

CMP: ₹ 1,615

Target: ₹ 1,840 (14%)

Target Period: 12 months

HOLD

May 16, 2022

## Await contours of medium term business growth plan

**About the stock:** Escorts is a prominent tractor maker domestically (10.3% FY22 market share) and also serves the domestic construction equipment, railways space.

- FY22 sales mix – tractors 77%, construction equipment 14%, railways 9%
- Past five year CAGR: 24.1%, 35.6% in EBITDA, PAT; cash positive b/s

**Q4FY22 Results:** The company posted a healthy Q4FY22 performance.

- Total operating income at ₹ 1,861.4 crore, down 15.8% YoY
- EBITDA margins for the quarter came in at 13.1%, down 40 bps QoQ
- PAT declined 27.2% YoY to ₹ 193.7 crore (includes loss from associates)

**What should investors do?** Escorts' stock price has grown at ~19% CAGR over last five years from ~₹ 650 in May 2017, vastly outperforming the Nifty Auto Index.

- We retain **HOLD** rating on Escorts amid muted tractor growth prospects over FY22-24E & await contours of medium term business growth plan constructed by both parties (Escort & Kubota - the new co-promoter)

**Target Price and Valuation:** We value Escorts at SOTP-based target price of ₹ 1,840 (20x P/E on core FY24E EPS, 25% discount on treasury shares).

### Key triggers for future price performance:

- Detailed working on scaling up the company domestically as well as globally using the technology expertise and distribution reach at Kubota
- Post dip in industry volumes in FY22 (~6.3% YoY) tracking inflated base, we expect tractor sales to grow at ~8.5% CAGR in FY22-24E
- Construction equipment (CE) and railways (RED) segments to lead the grow over FY22-24E amid pick-up in economic activity and strong order book
- We expect sales to grow at CAGR of 14.7% over FY22-24E, with consequent margins expected at 13.5% by FY24E, amid o/p leverage gains

**Alternate Stock Idea:** Apart from Escorts, in our auto OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,045



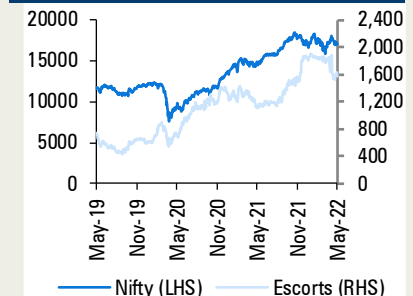
### Particulars

Particular	₹ crore
Market Capitalization	21,308
Total Debt (FY22P)	0
Cash & Investments (FY22P)	4,843
EV	16,465
52 week H/L (₹)	1934 / 1113
Equity capital (₹crore)	131.9
Face value	₹ 10

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	36.6	36.6	30.3	28.1
FII	21.3	21.5	20.1	3.6
DII	5.6	7.6	8.6	0.4
Other	36.5	34.2	41.1	67.9

### Price Chart



### Recent event & key risks

- Reported healthy Q4FY22 results
- Key Risk:** (i) Higher than anticipated tractor sales volume (ii) Inability to pass cost inflation, consequent pressure on margins

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22P-24E)
Net Sales	6,196.4	5,761.0	6,929.3	7,152.6	11.8%	8,583.0	9,410.6	14.7%
EBITDA	733.3	675.8	1,129.2	951.4	24.1%	1,094.4	1,270.4	15.6%
EBITDA Margins (%)	11.8	11.7	16.3	13.3		12.8	13.5	
Net Profit	484.9	485.6	873.3	736.3	35.6%	924.6	1,085.1	21.4%
EPS (₹)	36.8	36.8	66.2	55.8		70.1	82.3	
P/E	49.0	48.9	27.2	32.2		25.7	21.9	
RoNW (%)	15.6	14.2	16.2	9.3		10.6	11.2	
RoCE (%)	19.3	16.2	18.7	10.4		10.9	11.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Better than expected numbers

