Escorts Ltd

Buy

Automobile

Company Overview

Escorts Limited, incorporated in 1944 is an engineering company offers agricultural tractors and construction equipment. The Company's segments are Agri Machinery, Auto Ancillary Products, Railway Equipment, Construction Equipments and Others. It is engaged in the business of manufacturing of engines for agricultural tractors, earth moving and material handling equipment, round and flat tubes, heating elements, double acting hydraulic shock absorbers for railways coaches, center buffer couplers, automobile shock absorbers, telescopic front fork and Mcpherson struts, brake block, internal combustion engine and various types of brake used by railways. It also trades in oils and lubricants, implements, trailers, tractors, compressor accessories and spares, construction and aero business.

Investment Rationale

Strong business performance across all verticals to drive revenue growth in long run

After reeling from the pressures of a volume decline in the last 10 months, the domestic tractor industry has been experiencing a better take off since the start of festive season which is expected to continue. At the same time, key triggers such as increasing non-agri usage, likely government's subsidies in 2HFY20, changing dynamics of the industry and favourable monsoons is expected to recover the tractor sales in FY21. Along with that, other business verticals are expected to clock a good performance as well with the improving cost structure in construction equipment business, better traction in high-margin railway segment and the expected pick up in construction activities. All of these factors coupled with a rising order book point towards a probable a strong revenue growth.

Cost rationalization initiatives to improve operating margins

Escorts is focussed on improving its profitability and has implemented various cost rationalisation exercises over the last few years. Raw material costs have been reduced across divisions through vendor consolidation, price renegotiation, product redesigning and other value analysis/value engineering (VAVE) efforts. Company's operating profit margins improved significantly over the three years, benefitting from economies of scale and savings on account of various cost reduction measures.

Valuation and outlook

Escorts being a prominent player in tractor industry and construction equipments has gained a surplus traction domestically as well as globally over the decades. Company's strategical move to role out capex plans towards new product development, capacity expansion and investment plans in joint ventures through their internal accruals helps to maintain a strong credit profile and growth visibility. Taking all into consideration, we expect revenue and PAT to grow at a CAGR of 3% and 5% respectively over FY19-21E. Owing to above factors, We have valued the stock by assigning 17x P/E multiple on FY21E with a BUY rating on this stock for target of INR.726.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook Positive

Stock

CMP (INR)	623
Target Price (INR)	726
NSE Symbol	ESCORTS
Bloomberg	ESC IN
Reuters	ESCO.BO

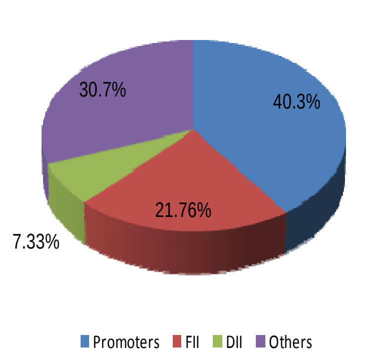
Key Data

Nifty	12,272
52WeekH/L(INR)	833/423
O/s Shares (Mn)	122.6
Market Cap (INR bn)	76
Face Value (INR)	10

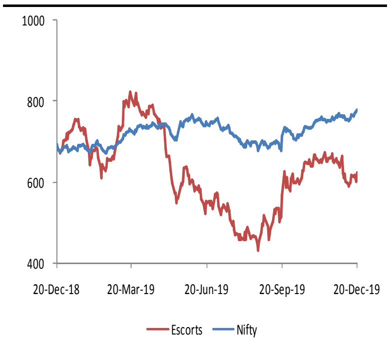
Average volume

3 months	30,92,290
6 months	30,25,880
1 year	25,49,840

Share Holding Pattern (%)



Relative Price Chart



Key Financials					
YE March (Rs. mn)	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Total Income	**41,471**	**50,010**	**61,992**	**59,884**	**65,154**
Revenue Growth (Y-oY)	*19.5%*	*20.6%*	*24.0%*	*(3.4%)*	*8.8%*
Profit Before Tax	**2,764**	**5,516**	**7,161**	**6,168**	**7,428**
Growth (Y-o-Y)	*207.8%*	*99.6%*	*29.8%*	*(13.9%)*	*20.4%*
Net Profit	**1,604**	**3,447**	**4,849**	**4,491**	**5,343**
Net Profit Growth (Y-o-Y)	*91.6%*	*114.9%*	*40.7%*	*(7.4%)*	*19.0%*
EPS	**13.1**	**28.1**	**39.6**	**36.6**	**43.6**
Diluted EPS Growth (Y-o-Y)	*106.3%*	*114.9%*	*40.7%*	*(7.4%)*	*19.0%*
Key Ratios					
EBIDTA (%)	**6.7%**	**11.0%**	**11.6%**	**10.3%**	**11.4%**
NPM (%)	3.9%	6.9%	7.8%	7.5%	8.2%
RoE (%)	**8.1%**	**13.5%**	**16.0%**	**12.9%**	**13.3%**
RoCE (%)	13.8%	21.5%	23.5%	17.6%	18.4%
Valuation Ratios					
P/E (x)	**48.2x**	**22.4x**	**16.0x**	**17.2x**	**14.5x**
EV/EBITDA	27.9x	14.0x	10.8x	12.5x	10.4x
P/BV (x)	**3.9x**	**3.0x**	**2.6x**	**2.2x**	**1.9x**
Market Cap. / Sales (x)	1.9x	1.5x	1.2x	1.3x	1.2x

Source: Company, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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