

Retail Equity Research (South India focus)

ESCORTS LTD

Auto – Tractors & Construction

BSE CODE : 500495

NSE CODE: ESCORTS

BLOOMBERG CODE: ESC : IN

SENSEX : 49,581

Accumulate

12M Investment Period

Rating as per Midcap

CMP Rs. 1,141 TARGET Rs.1,283 RETURN 12%

(Closing: 17-05-21)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Accumulate for long term..

Escorts Ltd (EL) is the third largest Agricultural tractor manufacturer in India. It has strong presence in the north and west market, with an overall market share of 11.3% as on FY21.

- Q4FY21 revenue grew by 60%YoY largely on account of higher tractor sales of 62%YoY and 63%YoY from the construction equipment's segment.
- EBITDA margin expanded by150bps due to better product mix, price hike and cost reduction. PAT grew by 93.5%YoY.
- The government's action towards improving the agricultural productivity through mechanization will continue to drive volume growth. However, due to the ongoing pandemic the government's subsidy likely to be limited for the year FY22.
- Revenue & PAT to grow by 11%/12% CAGR over FY21-23E owing to better product mix , exports and Industry recovery.
- We expect the elevated commodity price and supply chain constraints to remain for short term. However, EL's strategic initiative with Kubota for export will drive growth. We maintain our Accumulate rating and value EL at 16x on FY23E EPS.

Strong demand led to earnings growth..

Q4FY21 revenue grew by 60%YoY largely on account of higher tractor sales of 62%YoY and 63%YoY from the construction equipment's. Despite adverse commodity price, EBITDA margin expanded by150bps due to better product mix, operating leverage in all division, price hike and cost reduction. PAT grew by 93.5%YoY. Revenue from railway segment grew by 36%YoY. We believe that the economy is going through a challenging time due to the sever impact of second wave and lockdown, impacting supply chain. However, Normal monsoon and farm mechanisation will continue to support volume growth post stabilisation. The company also expecting that the impact will be minimal both in the construction and railway segment due to government thrust for massive infrastructure projects.

JV with Kubota will expand geographical footprints.

EL's expanded portfolio & technology upgrades in tractors have resulted in improved numbers both in existing and newer geographies. Exports have grown by 30%YoY in FY21 and expect the same trend to continue for FY22. Strategic collaboration with Kubota has lead to higher global footprint. Contract manufacturing of EL and Kubota products under the brand "E Kubota" is expected to commence by the next quarter with an outlay of 30000 capacity. On the domestic front, we are forecasting a moderation in the tractor volume growth in FY22E due to lower government subsidy owing to unprecedented situation. Despite lower farm tractor sales expected in H1FY22 , better product mix, higher export and growth in the non farm sector will drive revenue growth. We expect EL to register a revenue growth of 12%YoY for FY22E.

Margin to show some resilience at later half.

To offset the inflated commodity price, the company has taken 5% price increase in November & in April and also expected another one in Q2FY22. Despite subsequent price hike we expect the margin to remain under pressure for near term and expect to show some resilience in H2, owing to industry recovery and through operating leverage.

Valuations

Overall rural sentiments are positive because of normal monsoon and government intention to increase agricultural productivity. However, supply chain constrains & commodity price movement will have to be watch full. In addition, limited government subsidy for FY22 will hinder easy finance availability for farmers and hence we expect a consolidation in valuation. Looking at the long term perspective for doubling farmer's income by the Govt. and infrastructure push will augurs well for the company. We value EL at 16x on FY23E EPS and maintain our Accumulate rating with a target price of Rs.1,283.

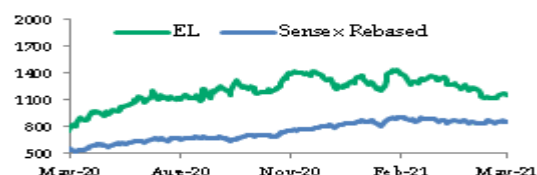
Company Data

Market Cap (cr)	Rs. 15,699
Enterprise Value (cr)	Rs. 15,699
Outstanding Shares (cr)	13.5
Free Float	52%
Dividend Yield	0.20%
52 week high	Rs.1,468
52 week low	Rs.803
6m average volume (cr)	0.26
Beta	1.8
Face value	Rs.10

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	36.6	36.6	36.6
FII's	21.6	23.8	25.9
MFs/Insti	8.5	7.1	5.6
Public	33.3	32.5	31.9
Total	100.0	100.0	100.0
Promoters Pledge	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-18.2%	-16.6%	46.6%
Absolute Sensex	-5.5%	12.2%	56.6%
Relative Return	-12.7%	-28.7%	-9.9%

over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	6,929	7,726	8,623
Growth (%)	20.3	11.5	11.6
EBITDA	1,129	1,174	1,362
EBITDA Margin(%)	16.3	15.2	15.8
PAT Adj.	874	926	1,081
Growth (%)	76.7	5.9	16.8
Adj.EPS	64.8	68.7	80.2
Growth (%)	60.7	5.9	16.8
P/E	17.6	16.6	14.2
P/B	2.1	1.8	1.5
EV/EBITDA	13.6	13.1	11.3
ROE (%)	19.3	15.3	15.4
D/E	0.0	0.0	0.0

