

Estimate changes

TP change

Rating change



Bloomberg	ESC IN
Equity Shares (m)	135
M.Cap.(INRb)/(USDb)	223.4 / 2.9
52-Week Range (INR)	1930 / 1111
1, 6, 12 Rel. Per (%)	10/11/24
12M Avg Val (INR M)	2151

Financials & Valuations (INR b)

INR million	2022	2023E	2024E
Sales	72.4	78.6	86.6
EBITDA	9.5	10.1	12.4
EBITDA Margin (%)	11.3	11.2	12.5
Adj. PAT	7.6	8.6	10.7
EPS (INR)	69.2	77.8	87.2
EPS Gr. (%)	-19.7	12.4	12.1
BV/Sh. (INR)	687.8	926.1	913.0

Ratios

RoE (%)	12.1	9.6	10.0
RoCE (%)	16.4	13.0	13.5
Payout (%)	10.1	9.0	11.5

Valuations

P/E (x)	22.4	19.9	17.8
P/BV (x)	2.3	1.7	1.7
EV/EBITDA (x)	18.2	17.7	13.9
Div. Yield (%)	0.5	0.5	0.6
FCF yield (%)	-0.7	5.2	4.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	28.1	30.3	36.6
DII	0.4	8.6	5.6
FII	5.4	22.3	28.1
Others	66.1	38.9	29.7

FII Includes depository receipts

CMP: INR1,549 TP:INR1,740 (+12%) Neutral

Decent performance in a challenging quarter

Wholesale likely to grow by at least 15-20% in 1QFY23E

- Escorts (ESC)'s 4QFY22 performance was decent considering lower volumes and cost inflation. However, near-term outlook has improved driven by strong crop pricing and expectation of a normal monsoon.
- We raise our FY23E EPS by 7.5% to factor in the improvement in near-term outlook for tractors. **Maintain Neutral with a TP of INR1,740.**

Lower staff cost offset the adverse impact from RM and other costs

- ESC's Revenue/EBITDA/PAT declined 16%/29%/25.5% YoY to ~INR18.6b/INR2.4b/INR2b, respectively, in 4QFY22. FY22 Revenue grew 3% YoY, but EBITDA/PAT declined 16%/12% YoY, respectively.
- Tractor volumes declined 33% YoY and 13.5% QoQ. Net realizations improved 17% YoY and 5% QoQ to INR622.5k (est. INR599.3k), driven by the mix and price hikes. Tractor revenue dipped 22% YoY (9% QoQ), while Railways grew 18% YoY with Construction Equipment (CE) being flat YoY.
- Gross margin contracted 20bp QoQ (190bp YoY) to 29.6% (v/s est.29.8%). EBITDA margin declined 250bp YoY (40bp QoQ) to 13.1% (v/s est. 12.5%), due to higher RM costs and other expenses partly offset by lower staff costs.
- PBIT margin for tractors declined just 30bp QoQ (150bp YoY) to 15.5%. PBIT margin for: a) Railways was at 13.1% (-120bp QoQ/-600bp YoY) and b) CE was at 3.6% (v/s 2.5% in 3QFY22).
- Higher other income boosted Adj. PAT to INR2b (v/s est. of INR1.8b), a decline of 25.5% YoY (flat QoQ).
- The company declared a dividend of INR7/share for FY22.

Highlights from the management commentary

- Tractor industry outlook:** Initial trends seen in Apr'22 were positive and retail outlook has been encouraging. It is expecting 15-20% growth in wholesale in 1QFY23. It is optimistic for 1HFY23E since Navratri is in Sep'22 but would hold back on any guidance for FY23 until monsoon arrives.
- Price hikes and cost inflation:** Price hike of 2% has been taken in mid-Apr'22 and another round is likely to be taken in 2QFY23. ESC still has 4-5% under recovery post-1QFY23 price hike.
- Railways** is seeing healthy momentum with order book at >INR4.4b (v/s INR4b as of Dec'21). FY23E revenue growth would be in double digits with a margin target of 13-14% as these are fixed price contracts and RM cost inflation would not be a pass through.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Valuation and view

- Uncertainty in the Tractor cycle would result in muted earnings growth over the next few quarters, especially considering the high base. Faster recovery in other businesses and a ramp-up in its partnership with Kubota could offset the impact of a weaker Tractor cycle.
- The stock trades at 17.8x consolidated FY24E EPS, at a premium to its 10-year average of 10x, driven by an improvement in operating parameters as well as the Kubota partnership. While tractor cycle seems to be near bottom, the valuations are already reflecting the recovery in FY24E. **Maintain Neutral with a TP of INR1,740 (premised on 20x Mar'24E consolidated EPS).**

