

Escorts Ltd.

Sensex: 50890

CMP: INR 1334 Target Price: INR 1577


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Automobile

Escorts Ltd. (EL) reported net sales of INR 20.1 bn in 3Q FY21 (~23.5% increase over INR 16.3 bn YoY) and a PAT of INR 2.8 bn (up 83% YoY). Escorts Farm Equipment (EFE) segment volume increased 25.7% while Escorts Construction Equipment (ECE) segment volume a increased 20.1%. EBITDAM (excluding other income) improved by 505 bps YoY (-30 bps QoQ) on the back of improving product mix, benign commodity prices and various cost cutting measures and positive operating leverage and. RM cost as % of sales decreased 118 bps while Operating & Manufacturing Expenses decreased 247 bps while employee expenses as % of sales decreased 140 bps.

Nationwide unlock following pandemic of Covid19 pushed volumes in both EFE and ECE.

EFE domestic volume increased 24.2%. Escorts exports registered a growth of 67.4%. Market share in the quarter stood at 11.6% (down 24 bps YoY, up 183 bps QoQ) primarily on the back of supply side constraints. Utilization for the quarter stood at more than 100%. ECE volume increased 20.1% YoY (up 52.7% QoQ). The company has lost market share in the segment by 173 bps. Revenue from EFE/ECE segments stood at INR 16.5 bn/2.4 bn increasing 28%/13%. Revenue from Railways stood at INR 1.2 bn (down 5.7% YoY) while order book for the segment Shrank significantly as the pandemic affected fresh order tendering and inflow. We expect the orderbook to normalise in FY22.

EBITDAM improved by 505 bps YoY on the back of improving product mix, benign commodity prices and various cost cutting measures and positive operating leverage

EBITDAM (excluding other income) improved by 505 bps YoY (down 30 bps QoQ). EBIT margin in EFE improved 564 bps YoY (up 11 bps QoQ) to 20.1% on the back of improving product mix, benign commodity prices and various cost cutting measures. Although the part of margin improvement is not sustainable, we expect EBIT margins to settle near 16-17% level going ahead. ECE division reported EBITM of 7.5% (up 270 bps YoY, up 580 bps QoQ). Cost reduction measures and improving product mix has reduced breakeven levels for the segment. Railway equipment division reported EBITM of 12.7% (down 574 bps YoY, down 763 bps QoQ) for the quarter but margins are expected to stabilize at 17-18% as the dent was primarily due to Higher share of NPD products with lower margins and one-off provision towards GST rate differential in respect of orders executed post Sep'19.

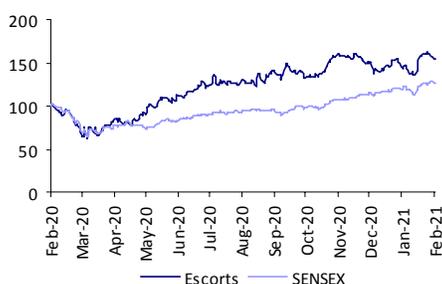
Other highlights

In Q3, Tractor industry grew 27%, led by 13% growth in North & Central regions and 44% in South and West regions. In comparison, Escorts grew 24% yoy. Escorts market share has increased in 40-50HP segment, but declined in 30-40HP segment. The supply side situation is normalizing and is no longer expected to be a bottleneck for meeting demand. Escorts has been exporting Electric Tractor to Europe since 2019, and has now started exports to US. In India, the product launch is expected in 3-6 months. FY22 Outlook: Volume to see positive growth, but quantum of growth depends on whether monsoon is normal and well distributed. Growth could be limited by a high base. Over long term, South and West regions are expected to outpace the North region. Escorts is working toward strengthening position in these regions, where it currently has lower share. Exports are expected to grow by 3-4x over 7-8 years due to increased penetration in overseas markets. In addition, the use of Kubota global network will also aid penetration.

Outlook and Valuation

Tractor industry remains relatively well placed in current environment. We expect Escorts 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. 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 13.4%/32.9%/36.5% from FY20 to FY22E. At CMP of INR 1334, stock is trading at 13.1x its FY22E earnings (vs average of 20.8x for last 5 years). We Recommend Buy with a revised fair price estimate of INR 1577 in 12 months, 15.5x its FY22E EPS.

Shareholding (%)	Dec-20
Promoters	36.59
FII's	23.79
DII's	7.13
Others	32.49

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)	180.2
52 Week H/L	1468/527
2W Avg. Vol, BSE+NSE	2497940
Beta	1.23

(INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	61992	57610	63614	74117
Growth (%)	24.0%	-7.1%	10.4%	16.5%
EBITDAM (%)	11.6%	11.7%	16.4%	16.1%
Adj. PAT	4849	4855	7506	9045
Growth (%)	40.7%	0.1%	54.6%	20.5%
Adj. EPS (INR)	54.6	54.6	84.5	101.8
P/E (x)	11.2	23.5	15.8	13.1
EV/EBITDA	6.7	14.8	10.4	8.6
EV/Sales	0.9	2.0	1.8	1.5
RoACE (%)	25.4%	19.7%	25.3%	26.7%
RoAE (%)	17.4%	14.9%	19.7%	20.6%



