

SPECIAL REPORT

TECHNO FUNDA



BP WEALTH

07th July, 2023

Technical View (Daily Chart)



Technical View

Source: TradingView

- ⇒ It is perceptible from the positive slope with higher highs and lows that the primary price action is trending relatively stronger.
- ⇒ As the price action has been trending upward from the lows in 2011, every major dips has shrunk by time and depth of the price.
- ⇒ Hence the higher highs and higher lows within the primary trend not only indicates a positive trend, but also smart hands participation.
- ⇒ As the price corrected 23% from the life-highs of 2358 levels, the pattern analysis on the daily timeframe shows that the price action is trading in a potential cup and handle schematic.
- ⇒ The price action has relatively stronger support near 2145 levels off the polarity support.
- ⇒ The moving average cloud has been acting as support reference amidst the trend where the drawdowns have been limited to average.
- ⇒ Apart from bolstering support to the price action, it also indicates the shorter term to be bullish.
- ⇒ 50 period comparative volatility is trading at lower levels which indicates that any unruly move is less likely.
- ⇒ The RSI across daily, weekly and monthly timeframe are trading above their 60 readings respectively which indicates room for further thrust in the price momentum.
- ⇒ We reiterate a buy between CMP-2180 for a 17% upside for the target of 2588 and stop loss at 2070.

Fundamental View

Company Overview

Escorts Kubota Ltd. (EKL) is one of the leading engineering conglomerates in India involved in the manufacturing of farming and construction equipment. The company has in-house research and development centre and collaborations with global technology leaders. They have three business divisions consisting of agri-machinery which involves tractors, engines, spare parts and lubes. The other is the construction equipment division which manufactures material handling, road compaction and earth-moving equipment. The third division is the railway equipment division which manufactures brake systems, couplers, suspension systems, friction & rubber products. All the above equipment is manufactured at six plants located in the state of Haryana.

Key Investment Thesis

- ⇒ The total tractor industry volume, domestic and exports, in FY23 went up by 10.2% to 10.7 lakh units compared to 9.7 lakh units in FY22. This is a new record for the tractor industry, beating the last peak of 9.88 lakh units in FY21. The domestic tractor industry went up by 12.2% to a record 9.45 lakh units in FY23 compared to 8.4 lakh units in FY22.
- ⇒ EKL's total volume went up by 9.7% to 1,03,290 tractors in FY23 as against 94,228 tractors in FY22 while maintaining its market share at 9.7%. It is worthwhile to note that this is the second time that the company has crossed 1 lakh plus tractor sales units. Their domestic tractor volume went up by 9.4% to 95,266 units in FY23 as against 87,043 units in FY22.
- ⇒ For its agri-machinery business, EKL has a 1,200+ dealer count and continue to focus on channel expansion to cover the white spaces for both Powertrac and Farmtrac brand.
- ⇒ FY24, EKL expects the domestic tractor segment to do well and may register mid-single-digit growth, led by positive factors such as good rabi harvest, improved crop prices and adequate water level reservoir.
- ⇒ In the construction equipment business, the outlook remains strong on account of sustained demand supported by the government's continued thrust across all infrastructure avenues. Thus, the company expects the demand momentum to continue going forward.
- ⇒ In the railway division, the company had a healthy order book of more than Rs. 1,000 crores in FY23 which was the highest in the company's history. With the company's strategic focus on product diversification and export, they expect the railway equipment business segment to continue growth in double digits in FY24.

Outlook

The company has sustained operational performance and market position across diversified business divisions which is likely to generate healthy revenues and profitability going forward. EKL's margins remained impacted mainly in its agri-division owing to the inflationary pressures on input costs, and an unfavourable product mix. We expect margins to improve in FY24 on account of softening in commodity prices and a reduction in inflationary pressures across the globe. EKL is also likely to benefit from the global supply chain of Kubota, leading to an increase in exports over the medium term. The company also has plans to increase its manufacturing capacity to three lakh tractors per annum by FY28. The capex is likely to be funded only through existing cash balances and internal accruals which will create value for shareholders going forward. Thus, our outlook for the company remains positive.

Execution Data

Target (Rs)	2588
Stop loss (Rs)	2070
Buying Range (Rs)	CMP-2211
Last Close Price (Rs)	2243
% change Weekly	-0.24%

Weekly Oscillator Direction

10 MMA	UPWARD
20 MMA	UPWARD
50 MMA	UPWARD
RSI	BUY MODE
MACD	BUY MODE

Sector Outlook Neutral

Stock

BSE code	500495
NSE Symbol	ESCORTS
Bloomberg	ESCORTS IN
Reuters	ESCO.BO

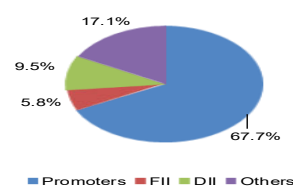
Key Data

Nifty	19,497
52WeekH/L(Rs)	2358 / 1502
O/s Shares (mn)	111
Market Cap (Rs bn)	248
Face Value (Rs)	10

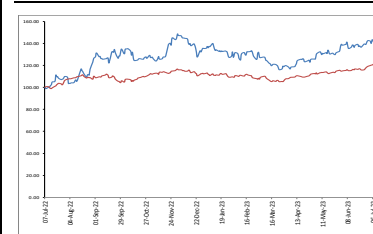
Average volume

3 months	2,98,480
6 months	2,87,660
1 year	4,50,470

Share Holding Pattern (%)



Relative Price Chart



Automobiles

Key Financials

YE March (Rs. crores)	FY19	FY20	FY21	FY22	FY23
Revenue from Operations	6,262.0	5,810.0	7,014.0	7,283.0	8,429.0
<i>Revenue Growth (Y-o-Y)</i>		(7.2%)	20.7%	3.8%	15.7%
EBIDTA	725.0	662.0	1,127.0	996.0	778.0
<i>EBIDTA Growth (Y-o-Y)</i>		(8.7%)	(70.2%)	(427.0%)	(86.9%)
Net Profit	478.0	625.0	1,155.0	736.0	637.0
<i>Net Profit Growth (Y-o-Y)</i>		30.8%	84.8%	(36.3%)	(13.5%)
EPS	55.8	55.0	92.2	74.1	58.9
<i>Diluted EPS Growth (Y-o-Y)</i>		(1.4%)	67.6%	(19.7%)	(20.5%)

Key Ratios

EBIDTA Margin (%)	11.6%	11.4%	16.1%	13.7%	9.2%
NPM (%)	7.6%	10.8%	16.5%	10.1%	7.6%
RoE (%)	19.2%	16.5%	21.3%	11.5%	7.5%
RoCE (%)	18.6%	20.8%	28.4%	16.2%	11.2%
P/E (x)	39.6x	40.2x	24.0x	29.9x	37.5x

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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