- Among segments, EAM (i.e. tractor) revenues declined 21.6% YoY to ₹ 1,363 crore amid 32.8% volume decline to 21,895 units. Tractor ASPs surprised positively at ₹ 6.23 lakh, up 4.7% QoQ
- CE revenue rose 15.5% QoQ to ₹ 319 crore while RED was flat QoQ to ₹ 173 crore. CE volumes jumped 11.7% QoQ to 1,286 units. Present railway order book is at >₹ 440 crore
- Gross margins contracted ~20 bps but savings were realised in employee costs (down ~35 bps QoQ); other expenses (up 60 bps QoQ)
- Consequent PAT was down 27.2% YoY and flat QoQ at ₹ 193.7 crore. PAT includes loss from associates at ~₹ 8.5 crore in Q4FY22
- The company declared a dividend of ₹ 7/share for FY22 with cash & cash equivalents amounting to ~ ₹ 5,000 crore as on FY22 end

### Q4FY22 Earnings Conference Call highlights

- Margins remain muted tracking lower volumes & elevated prices of inputs. However, management is optimistic about demand recovery in H1FY22 tracking healthy wheat production & positive farmer sentiments; April witnessed 41% YoY growth (industry level), albeit on a lower base
- The market declined 100 bps YoY at 10.3% as of FY22, largely tracking supply side issues further aggravated by a loss in key markets such as Uttar Pradesh and Madhya Pradesh due to price hike
- Under recovery in cost on account of hiked prices was ~4-5% of sales value. Escorts undertook a price hike in mid-April 2022 to the extent of 2% with another price hike expected in Q2FY23 to offset rising input costs
- The management guided for double digit growth in the railway segment with current order book at >₹ 440 crore. Margin in railway remained subdued due to higher share of imports, adverse currency movement & fixed price contracts
- With respect to Kubota formal plan with respect to distribution channel, branding, etc, will be disclosed in Q2FY23 or Q3FY23. Also, Kubota market share in the southern region is high where Escorts has minimal share to act as a synergy, going ahead
- Input prices rose ~3% QoQ. To counter this, the company has taken a price hike of ~2-2.5% in Q4FY22. Further, management guided about muted margin in Q1FY23 tracking high commodity cost dent to extent of 4-5%
- Semiconductor shortage did not affect production much as they are not used in Indian variants but slight impact on exported models as they use two to three chips per tractor due to which there is an order backlog in the export market

Emission norms for transition to BS-IV shifted from April 2022 to October 2022 for tractors above 50 HP whereas the same for the rest (>25 HP) would be applicable from April 2024. With cost impact of ~₹ 50-60k for >50 HP tractor; whereas same for <50 HP would be higher at >₹ 1 lakh

Escorts & Kubota combined market share was at ~14% for FY22.

For Q4FY22, total domestic tractor industry declined 25.7% YoY whereas decline for Escorts was at ~32.8% at 21,895 units

Management foresees H1FY22 to be strong in terms of demand

Escorts launched one E-tractor in FY22 for foreign market and is ramping up production from current 60-70 units/month to ~100 units/month

The management is focused on increasing its market share in weaker parts through four to five projects already in play, coupled with new launches

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (tractors)

Company	CMP	TP	Rating	Mcap	Total lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹			₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Escorts (ESCORT)	1,615	1,840	Hold	21,308	0.9	1.0	1.1	13.3	12.8	13.5	10.4	10.9	11.5	27.8	22.1	18.8
M&M (MAHMAH)	889	1,045	Buy	1,10,514	3.5	3.7	4.0	12.6	12.2	12.8	9.8	11.5	13.1	21.9	19.0	15.7