Standalone Quarterly Performance

(INR Million)

Y/E March	FY21				FY22				FY21	FY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	10,616	16,397	20,174	22,105	16,715	16,623	19,575	18,614	69,293	71,527	18,189
YoY Change (%)	-25.4	23.9	23.5	60.1	57.4	1.4	-3.0	-15.8	20.3	3.2	(17.7)
EBITDA	1,196	3,009	3,641	3,447	2,332	2,101	2,646	2,434	11,292	9,513	2,270
Margins (%)	11.3	18.3	18.0	15.6	14.0	12.6	13.5	13.1	16.3	13.3	12.5
Depreciation	264	274	315	304	314	329	325	330	1,157	1,298	333
Interest	19	32	33	26	30	36	33	29	110	127	32
Other Income	298	376	472	399	472	639	400	620	1,546	2,130	520
PBT	1,211	3,078	3,765	3,516	2,461	2,374	2,688	2,695	11,571	10,219	2,425
Rate (%)	23.9	25.3	25.5	22.8	24.8	25.6	25.0	25.0	24.5	25.1	25.3
Adj. PAT	922	2,299	2,807	2,713	1,852	1,767	2,015	2,022	8,741	7,656	1,812
YoY Change (%)	5.3	106.0	83.4	93.3	101.0	-23.1	-28.2	-25.5	77.4	-12.4	-33.2
Margins (%)	8.7	14.0	13.9	12.3	11.1	10.6	10.3	10.9	12.6	10.7	10.0

E: MOFSL Estimates

Key Performance Indicators

	FY21				FY22				FY21	FY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q
Volumes ('000 units)	18,150	24,441	31,562	32,588	25,935	21,073	25,325	21,895	1,06,741	94,228	21,895
Change (%)	-13.8	23.8	25.7	62.1	42.9	-13.8	-19.8	-32.8	24.1	-11.7	-32.8
Net Realn (INR '000/unit)	525.4	541.0	523.6	533.6	544.2	588.9	594.5	622.5	530.9	585.9	599.3
Change (%)	1.3	7.3	1.8	1.4	3.6	8.9	13.5	16.7	2.9	10.4	12.3
Cost Break-up											
RM Cost (% of sales)	67.1	63.6	65.7	68.5	68.3	66.5	70.2	70.4	66.3	69.0	70.2
Staff Cost (% of sales)	11.9	7.7	6.7	6.6	8.2	8.4	6.8	6.4	7.7	7.4	7.8
Other Cost (% of sales)	9.7	10.4	9.6	9.3	9.6	12.4	9.5	10.1	9.7	10.3	9.5
Gross Margins (%)	32.9	36.4	34.3	31.5	31.7	33.5	29.8	29.6	41.9	37.2	29.8
EBITDA Margins (%)	11.3	18.3	18.0	15.6	14.0	12.6	13.5	13.1	16.3	13.3	12.5
EBIT Margins (%)	8.8	16.7	16.5	14.2	12.1	10.7	11.9	11.3	14.6	11.5	10.7
Segmental PBIT Margin (%)											
Agri Machinery	14.5	20.0	20.1	17.0	15.6	15.1	15.8	15.5	18.2	15.5	0.0
Railway Equipment	2.6	20.3	12.7	19.1	14.6	17.3	14.3	13.1	16.0	15.1	0.0
CE	-32.0	1.7	7.5	7.3	-2.3	3.6	2.5	3.6	3.6	2.4	0.0