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
Sales	2211	1381	60.1	2017	9.6
EBITDA	345	194	77.5	364	-5.3
EBITDA margins	15.6%	14.1%	150bps	18.0%	-240bps
Depreciation	30	28	9.6	31	-3.3
EBIT	314	166	88.8	333	-5.5
Interest	2.6	2.8	-9.5	3.3	-21.4
Other Income	40	28	43.8	47	-15.4
Exceptional Items	0	0	0.0	0	0.0
PBT	352	191	83.7	377	-6.6
Tax	80	51	56.8	96	-16.3
Share of profit from Associate	0	0	0.0	0	0.0
Minority Interest	0	0	0.0	0	0.0
Reported PAT	271	140	93.5	281	-3.3
Adjustments	0	0	0.0	0	-
Adj PAT	271	140	93.5	281	-3.3
No. of Shares (cr)	12.3	12.3	0.0	12.3	0.0
EPS (Rs)	22.1	11.4	93.5	22.9	-3.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	7,643	-	7,726	8,623	1.1	-
EBITDA	1030	-	1,174	1,362	14.0	-
Margins (%)	13.5	-	15.2	15.8	170bps	-
Adj. PAT	803	-	926	1081	15.3	-
EPS	59.5	-	68.7	80.2	15.4	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	6,196	5,761	6,929	7,726	8,623
% change	24.0	-7.0	20.3	11.5	11.6
EBITDA	733	676	1129	1174	1362
% change	31.6	-7.8	16.0	0.0	0.0
Depreciation	85	105	116	109	121
EBIT	648	571	1014	1066	1241
Interest	18	15	11	12	10
Other Income	81	92	155	180	210
PBT	629	556	1003	1054	1231
% change	41.7	-11.4	81.1	6.6	16.8
Tax	238	153	283	309	360
Tax Rate (%)	0.33	0.24	0.24	0.25	0.25
Reported PAT	484	486	874	926	1081
Adj.	11	-9	0	0	0
Adj. PAT	473	495	874	926	1081
% change	34.5	4.7	76.7	5.9	16.8
No. of shares (cr)	12	12	13	13	13
Adj EPS (Rs)	38.6	40.4	64.8	68.7	80.2
% change	34.5	4.6	60.7	5.9	16.8
DPS (Rs)	1.2	1.2	1.2	1.2	1.2

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	794	724	1262	1350	1550
Non-cash adj.	-33	23	7	-19	-22
Changes in W.C	-706	-188	-1083	-120	-619
C.F. Operation	68	578	197	1204	921
Capital exp.	-152	-210	-122	-320	-375
Change in inv.	70	-333	-1176	-345	-350
Other invest.CF	0	0	0	0	0
C.F - Investment	-82	-543	-1297	-665	-725
Issue of equity	0	0	12	0	0
Issue/repay debt	259	-238	23	-72	0
Dividends paid	-14	-14	-16	-16	-16
Other finance.CF	-	-	-	-	-
C.F - Finance	261	-267	1269	-87	-16
Chg. in cash	246	-232	168	451	180
Closing cash	318	86	254	705	886

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	318	86	254	705	886
Accounts Receivable	932	757	698	804	898
Inventories	822	822	674	783	861
Other Cur. Assets	410	378	279	317	354
Investments	1026	1387	3632	4192	4832
Gross Fixed Assets	2701	2830	2984	3334	3684
Net Fixed Assets	1577	1600	1642	1884	2113
CWIP	90	172	139	109	134
Intangible Assets	30	32	28	28	28
Def. Tax (Net)	53	30	23	41	63
Other Assets	23	20	23	18	18
Total Assets	5,282	5,284	7,393	8,882	10,187
Current Liabilities	278	334	380	464	510
Provisions	144	156	150	169	189
Debt Funds	269	7	0	0	0
Other Liabilities	1545	1264	1187	1740	1914
Equity Capital	123	123	135	135	135
Reserves & Surplus	2900	3358	5465	6374	7439
Shareholder's Fund	3023	3480	5599	6509	7574
Total Liabilities	5,282	5,284	7,393	8,882	10,187
BVPS	296	340	547	636	741

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	11.8	11.7	16.3	15.2	15.8
EBIT margin (%)	10.5	9.9	14.6	13.8	14.4
Net profit mgn.(%)	7.6	8.6	12.6	12.0	12.5
ROE (%)	17.0	15.2	19.3	15.3	15.4
ROCE (%)	9.8	9.1	13.5	11.4	11.4
W.C & Liquidity					
Receivables (days)	45.1	53.5	38.3	35.5	36.0
Inventory (days)	58.7	78.6	59.5	50.3	51.5
Payables (days)	24.9	29.2	28.4	29.1	30.5
Current ratio (x)	6.3	4.6	6.0	6.5	6.8
Quick ratio (x)	4.5	2.5	2.5	3.3	3.5
Turnover & Leverage					
Gross asset T.O (x)	2.4	2.1	2.4	2.5	2.5
Total asset T.O (x)	1.3	1.1	1.1	0.9	0.9
Int. covge. ratio (x)	35.1	37.0	92.3	91.9	121.6
Adj. debt/equity (x)	0.05	0.00	0.00	0.00	0.00
Valuation					
EV/Sales (x)	2.3	2.4	2.2	2.0	1.8
EV/EBITDA (x)	19.4	20.7	13.6	13.1	11.3
P/E (x)	29.6	28.3	17.6	16.6	14.2
P/BV (x)	3.9	3.4	2.1	1.8	1.5

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
07-02-2018	Accumulate	973
30-05-2018	Buy	1,090
31.07.2018	Buy	1,091
02.11.2018	Buy	763
30.01.2019	Hold	680
15.05.2019	Accumulate	643
02.08.2019	Reduce	419
23.12.2019	Accumulate	695
03.02.2020	Hold	820
15.04.2020	Buy	819
17.05.2020	Hold	837
04.08.2020	Hold	1,189
16.09.2020	Accumulate	1,355
18.05.2021	Accumulate	1,283

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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