Source: Company, ICICI Direct Research

Note – Volume data above is specific to tractor divisions for both companies

Exhibit 2: Variance Analysis

Particulars	Q4FY22	Q4FY22E	Q4FY21	oY (Chg %)	Q3FY22	loQ (Chg %)	Comments
Total Operating Income	1,861.4	1,766.0	2,210.5	-15.8	1,957.5	-4.9	Topline came in ahead of estimates tracking beat on ASPs in the tractor space as well as higher than anticipated sales in railway segment
Raw Material Expenses	1,184.7	1,130.2	1,391.4	-14.9	1,246.3	-4.9	
Purchase of Traded Goods	126.0	114.8	122.8	2.6	128.5	-1.9	RM costs came in on expected lines
Employee Expenses	119.2	132.5	147.0	-18.9	132.2	-9.8	Savings were realised on the employee costs front and was down 40 bps QoQ
Other Expenditure	188.1	176.6	204.7	-8.1	185.7	1.3	
EBITDA	243.4	211.9	344.7	-29.4	264.7	-8.1	
EBITDA Margin (%)	13.1	12.0	15.6	(250) bps	13.5	(40) bps	EBITDA margins came in ahead of estimates tracking lower than anticipated employee costs
Interest	2.9	2.2	2.6	12.5	3.3	-11.1	
Depreciation	33.0	32.0	30.4	8.3	32.5	1.4	Depreciation came in on expected lines
Total Tax	67.3	57.8	80.3	-16.2	67.3	0.0	
PAT	193.7	168.4	266.1	-27.2	194.9	-0.6	PAT in Q4FY22 came in at ₹ 194 crore & was ahead of estimates tracking beat on margins
<b>Key Metrics (₹ crore)</b>							
Tractor Segment revenue	1,363	1,321	1,739	-21.6	1,506	-9.5	Tractor segment revenues came in ahead of estimates at ₹ 1,363 crore
CE revenue	319	309	322	-0.9	276	15.5	
RED revenue	173	136	146	18.0	174	-0.6	Railway segment revenues came in ahead of estimates at ₹ 173 crore, flat QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,974.2	8,583.0	7.6	8,752.0	9,410.6	7.5	Marginally upgrade our estimates. We expect sales at the company to grow at a CAGR of 14.7% over FY22-24E
EBITDA	1,008.0	1,094.4	8.6	1,177.1	1,270.4	7.9	
EBITDA Margin (%)	12.6	12.8	15 bps	13.4	13.5	10 bps	Marginally upgrade estimates by ~10-20 bps
PAT	871.7	924.6	6.1	1,030.2	1,085.1	5.3	
EPS (₹)	66.1	70.1	6.0	78.1	82.2	5.3	Upward revision in sales and margin estimates leads to upgrade in PAT estimates going forward. We expect PAT at the company to grow at a CAGR of 21.4% over FY22-24E

Source: ICICI Direct Research

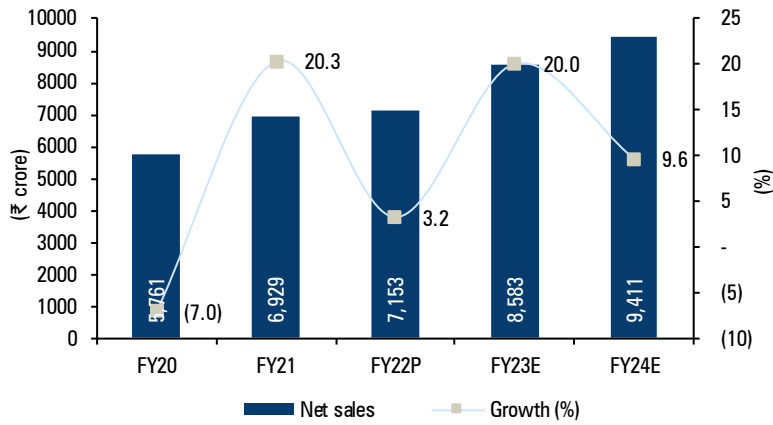
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19	FY20	FY21	FY22P	FY23E	FY24E	FY23E	FY24E	
Tractor volumes (units)	96,412	86,018	106,741	94,228	103,642	110,897	99,126	106,065	Tractor volumes at the company expected to grow 10% YoY at 1 lakh units in FY23E and 7% thereafter in FY24E at 1.1 lakh units
Average ASP (₹)	492,053	515,890	530,937	585,919	634,972	639,687	606,454	611,002	Tractor ASPs set to increase following commodity inflation led price hikes