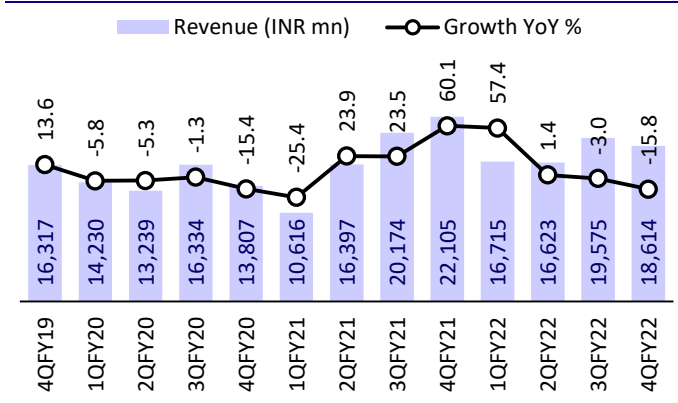
E:MOFSL Estimates



Highlights from the management commentary

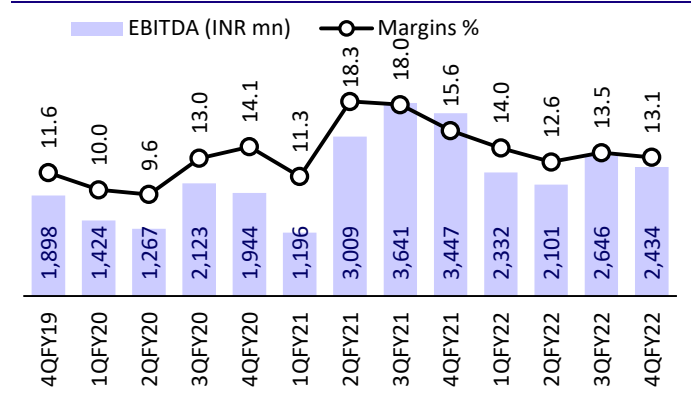
- **Tractor industry outlook:** Initial trends seen in Apr'22 were positive and retail outlook has been encouraging. It is expecting 15-20% growth in wholesale in 1QFY23. It is optimistic for 1HFY23E since Navratri is in Sep'22 but would hold back on any guidance for FY23 until monsoon arrives. Overall, farmer sentiment is quite positive especially in the wheat growing belt (where prices are higher than MSP).
- **Systemic inventory** at industry level is higher than normal (at 125-130k). The correction in stock may only happen after the season, as all OEMs are going on full steam in building inventory in anticipation of a bumper season. Everyone is anticipating the best retail performance ever in the upcoming season.
- **Price hikes and cost inflation:** Price hike of 2% has been taken in mid-Apr'22 and another round is likely to be taken in 2QFY23. ESC still has 4-5% under recovery post-1QFY23 price hike
- **Market share loss:** The market share loss in a strong market is due to higher price hikes than competition (timing wise), thereby impacting product positioning adversely. This will get corrected as the competition has not done anything unusual to gain share.
- **Kubota's products** are more suitable for the wetland, which will help ESC in the Southern market. It is preparing state-wise and product-wise plans for addressing each market. Portfolio is complementary as Kubota is strong in small tractors (orchard segment) and large tractors (>50HP), whereas ESC is strong in 30-50HP. Geography wise, it is also complementary as Kubota is strong in the West and South, whereas ESC is strong in North and Central.
- **E-Tractor:** Selling 60-70/month and targets to take it upto 100/month. It is working on both technology and cost of ownership.
- **Railways** is seeing a healthy momentum in order tendering, and the order book stands at >INR4.4b (v/s INR4b as of Dec'21). FY23 revenue growth would be in double digits with a margin target of 13-14%. The order book of this segment is made up of fixed price contracts and hence, margins will be under pressure.
- In the **CE business**, ESC would be witnessing recovery from 2QFY23 onwards.

