effective Tax Rate       | 24.0        | 24.5        | 24.5         | 24.5         | 24.5         |
| Net Margin               | 8.5         | 12.6        | 12.3         | 12.9         | 13.6         |
| ROCE                     | 19.4        | 26.3        | 18.5         | 16.2         | 17.8         |
| ROE                      | 15.2        | 19.8        | 13.8         | 12.1         | 13.3         |
| RoIC                     | 28.4        | 57.9        | 58.0         | 57.0         | 65.4         |

| <b>Per Share Data (Rs)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS                        | 55.4        | 86.4        | 83.8         | 93.0         | 115.1        |
| CEPS                       | 67.2        | 97.9        | 95.6         | 106.1        | 129.6        |
| BVPS                       | 390.0       | 530.0       | 727.0        | 810.7        | 914.2        |
| DPS                        | 2.5         | 7.5         | 8.4          | 9.3          | 11.5         |

| <b>Valuations (x)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER                   | 32.5        | 20.9        | 21.5         | 19.4         | 15.7         |
| P/CEPS                | 26.8        | 18.4        | 18.9         | 17.0         | 13.9         |
| P/BV                  | 4.6         | 3.4         | 2.5          | 2.2          | 2.0          |
| EV / Sales            | 2.6         | 2.2         | 1.9          | 1.8          | 1.4          |
| EV / EBITDA           | 22.3        | 13.5        | 13.6         | 12.4         | 9.3          |
| Dividend Yield (%)    | 0.1         | 0.4         | 0.5          | 0.5          | 0.6          |

| <b>Gearing Ratio (x)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity         | (0.3)       | (0.6)       | (0.7)        | (0.7)        | (0.7)        |
| Net Debt/EBIDTA          | (1.4)       | (2.6)       | (5.0)        | (5.4)        | (4.8)        |
| Working Cap Cycle (days) | 13.0        | (4.5)       | (1.5)        | (0.6)        | 0.6          |

| <b>Growth (%)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue           | (7.0)       | 20.3        | 8.3          | 5.9          | 17.4         |
| EBITDA            | (7.8)       | 67.1        | (5.0)        | 4.4          | 25.8         |
| EBIT              | (11.8)      | 77.4        | (6.9)        | 3.4          | 28.0         |
| PAT               | 0.1         | 80.0        | 6.0          | 11.0         | 23.7         |

| <b>Quarterly (Rs mn)</b> | <b>Q2FY21</b> | <b>Q3FY21</b> | <b>Q4FY21</b> | <b>Q1FY22</b> | <b>Q2FY22</b> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                  | 16,397        | 20,174        | 22,105        | 16,715        | 16,623        |
| EBITDA                   | 3,009         | 3,641         | 3,447         | 2,332         | 2,101         |
| <b>EBITDA Margin (%)</b> | <b>18.3</b>   | <b>18.0</b>   | <b>15.6</b>   | <b>14.0</b>   | <b>12.6</b>   |
| PAT                      | 2,299         | 2,807         | 2,713         | 1,852         | 1,767         |
| <b>EPS (Rs)</b>          | <b>22.7</b>   | <b>27.7</b>   | <b>26.8</b>   | <b>18.3</b>   | <b>17.5</b>   |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Sep-20</b> | <b>Dec-20</b> | <b>Mar-21</b> | <b>Jun-21</b> | <b>Sep-21</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 36.6          | 36.6          | 36.6          | 36.6          | 36.6          |
| FIIIs                           | 21.6          | 23.8          | 26.0          | 21.3          | 21.5          |
| DIIIs                           | 8.5           | 7.1           | 5.6           | 5.6           | 7.6           |
| Public and Others               | 33.3          | 32.5          | 31.9          | 36.5          | 34.3          |