Source: ICICI Direct Research

### Financial story in charts

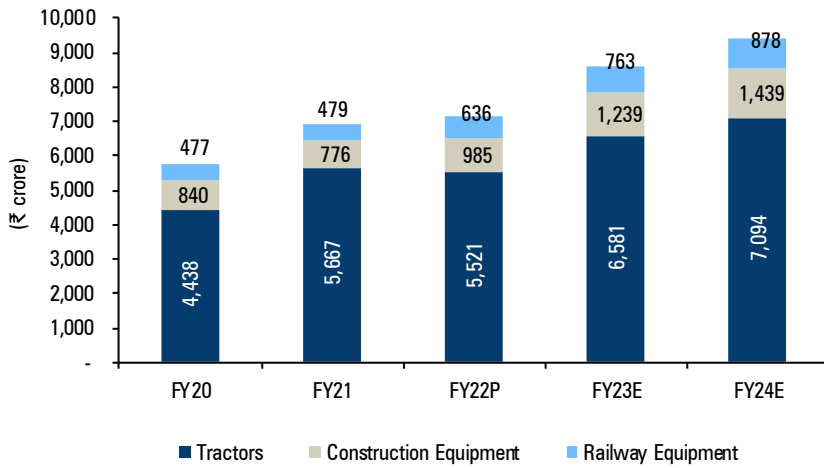
Exhibit 5: Trend in total operating income



We expect net sales to grow at 14.7% CAGR over FY22-24E

Source: Company, ICICI Direct Research

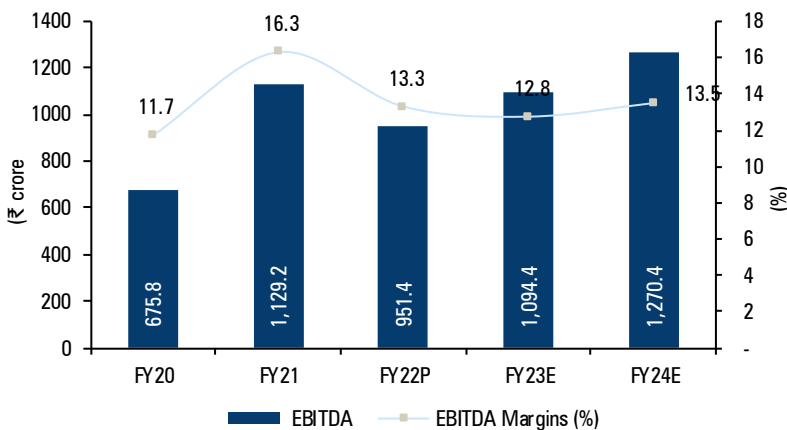
Exhibit 6: Trend in segment mix



Share of tractors within overall revenue mix is seen declining over the medium term amid muted 8.5% volume CAGR expectation over FY22-24E. From a lower base, share of CE and RED is set to increase

Source: Company, ICICI Direct Research

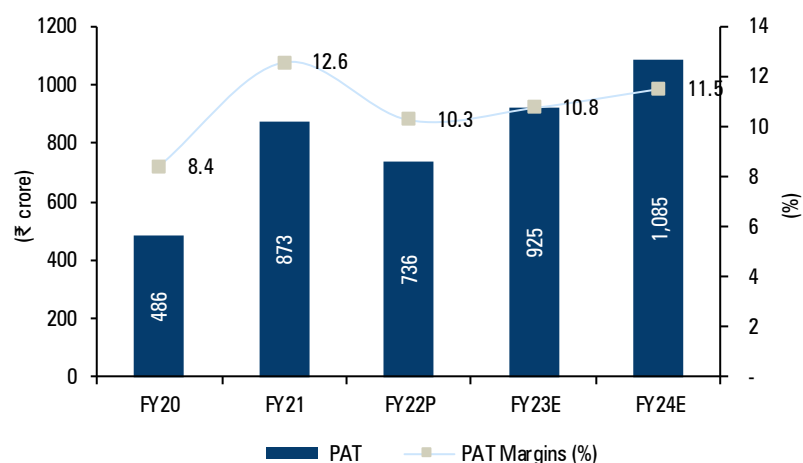
Exhibit 7: Trend in margins



Margins are seen reaching to 13.5% by FY24E due to elevated commodity prices, lower contribution from tractor segment, going forward