Exhibit 1: Revenue and revenue growth trends



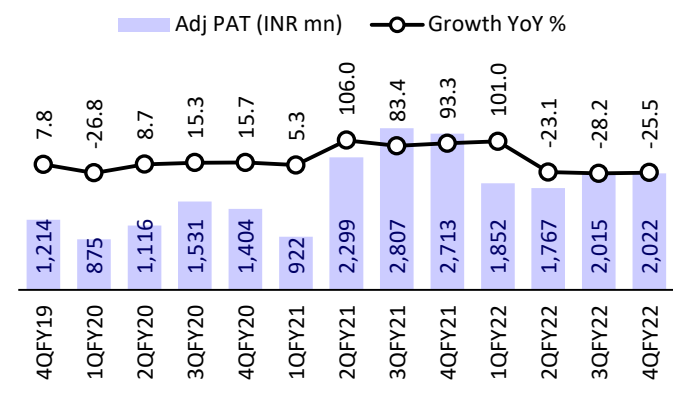
Source: MOFSL, Company

Exhibit 2: EBITDA and EBITDA margin trends



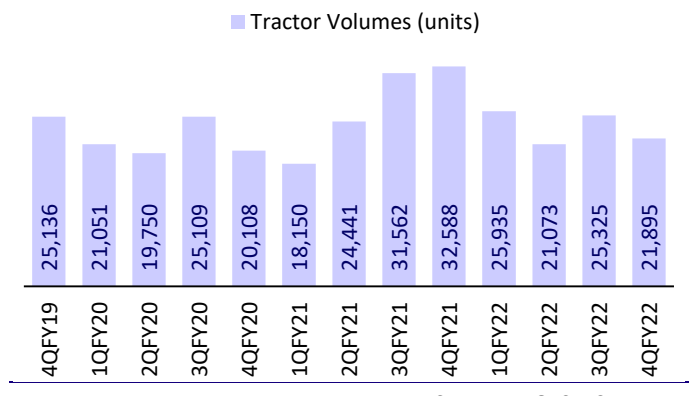
Source: MOFSL, Company

Exhibit 3: Adjusted PAT and growth trends



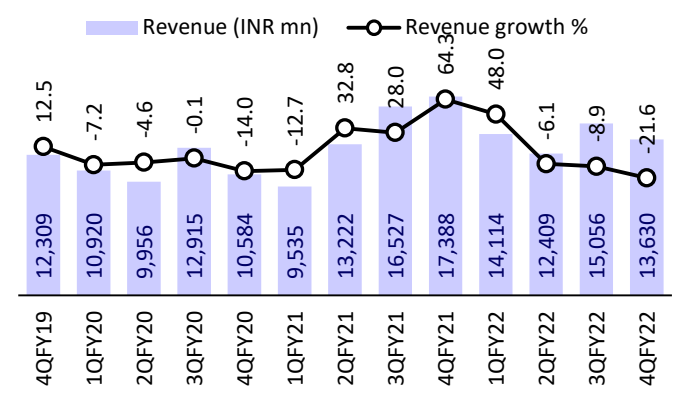
Source: MOFSL, Company

Exhibit 4: Trend in Tractor volumes



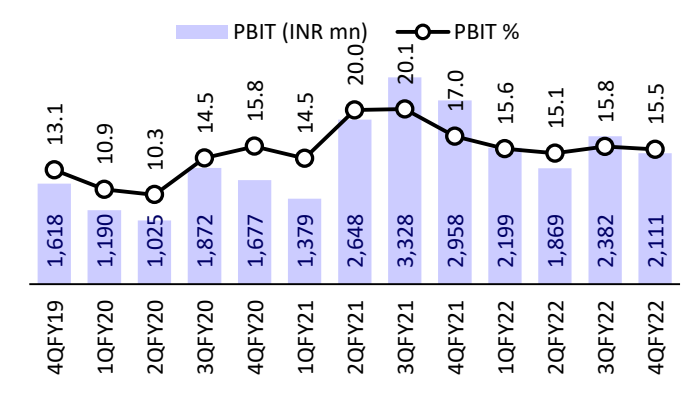
Source: MOFSL, Company

Exhibit 5: Revenue and growth in Tractor segment



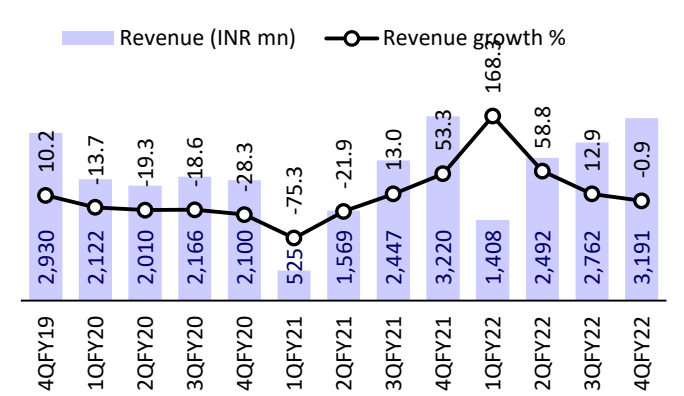
Source: MOFSL, Company

