

**SELL**

TP: Rs 1,030 | ▼ 9%

**ESCORTS**

| Auto Components

| 31 July 2020

## Growth levers priced in; initiate with SELL

**Escorts (ESC) is the third largest tractor manufacturer in India, commanding ~11% market share in the ~800,000-unit p.a. tractor industry. A successful rabi harvest, expectations of a normal monsoon, signs of stronger kharif cultivation and aggressive tractor financing are harbingers of growth. This coupled with capacity expansion via the Kubota JV would augment volumes. That said, the 100% stock rally in the past four months prices in most of these positives, leading us to initiate with SELL. Our Sep'21 TP of Rs 1,030 is set at 19x one-year fwd EPS.**

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**Rural recovery, Kubota partnership to catalyse growth:** After a successful rabi (winter) crop harvest, there are early signs of stronger kharif (summer) cultivation as well. ESC, a key player in the agriculture belts of Central and North India (~18% market share), will be a direct beneficiary. This, along with its initial investment of Rs 1.2bn in the Rs 3bn JV with Kubota-Japan for 40% stake in a new 50,000-tractor capacity in Faridabad, will act as the next catalyst for growth.

Ticker/Price	ESC IN/Rs 1,130
Market cap	US\$ 1.8bn
Shares o/s	123mn
3M ADV	US\$ 39.9mn
52wk high/low	Rs 1,210/Rs 423
Promoter/FPI/DII	40%/20%/10%

Source: NSE

**Transformative strategy unfolding:** ESC is strategising to transform from a tractor manufacturer to an agri-service provider. The company intends to provide complete crop solutions by offering implements and knowhow to farmers, and has pilot projects running in Odisha and Andhra Pradesh. ESC also plans to introduce an Uber-like model for tractors that makes mechanised solutions more affordable for small-scale farmers, besides laying the groundwork for commercial production of its first electric tractor.

## STOCK PERFORMANCE



Source: NSE

**Valuations full:** We expect a revenue/EBITDA/PAT CAGR of 7%/9%/13% over FY20–FY23. Segment-wise, we pencil in a revenue CAGR of 8% for tractors (77% revenue share), –3% for construction equipment, and 13% for the railway business. The stock rally has taken valuations to ~23x FY22E EPS, pricing in most positives. Our TP of Rs 1,030 is set at 19x Sep'22E EPS. Initiate with SELL.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	62,620	57,610	54,885	62,442	70,207
EBITDA (Rs mn)	7,226	6,758	6,829	7,869	8,837
Adj. net profit (Rs mn)	4,789	4,948	5,174	6,135	7,089
Adj. EPS (Rs)	39.1	40.4	42.2	50.1	57.8
Adj. EPS growth (%)	38.0	3.3	4.6	18.6	15.5
Adj. ROAE (%)	17.9	14.2	12.2	12.7	12.9
Adj. P/E (x)	28.9	28.0	26.8	22.6	19.5
EV/EBITDA (x)	18.8	20.1	19.9	17.0	15.2

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.

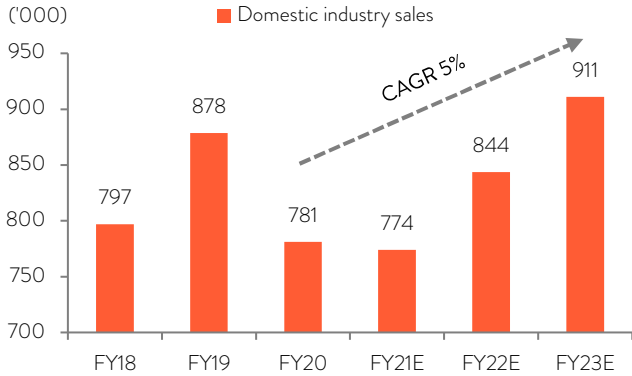


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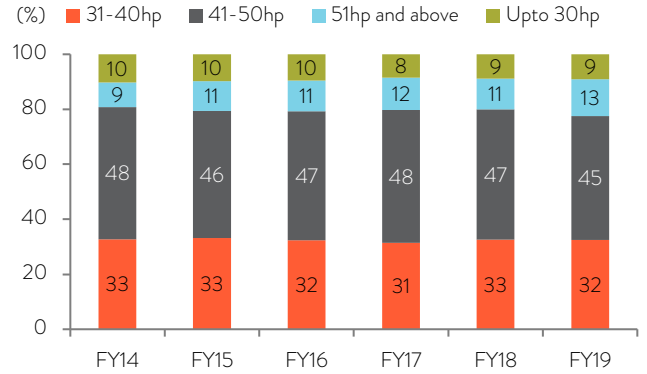
**Focus charts**