Source: Company, ICICI Direct Research

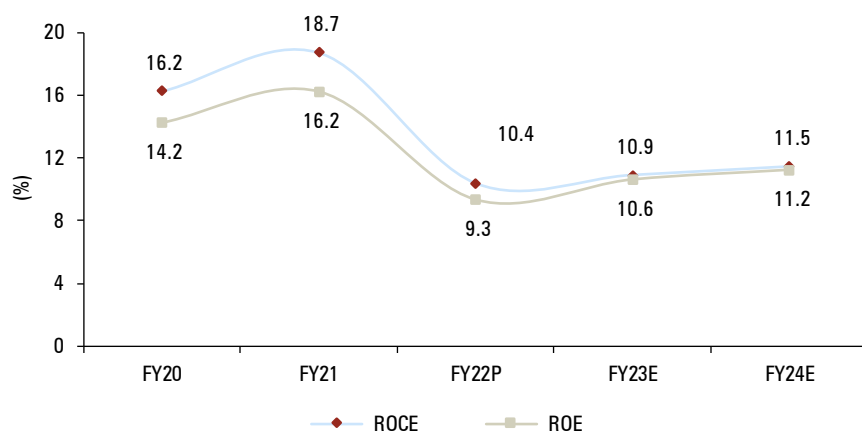
Exhibit 8: Trend in profitability



PAT is expected to grow at 21.4% CAGR over FY22-24E. PAT margins are seen steady in double digit

Source: Company, ICICI Direct Research

Exhibit 9: Trend in return ratios



Return ratios are seen stabilising around ~11% mark by FY24E due to high cash on b/s

Source: Company, ICICI Direct Research

Exhibit 10: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4995	22.0	26.1	99.7	68.9	36.9	13.8	18.7
FY19	6196	24.0	36.8	40.6	49.0	28.6	15.6	19.3
FY20	5761	-7.0	36.8	0.1	48.9	30.1	14.2	16.2
FY21	6929	20.3	66.2	79.9	27.2	16.2	16.2	18.7
FY22P	7153	3.2	55.8	-15.7	32.2	17.3	9.3	10.4
FY23E	8583	20.0	70.1	25.6	25.7	14.2	10.6	10.9
FY24E	9411	9.6	82.3	17.4	21.9	11.6	11.2	11.5

Source: Company, ICICI Direct Research

Exhibit 11: SoTP based target price calculation

Particulars	Amount (₹)
FY24E EPS (₹/share, A)	82.2
P/E Multiple (x, B)	20.0
<b>Value of Base Business (C = A*B)</b>	<b>1,643</b>
No of Treasury Shares (crore)	2.1
Current Market Price (₹/share)	1,615
Value of Investments (₹ crore)	3,464
Holding company discount (%)	25
Revised value of Investments (₹ crore)	2,598
<b>Contribution per share (₹/share, D)</b>	<b>197</b>
<b>Target Price (C+D)</b>	<b>1,840</b>
Potential Upside (%)	14