Exhibit 6: PBIT trend in Tractor segment



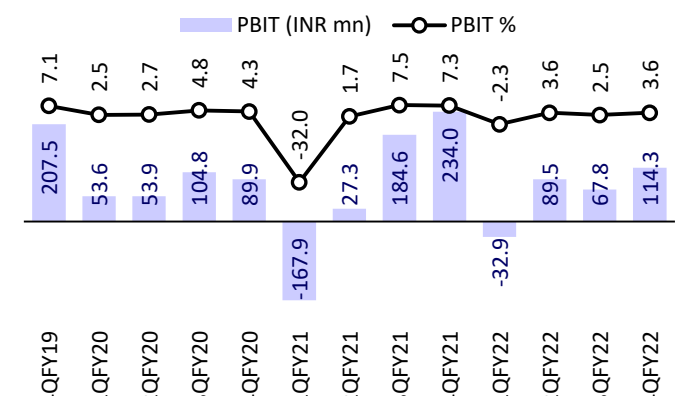
Source: MOFSL, Company

Exhibit 7: Revenue and growth in CE segment



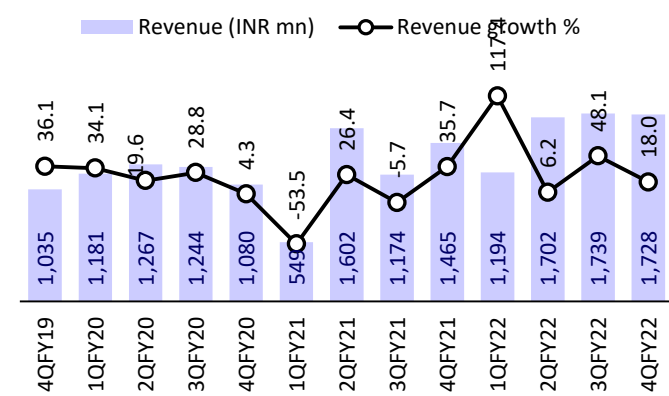
Source: MOFSL, Company

Exhibit 8: PBIT trend in CE segment



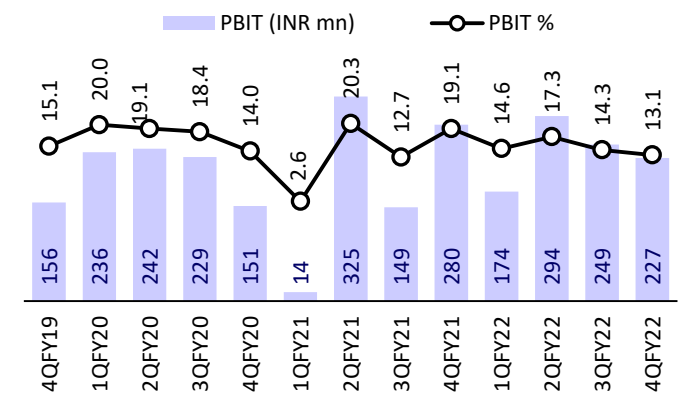
Source: MOFSL, Company

Exhibit 9: Revenue and growth in Railways segment



Source: MOFSL, Company

Exhibit 10: PBIT trend in Railways segment



Source: MOFSL, Company

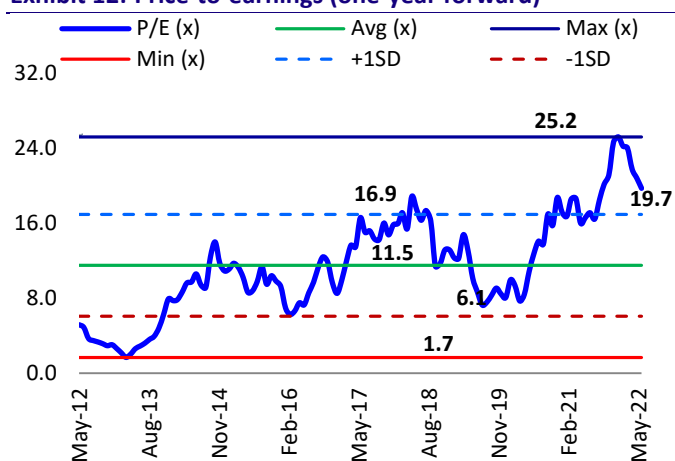
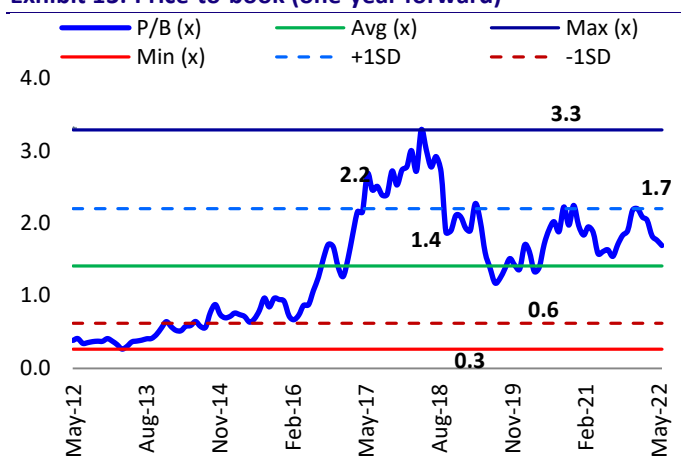
Valuation and view