Quarterly performance

INR mn	3Q FY21	3Q FY20	2Q FY21	% Chg (YoY)	% Chg (QoQ)	9M FY21	9M FY20	% Chg (YoY)
Revenue	20,174	16,334	16,397	23.5	23.0	47,188	43,803	7.7
RM Cost	13,245	10,916	10,422	21.3	27.1	30,795	29,604	4.0
Employee Cost	1,358	1,329	1,256	2.2	8.2	3,876	3,808	1.8
Other Expenses	1,930	1,967	1,711	-1.8	12.8	4,672	5,577	-16.2
Total Expenditure	16,534	14,212	13,389	16.3	23.5	39,342	38,989	0.9
EBITDA	3,641	2,123	3,009	71.5	21.0	7,845	4,814	63.0
Depreciation	315	267	274	18.0	15.0	853	768	11.0
Other Income	472	267	376	76.7	25.7	1,146	645	77.8
EBIT	3,798	2,123	3,111	78.9	22.1	8,139	4,691	73.5
Interest	33	29	32	12.4	1.9	84	126	-33.4
Exceptional Items	-	-	-	NA	NA	-	-92	NA
PBT	3,765	2,094	3,078	79.8	22.3	8,055	4,472	80.1
Tax	959	564	779	70.1	23.0	2,028	1,021	98.6
Profit After Tax	2,807	1,531	2,299	83.4	22.1	6,027	3,451	74.6
Equity	1,348	1,226	1,348			1,348	1,226	
Face Value	10.0	10.0	10.0			10.0	10.0	
EPS	20.8	12.5	17.1	66.7	22.1	44.7	28.2	58.7
% of Sales				bps	bps			bps
RM Cost	65.7	66.8	63.6	-117.5	209.1	65.3	67.6	
Employee Expenses	6.7	8.1	7.7	-140.5	-92.4	8.2	8.7	-48.1
Other Expenses	9.6	12.0	10.4	-247.0	-86.4	9.9	12.7	-283.1
EBITDAM Excl Other income (%)	18.0	13.0	18.3	505.1	-30.2	16.6	11.0	563.6
PATM (%)	13.9	9.4	14.0	454.1	-11.0	12.8	7.9	489.3



Financials

Income Statement

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Net Sales	61992	57610	63614	74117
% Growth	24.0%	-7.1%	10.4%	16.5%
RM Cost	42407	38196	41500	48997
% Growth	25.9%	-9.9%	8.6%	18.1%
Employee Expenses	4717	5103	5256	5677
% Growth	9.4%	8.2%	3.0%	8.0%
Oth Expense	7707	7552	6423	7505
% Growth	18.5%	-2.0%	-15.0%	16.9%
Total Op Exp	54831	50851	53179	62179
EBIDTA (excl OI)	7161	6758	10435	11938
% Growth	29.8%	-5.6%	54.4%	14.4%
EBITDA Margin %	11.6%	11.7%	16.4%	16.1%
Dep./Amortization	854	1046	1096	1265
Other Income	1000	923	577	1228
EBIT	7307	6635	9916	11901
EBIT Margin %	11.8%	11.5%	15.6%	16.1%
Interest Expense	185	155	39	0
Exceptional Items	109	-92	0	0
EBT	7231	6388	9877	11901
Tax Expenses	2382	1533	2370	2856
PAT	4849	4855	7506	9045
% Growth	40.7%	0.1%	54.6%	20.5%
APAT Margin %	7.8%	8.4%	11.8%	12.2%

Key Ratios

Y/E	FY19	FY20	FY21E	FY22E
Per Share Data (INR)				
Reported EPS	54.6	54.6	84.5	101.8
Adj. EPS	54.6	54.6	84.5	101.8
CEPS	64.2	66.4	96.8	116.0
DPS	2.5	5.5	8.4	50.9
BVPS	340.1	391.6	467.6	518.5
Return Ratios (%)				
RoACE	25.4%	19.7%	25.3%	26.7%
RoANW	17.4%	14.9%	19.7%	20.6%
Liquidity Ratios				
Net Debt/Equity	0.0	(0.0)	(0.1)	(0.1)
Interest Coverage Ratio	39.5	NA	NA	NA
Current Ratio	1.4	1.7	1.9	1.9
Quick Ratio	0.3	0.5	0.6	0.6
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	23.5	15.8	13.1
P/BV (x)	1.8	3.3	2.9	2.6
P/CEPS (x)	9.5	19.4	13.8	11.5
Dividend Yield (%)	0.4	0.4	0.6	3.8
EV/Net Sales (x)	0.9	2.0	1.8	1.5
EV/EBIDTA (x)	6.7	14.8	10.4	8.6

Balance Sheet

Y/E (INR mn)	FY19	FY20	FY21E	FY22E
Share Capital	1226	1226	1226	1226
Reserves and Surplus	29003	33575	40331	44853
Total Networth	30229	34801	41556	46079
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	451	509
Sources of Funds	49969	53121	59554	67039
Net Block	16074	15997	17400	18636
Investments	4886	5419	5744	6089
Current Assets	27079	28389	32857	38365
Current Liabilities	18685	17183	17237	20136
Net Current Assets	8394	11206	15620	18229
Application of Funds	49969	53121	59554	67039

Cash Flow

Y/E	FY19	FY20	FY21E	FY22E
PBT	7,231	6,388	9,877	11,901
Add: Depreciation	854	1,046	1,096	1,265
Add: Interest paid	185	155	39	-
Change in Working Capital	(5,497)	(993)	(2,554)	(928)
Less: Taxes	(2,382)	(1,533)	(2,370)	(2,856)
Cash Flow from operations (a)	(609)	4,140	5,511	8,154
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)	402	915
Cash Flow from Investing (b)	213	(4,770)	(2,444)	(1,951)
Change in Equity	40	(40)	-	-
Debt Raised/(Repaid)	(135)	415	(417)	-
Dividend paid	(222)	(486)	(751)	(4,522)
Interest paid	(185)	(155)	(39)	-
Others	-	-	-	-
Cash Flow from Financing (c)	(422)	(22)	(1,207)	(4,522)
Net Change in Cash (a+b+c)	(818)	(653)	1,860	1,680
Opening Cash	3,119	2,301	1,648	3,508
Closing Cash	2,301	1,648	3,508	5,188



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