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Total operating Income	6,929.3	7,152.6	8,583.0	9,410.6
Growth (%)	20.3	3.2	20.0	9.6
Raw Material Expenses	4,153.6	4,424.1	5,514.6	5,999.2
Employee Expenses	534.6	528.2	557.9	588.2
Other expenses	671.8	740.3	858.3	941.1
Total Operating Expenditure	5,800.1	6,201.3	7,488.7	8,140.1
<b>EBITDA</b>	<b>1129.2</b>	<b>951.4</b>	<b>1094.4</b>	<b>1270.4</b>
Growth (%)	67.1	-15.7	15.0	16.1
Depreciation	115.7	129.8	140.8	159.8
Interest	11.0	12.7	11.4	10.3
Other Income	154.6	213.0	288.9	328.7
PBT	1,157.1	1,021.9	1,231.0	1,429.0
Total Tax	283.1	256.3	310.2	360.1
Tax rate	24.5	25.1	25.2	25.2
<b>PAT</b>	<b>873.3</b>	<b>736.3</b>	<b>924.6</b>	<b>1085.1</b>
Growth (%)	79.9	-15.7	25.6	17.4
<b>EPS (₹)</b>	<b>66.2</b>	<b>55.8</b>	<b>70.1</b>	<b>82.2</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	873.3	736.3	924.6	1,085.1
Add: Depreciation	115.7	129.8	140.8	159.8
(Inc)/dec in Current Assets	269.3	-320.0	-271.4	-221.2
Inc/(dec) in CL and Provisions	-55.7	-319.0	613.6	214.3
<b>CF from operating activities</b>	<b>1202.7</b>	<b>227.1</b>	<b>1407.6</b>	<b>1238.0</b>
(Inc)/dec in Investments	-1,013.3	-2,933.0	-900.0	-750.0
(Inc)/dec in Fixed Assets	-103.5	-189.6	-263.6	-260.0
Others	-119.2	87.1	-111.0	-50.7
<b>CF from investing activities</b>	<b>-1235.9</b>	<b>-3035.5</b>	<b>-1274.5</b>	<b>-1060.7</b>
Issue/(Buy back) of Equity	12.2	-2.9	0.0	0.0
Inc/(dec) in loan funds	-6.6	0.0	0.0	0.0
Dividend paid & dividend tax	-91.9	-85.8	-98.1	-131.9
Inc/(dec) in Sec. premium	1,029.8	1,863.4	0.0	0.0
Others	88.1	-24.5	0.0	0.0
<b>CF from financing activities</b>	<b>1031.6</b>	<b>1750.2</b>	<b>-98.1</b>	<b>-131.9</b>
Net Cash flow	998.3	-1,058.2	35.0	45.4
Opening Cash	318.3	1,316.6	258.4	293.4
<b>Closing Cash</b>	<b>1316.6</b>	<b>258.4</b>	<b>293.4</b>	<b>338.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	134.8	131.9	131.9	131.9
Reserve and Surplus	5,256.8	7,746.2	8,572.8	9,525.9
<b>Total Shareholders funds</b>	<b>5391.6</b>	<b>7878.2</b>	<b>8704.7</b>	<b>9657.8</b>
<b>Total Debt</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Other non-current Liabilities	106.7	114.5	112.9	111.3
Long-term Provisions	49.0	42.0	35.1	28.2
<b>Total Liabilities</b>	<b>5547.3</b>	<b>8034.7</b>	<b>8852.7</b>	<b>9797.3</b>
<b>Assets</b>				
Gross Block	2,794.5	2,942.3	3,192.3	3,442.3
Less: Acc Depreciation	1,109.6	1,215.4	1,333.1	1,465.8
Net Block	1,684.9	1,726.9	1,859.2	1,976.5
Capital WIP	41.2	56.3	81.3	71.3
<b>Total Fixed Assets</b>	<b>1726.0</b>	<b>1783.2</b>	<b>1940.5</b>	<b>2047.8</b>
Net Intangible Asset	51.5	54.1	19.5	12.4
Investments	2,322.8	5,150.0	6,100.0	6,900.0
Inventory	674.5	803.6	940.6	1,031.3
Debtors	698.4	827.6	940.6	1,031.3
Loans and Advances	32.8	25.5	44.5	32.3
Other Current Assets	189.4	281.1	283.5	335.5
<b>Cash</b>	<b>1316.6</b>	<b>258.4</b>	<b>293.4</b>	<b>338.8</b>
Total Current Assets	2,911.6	2,196.2	2,502.6	2,769.2
Creditors	1,187.1	877.7	1,293.3	1,546.9