- **Near-term outlook improving:** After a decline in wholesale in FY22, the management has indicated that it is witnessing positive initial trends of recovery in Apr'22 for tractor retail, implying a strong 1HFY23. Volumes in FY23 are expected to grow as: a) agro-economic indicators and farm-level sentiment are still positive, and b) recovery in non-agri applications is offsetting the weakness in the Agri segment. We estimate Tractor industry volumes to see a 4% CAGR over FY22–24.
- **Kubota partnership strengthened via preferential allotment, open offer:** ESC's Board on 18th Nov'21 approved the sale of a ~6.4% stake in the company to Japan's Kubota Corp for ~INR18.7b (at INR2,000/share), taking Kubota's stake to ~16.4% (after the extinguishment of the first round of treasury shares). Assuming a successful open offer and the cancellation of all treasury shares, Kubota's stake in ESC would rise to 53.5%. Kubota's plans to acquire the majority stake in ESC lend credence to its commitment to this partnership. The partnership with Kubota (global major in Agriculture and Construction Equipment) would help ESC improve its competitive positioning in: a) small tractors (less than 30HP), b) the export markets (through leveraging Kubota's distribution network), c) the Agri implements business, d) component sourcing, and e) the CE business (Kubota is a global leader in small excavators). Through this partnership, ESC gains access to: a) a global product know-how (in Tractors and Implements), b) a global distribution network, and c) a global supply chain (by leveraging its India cost base).
- **Healthy recoveries in Railways and CE to offset the adverse impact of a slowdown in Tractor:** We expect the Railways business to deliver a ~16% CAGR over FY22–24, benefitting from the ramp-up in new products. Revenue from CE is estimated to grow at 17% over FY22–24. The benefits related to localization and cost savings would elevate ESC's margin profile in both segments.
- **Tractor cycle showing initial signs of recovery:** With initial signs of recovery in its core Tractor business, we estimate 9% revenue CAGR for ESC over FY22–24. This would result in a margin expansion of ~120bp (over FY22–24E) to ~14.3% in FY24E. We expect a 12% EPS CAGR, partly led by higher treasury income. Our estimates do not factor in the merger of Kubota's India businesses.
- **Valuation and view:** We raise our FY23E EPS by 7.5% to factor in better volumes, while keeping our FY24E estimates constant. The near-term outlook

has improved driven by strong crop pricing and expectation of normal monsoons. Exports, a leaner cost structure, recovery in Railways/CE, and a strong balance sheet would offset the impact on the P&L. After Kubota's first acquisition of a stake in ESC, the stock got substantially re-rated. With this anticipated event behind us, we expect the focus to shift back to the fundamentals. We remain cautious on the Tractor cycle. The stock trades at 17.8x consolidated FY24E EPS – which is at a premium to its 10-year average of 10x – led by improvement in operating parameters as well as the Kubota partnership. While tractor cycle seems to be near bottom, the valuations are already reflecting the recovery in FY24E. **Maintain Neutral with a TP of INR1,740 (premised on 20x Mar'24E consolidated EPS).**

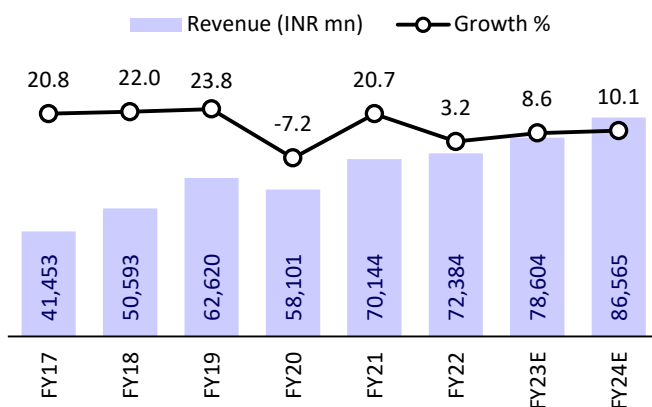
Exhibit 11: Change in estimate

(INR m)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	78,604	72,915	7.8	86,565	81,664	6.0
EBITDA	10,140	9,479	7.0	12,379	12,086	2.4
EBITDA (%)	12.9	13.0	-10bp	14.3	14.8	-50bp
Adj. PAT	8,596	7,993	7.5	10,690	10,742	-0.5
EPS (INR)	77.8	72.3	7.5	87.2	87.6	-0.5

Exhibit 12: Price-to-earnings (one-year forward)**Exhibit 13: Price-to-book (one-year forward)**