Source: Capitaline

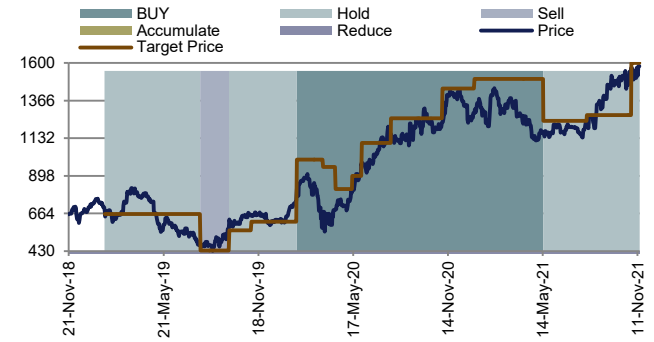


## RECOMMENDATION HISTORY TABLE

| Date      | Closing Price | TP    | Period (months) | Rating | Analyst         |
|-----------|---------------|-------|-----------------|--------|-----------------|
| 30-Oct-21 | 1,569         | 1,600 | 12m             | Hold   | Raghunandhan NL |
| 6-Aug-21  | 1,200         | 1,275 | 12m             | Hold   | Raghunandhan NL |
| 2-Jul-21  | 1,203         | 1,240 | 12m             | Hold   | Raghunandhan NL |
| 18-Jun-21 | 1,170         | 1,240 | 12m             | Hold   | Raghunandhan NL |
| 1-Jun-21  | 1,163         | 1,240 | 12m             | Hold   | Raghunandhan NL |
| 30-May-21 | 1,162         | 1,240 | 12m             | Hold   | Raghunandhan NL |
| 15-May-21 | 1,164         | 1,240 | 12m             | Hold   | Raghunandhan NL |
| 3-Jan-21  | 1,288         | 1,500 | 12m             | Buy    | Raghunandhan NL |
| 3-Nov-20  | 1,235         | 1,442 | 12m             | Buy    | Raghunandhan NL |
| 11-Oct-20 | 1,222         | 1,256 | 12m             | Buy    | Raghunandhan NL |
| 28-Aug-20 | 1,141         | 1,256 | 12m             | Buy    | Raghunandhan NL |
| 28-Jul-20 | 1,158         | 1,256 | 12m             | Buy    | Raghunandhan NL |
| 29-Jun-20 | 1,033         | 1,103 | 12m             | Buy    | Raghunandhan NL |
| 2-Jun-20  | 960           | 1,103 | 12m             | Buy    | Raghunandhan NL |
| 15-May-20 | 824           | 898   | 12m             | Buy    | Raghunandhan NL |
| 4-May-20  | 683           | 815   | 12m             | Buy    | Raghunandhan NL |
| 13-Apr-20 | 690           | 815   | 12m             | Buy    | Raghunandhan NL |
| 20-Mar-20 | 675           | 954   | 12m             | Buy    | Raghunandhan NL |
| 27-Feb-20 | 818           | 1,000 | 12m             | Buy    | Raghunandhan NL |
| 30-Jan-20 | 818           | 1,000 | 12m             | Buy    | Raghunandhan NL |
| 27-Dec-19 | 623           | 613   | 12m             | Hold   | Raghunandhan NL |
| 27-Nov-19 | 648           | 613   | 12m             | Hold   | Raghunandhan NL |
| 4-Nov-19  | 649           | 613   | 12m             | Hold   | Raghunandhan NL |
| 1-Nov-19  | 658           | 560   | 12m             | Hold   | Raghunandhan NL |
| 30-Oct-19 | 666           | 560   | 12m             | Hold   | Raghunandhan NL |
| 1-Oct-19  | 610           | 560   | 12m             | Hold   | Raghunandhan NL |
| 26-Sep-19 | 610           | 560   | 12m             | Hold   | Raghunandhan NL |
| 23-Sep-19 | 627           | 560   | 12m             | Hold   | Raghunandhan NL |
| 3-Sep-19  | 492           | 433   | 12m             | Sell   | Raghunandhan NL |
| 28-Aug-19 | 493           | 433   | 12m             | Sell   | Raghunandhan NL |
| 30-Jul-19 | 460           | 433   | 12m             | Sell   | Raghunandhan NL |
| 1-Jul-19  | 570           | 660   | 12m             | Hold   | Raghunandhan NL |
| 27-Jun-19 | 548           | 660   | 12m             | Hold   | Raghunandhan NL |
| 3-Jun-19  | 606           | 660   | 12m             | Hold   | Raghunandhan NL |
| 29-May-19 | 618           | 660   | 12m             | Hold   | Raghunandhan NL |
| 8-May-19  | 628           | 660   | 12m             | Hold   | Raghunandhan NL |
| 2-May-19  | 681           | 660   | 12m             | Hold   | Raghunandhan NL |
| 4-Feb-19  | 679           | 660   | 12m             | Hold   | Raghunandhan NL |
| 28-Jan-19 | 675           | 660   | 12m             | Hold   | Raghunandhan NL |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research



## Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



### Analyst: Raghunandhan NL

#### Contact Details

raghunandhan.nl@emkayglobal.com  
+91 22 6624 2428

#### Sector

Automobiles and Ancillaries

#### Analyst bio

Raghu holds an MBA and comes with total 12 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

### EAP sector portfolio

| Company Name                       | BSE200 Weight | EAP Weight  | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|------------------------------------|---------------|-------------|-----------|-------------|-------------------------|
| <b>Auto &amp; Auto Ancillaries</b> | <b>5.07</b>   | <b>5.07</b> | <b>0%</b> | <b>0</b>    | <b>100.00</b>           |
| Amara Raja Batteries               | 0.05          | 0.01        | -80%      | -4          | 0.21                    |
| Apollo Tyres                       | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Ashok Leyland                      | 0.20          | 0.22        | 8%        | 2           | 4.29                    |
| Atul Auto                          | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Bajaj Auto                         | 0.45          | 0.45        | 0%        | 0           | 8.81                    |
| Bharat Forge                       | 0.20          | 0.20        | 0%        | 0           | 3.88                    |
| Eicher Motors                      | 0.36          | 0.38        | 7%        | 2           | 7.52                    |
| Escorts                            | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Exide Industries                   | 0.08          | 0.02        | -69%      | -5          | 0.48                    |
| Hero Motocorp                      | 0.34          | 0.34        | 0%        | 0           | 6.74                    |
| Mahindra & Mahindra                | 0.88          | 0.87        | 0%        | 0           | 17.26                   |
| Maruti Suzuki India                | 1.05          | 1.07        | 2%        | 2           | 21.11                   |
| Motherson Sumi                     | 0.28          | 0.28        | 0%        | 0           | 5.53                    |
| Tata Motors                        | 0.89          | 0.91        | 1%        | 1           | 17.87                   |
| Tata Motors DVR*                   | 0.13          | 0.14        | 7%        | 1           | 2.76                    |
| TVS Motor                          | 0.16          | 0.18        | 14%       | 2           | 3.55                    |
| <b>Cash</b>                        | <b>0.00</b>   | <b>0.00</b> | <b>NA</b> | <b>0</b>    | <b>0.00</b>             |

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

|   | Base     |           |           |           |           | Latest    |
|---|----------|-----------|-----------|-----------|-----------|-----------|
|   | 1-Apr-19 | 18-Nov-20 | 19-May-21 | 18-Aug-21 | 19-Oct-21 | 17-Nov-21 |
| EAP- Auto & Auto Ancillaries            | 100.0    | 100.9     | 122.1     | 119.5     | 139.5     | 145.7     |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 102.9     | 122.2     | 118.8     | 138.5     | 144.4     |

\*Performance measurement base date 1<sup>st</sup> April 2019

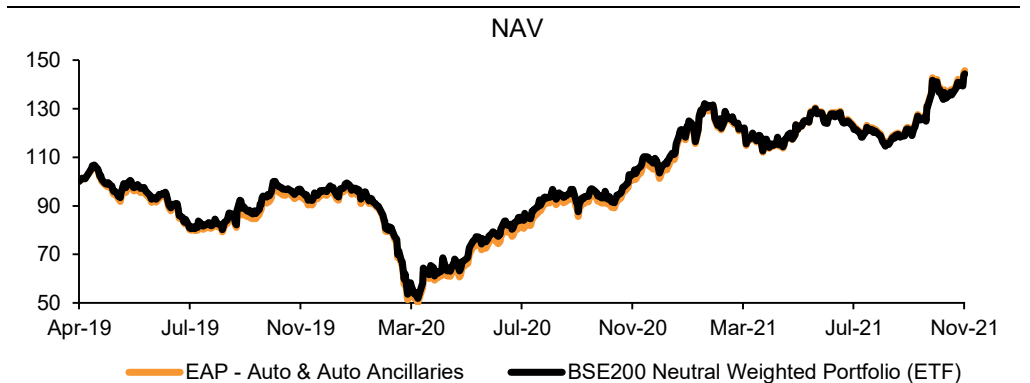
Source: Emkay Research

### Price Performance (%)

|   | 1m   | 3m    | 6m    | 12m   |
|---|------|-------|-------|-------|
| EAP- Auto & Auto Ancillaries            | 4.5% | 21.9% | 19.4% | 44.3% |
| BSE200 Neutral Weighted Portfolio (ETF) | 4.3% | 21.6% | 18.2% | 40.4% |

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com