Provisions & Other Curr.Liab	468.9	459.4	657.3	618.0
Total Current Liabilities	1,656.0	1,337.0	1,950.6	2,164.9
<b>Net Current Assets</b>	<b>1255.6</b>	<b>859.1</b>	<b>551.9</b>	<b>604.3</b>
Net Deferred Tax Asset	-23.0	-37.9	-37.9	-37.9
Other non-current assets	154.5	170.5	219.4	208.1
<b>Application of Funds</b>	<b>5547.3</b>	<b>8034.7</b>	<b>8852.7</b>	<b>9797.3</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	66.2	55.8	70.1	82.2
Cash EPS	80.7	65.6	80.8	94.4
BV	439.8	597.1	659.7	732.0
DPS	7.5	6.5	7.4	10.0
Cash Per Share	242.1	367.1	437.9	498.2
<b>Operating Ratios</b>				
EBITDA Margin (%)	16.3	13.3	12.8	13.5
PAT Margin (%)	12.6	10.3	10.8	11.5
Inventory days	35.5	41.0	40.0	40.0
Debtor days	36.8	42.2	40.0	40.0
Creditor days	62.5	44.8	55.0	60.0
<b>Return Ratios (%)</b>				
RoE	16.2	9.3	10.6	11.2
RoCE	18.7	10.4	10.9	11.5
RoIC	42.1	27.2	33.1	36.4
<b>Valuation Ratios (x)</b>				
P/E	22.7	28.9	23.0	19.6
EV / EBITDA	16.2	17.3	14.2	11.6
EV / Net Sales	2.6	2.3	1.8	1.6
Market Cap / Sales	3.1	3.0	2.5	2.3
Price to Book Value	3.7	2.7	2.4	2.2
<b>Solvency Ratios</b>				
Debt/ EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	2.0	1.5	1.4
<b>Quick Ratio</b>	<b>0.7</b>	<b>1.2</b>	<b>0.9</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Apollo Tyre (APOTYR)	200	250	Buy	12,701	10.1	14.7	20.8	19.9	13.6	9.6	6.7	5.5	4.3	6.3	8.1	10.6	5.5	7.5	9.9
Ashok Leyland (ASHLEY)	123	140	Buy	35,901	-0.8	1.3	3.7	-148.2	95.6	33.4	63.7	25.7	15.7	-1.1	6.5	14.4	-4.2	5.6	15.2
Bajaj Auto (BAAUTO)	3,641	3,950	Hold	1,05,357	173.4	183.4	204.1	21.0	19.9	17.8	15.6	13.9	12.3	18.4	19.9	21.6	17.6	19.1	20.5
Balkrishna Ind. (BALIND)	1,890	2,475	Buy	36,537	73.0	81.4	103.2	25.9	23.2	18.3	19.4	15.7	12.2	15.9	18.0	21.7	20.4	19.4	20.7
Bharat Forge (BHAFOR)	629	910	Buy	29,291	23.3	24.4	29.3	27.0	25.8	21.5	16.2	13.8	11.6	10.2	11.8	13.5	15.8	15.8	16.6
Eicher Motors (EICMOT)	2,430	2,480	Hold	66,412	61.3	87.6	107.2	39.6	27.7	22.7	26.7	18.9	15.3	13.3	17.3	18.7	13.3	16.9	18.2
<b>Escorts (ESCORT)</b>	<b>1,615</b>	<b>1,840</b>	<b>Hold</b>	<b>21,308</b>	<b>55.8</b>	<b>70.1</b>	<b>82.2</b>	<b>28.9</b>	<b>23.0</b>	<b>19.6</b>	<b>17.3</b>	<b>14.2</b>	<b>11.6</b>	<b>10.4</b>	<b>10.9</b>	<b>11.5</b>	<b>9.3</b>	<b>10.6</b>	<b>11.2</b>
Hero Moto (HERHON)	2,449	2,495	Hold	48,901	123.8	156.1	176.3	19.8	15.7	13.9	12.1	9.5	8.3	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	735	1,045	Buy	91,375	40.5	46.7	56.5	18.1	15.8	13.0	12.6	10.3	8.6	9.8	11.5	13.1	13.4	13.2	14.3
Maruti Suzuki (MARUTI)	7,102	8,545	Hold	2,14,531	124.7	206.4	284.8	57.0	34.4	24.9	30.5	19.3	14.1	5.1	9.5	12.8	7.0	10.7	13.5
Minda Industries (MININD)	833	1,115	Hold	23,788	10.7	17.1	24.2	77.5	48.7	34.4	28.7	21.9	16.7	9.9	13.5	17.8	9.5	13.3	16.0
Tata Motors (TATMOT)	404	500	Buy	1,54,826	-29.9	1.7	21.1	-13.5	241.6	19.2	6.8	5.5	4.1	4.8	8.1	13.7	-23.4	1.3	14.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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