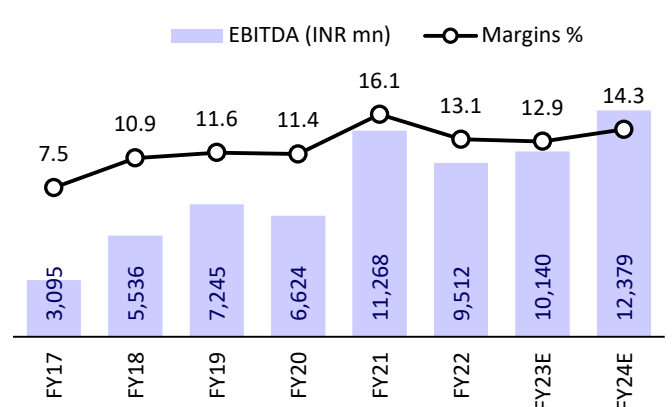
Story in charts

Exhibit 14: Revenue and revenue growth trends



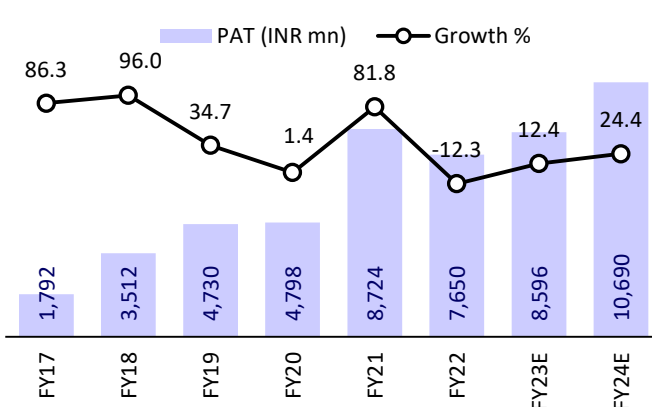
Source: MOFSL, Company

Exhibit 15: EBITDA and EBITDA margin trajectory



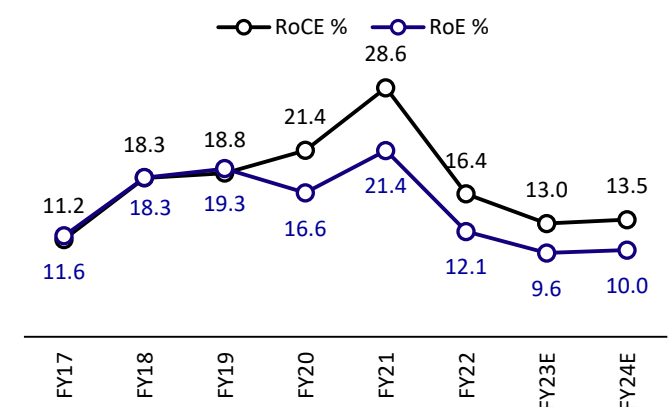
Source: MOFSL, Company

Exhibit 16: PAT and PAT growth trends



Source: MOFSL, Company

Exhibit 17: RoE and RoCE trends



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	41,453	50,593	62,620	58,101	70,144	72,384	78,604	86,565
Change (%)	20.8	22.0	23.8	-7.2	20.7	3.2	8.6	10.1
EBITDA	3,095	5,536	7,245	6,624	11,268	9,512	10,140	12,379
Margin (%)	7.5	10.9	11.6	11.4	16.1	13.1	12.9	14.3
Depreciation	634	732	872	1,072	1,183	1,321	1,366	1,531
EBIT	2,461	4,804	6,373	5,552	10,085	8,191	8,774	10,847
Int. and Finance Charges	322	295	195	172	133	150	140	140
Other Income	471	653	924	976	1,604	2,180	2,850	3,575
PBT bef. EO Exp.	2,610	5,162	7,102	6,356	11,555	10,222	11,484	14,282
EO Items	-112	-68	56	-92	0	0	0	0
PBT after EO Exp.	2,498	5,094	7,157	6,263	11,555	10,222	11,484	14,282
Current Tax	773	1,625	2,371	1,535	2,832	2,572	2,888	3,592
Deferred Tax	0	0	0	0	0	0	0	0
Tax Rate (%)	30.9	31.9	33.1	24.5	24.5	25.2	25.2	25.1
Less: Minority Interest	11	4	20	0	0	0	0	0
Reported PAT	1,715	3,466	4,767	4,728	8,724	7,650	8,596	10,690
Adjusted PAT	1,792	3,512	4,730	4,798	8,724	7,650	8,596	10,690
Change (%)	86.3	96.0	34.7	1.4	81.8	-12.3	12.4	24.4
Margin (%)	4.3	6.9	7.6	8.3	12.4	10.6	10.9	12.3

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,226	1,226	1,226	1,226	1,348	1,319	1,105	1,226
Total Reserves	14,984	20,926	25,509	29,948	48,913	74,680	1,01,222	1,10,686
Net Worth	16,209	22,151	26,735	31,174	50,261	75,999	1,02,327	1,11,912
Minority Interest	17	-4	56	51	-9	-38	-38	-38
Deferred Liabilities	0	197	529	307	233	373	373	373
Total Loans	2,179	147	2,810	192	17	0	0	0
Capital Employed	18,406	22,492	30,130	31,724	50,502	76,334	1,02,662	1,12,247
Gross Block	24,600	24,960	26,213	28,040	30,193	30,901	34,136	37,096
Less: Accum. Deprn.	8,707	9,082	9,741	10,813	11,996	13,317	14,682	16,214
Net Fixed Assets	15,893	15,878	16,472	17,227	18,197	17,585	19,454	20,882
Capital WIP	266	657	800	1,044	412	878	393	433
Total Investments	2,123	5,490	4,908	7,974	19,380	49,184	49,184	49,184
Curr. Assets, Loans&Adv.	13,187	17,700	24,890	23,895	30,792	23,431	51,305	61,212
Inventory	4,503	5,657	8,574	8,834	7,182	8,466	8,980	9,676
Account Receivables	4,565	5,920	9,311	7,319	6,576	7,926	7,968	8,775
Cash and Bank Balance	2,441	3,173	2,433	3,249	13,218	2,718	29,173	36,540
Loans and Advances	1,679	2,949	4,572	4,494	3,817	4,320	5,184	6,221
Curr. Liability & Prov.	13,587	17,242	16,952	18,430	18,279	14,743	17,674	19,464
Account Payables	12,064	15,746	15,495	16,867	16,771	13,341	16,152	17,787
Provisions	1,522	1,495	1,458	1,563	1,508	1,402	1,523	1,677
Net Current Assets	-399	458	7,938	5,465	12,513	8,687	33,631	41,748
Deferred Tax assets	523	8	12	14	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	18,406	22,493	30,130	31,724	50,502	76,334	1,02,662	1,12,247

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS (ex. treasury)	21.0	39.5	53.2	54.0	86.3	69.2	77.8	87.2
BV/Share	190.1	249.2	300.8	350.7	497.0	687.8	926.1	913.0
DPS	1.5	2.0	2.5	2.5	7.5	7.0	7.0	10.0
Payout (%)	9.2	6.2	5.6	5.7	8.7	10.1	9.0	11.5
Valuation (x)								
P/E	73.7	39.2	29.1	28.7	18.0	22.4	19.9	17.8
P/BV	8.1	6.2	5.1	4.4	3.1	2.3	1.7	1.7
EV/Sales	3.6	3.0	2.5	2.6	2.8	2.8	2.3	2.0
EV/EBITDA	48.7	27.8	21.7	23.2	12.7	18.2	17.7	13.9
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.5	0.5	0.5	0.6
FCF per share	19.5	28.9	-31.6	50.2	75.3	-10.7	80.2	70.3
Return Ratios (%)								
RoE	11.6	18.3	19.3	16.6	21.4	12.1	9.6	10.0
RoCE	11.2	18.3	18.8	21.4	28.6	16.4	13.0	13.5
RoIC	12.0	24.5	24.2	20.2	41.2	29.9	27.7	32.5
Working Capital Ratios								
Asset Turnover (x)	2.3	2.2	2.1	1.8	1.4	0.9	0.8	0.8
Inventory (Days)	58	61	73	84	56	62	60	60
Debtor (Days)	39	43	54	46	34	40	37	37
Creditor (Days)	106	114	90	106	87	67	75	75
Leverage Ratio (x)								
Net Debt/Equity	-0.1	-0.4	-0.1	-0.3	-0.6	-0.6	-0.7	-0.7

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,903	5,091	7,157	6,253	11,548	9,928	11,484	14,282
Depreciation	649	732	872	1,072	1,183	1,321	1,366	1,531
Interest & Finance Charges	11	-26	-301	0	0	0	140	140
Direct Taxes Paid	-437	-1,021	-2,166	-1,748	-2,527	-2,547	-2,888	-3,592
(Inc)/Dec in WC	548	-181	-7,449	3,272	2,748	-6,526	1,511	-750
Others	365	5	-456	-877	-1,639	-1,853	0	0
CF from Operating incl EO	3,038	4,601	-2,343	7,972	11,313	323	11,612	11,612
(inc)/dec in FA	-654	-1,059	-1,529	-1,822	-1,157	-1,732	-2,750	-3,000
Free Cash Flow	2,384	3,541	-3,873	6,150	10,155	-1,409	8,862	8,612
(Pur)/Sale of Investments	-1,196	-2,934	994	-2,390	-20,778	-16,804	0	0
Others	304	252	362	0	0	-28	0	0
CF from Investments	-1,546	-3,742	-174	-4,212	-21,936	-18,564	-2,750	-3,000
Issue of Shares	0	2,501	28	0	10,576	19,021	18,506	121
Inc/(Dec) in Debt	-1,031	-2,134	2,309	-2,644	-221	-87	0	0
Interest Paid	-287	-216	-138	-100	-76	-98	-140	-140
Dividend Paid	-128	-161	-289	-260	-245	-737	-773	-1,226
CF from Fin. Activity	-1,131	-10	1,906	-3,001	9,991	18,099	17,592	-1,245
Inc/Dec of Cash	361	849	-611	758	-632	-142	26,454	7,367
Opening Balance	331	693	1,542	931	1,689	1,057	915	27,369
Closing Balance	693	1,542	931	1,689	1,057	915	27,369	34,736

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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