**FIG 1 – TRACTOR INDUSTRY VOLUMES EXPECTED TO LOG 5% CAGR OVER FY20-FY23E**



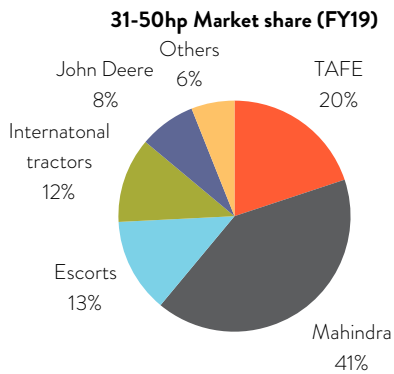
Source: Company, BOBCAPS Research

**FIG 2 – INDUSTRY HP MIX – 51HP+ THE ONLY SEGMENT SHOWING STEADY GROWTH**



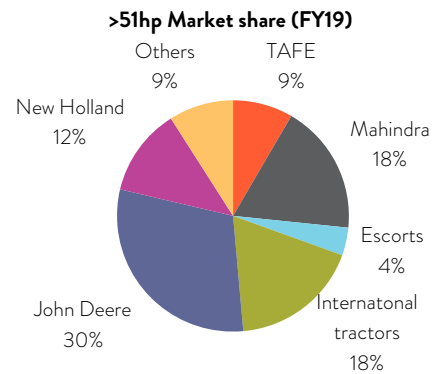
Source: Company, BOBCAPS Research, Tractor Manufacturers association

**FIG 3 – ESC’S PRIME AREA OF FOCUS REMAINS IN 31-50HP TRACTORS**



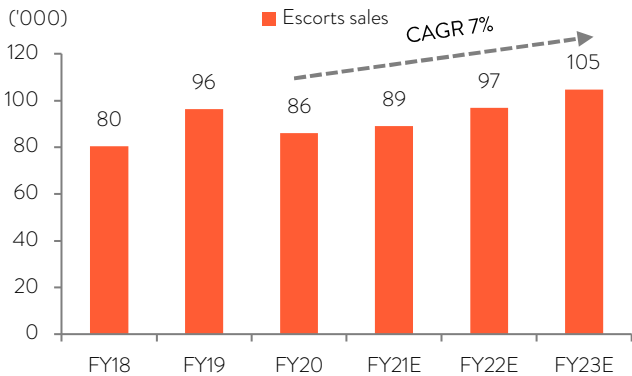
Source: Company, BOBCAPS Research, Tractor Manufacturers association

**FIG 4 – ...AND MAY UNDERPERFORM IN TRACTORS IF GROWTH IN THE >51HP SEGMENT PICKS UP**



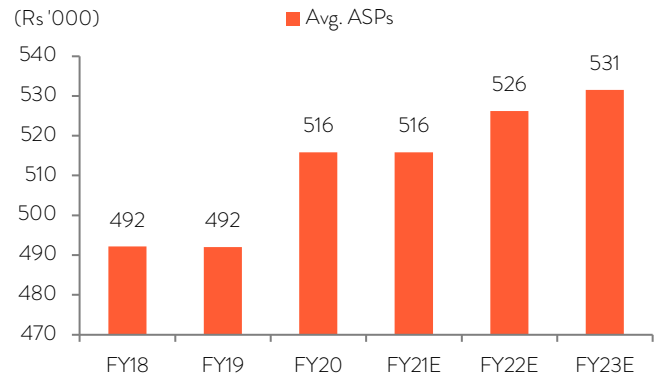
Source: Company, BOBCAPS Research, Tractor Manufacturers association

**FIG 5 – ESC’S VOLUMES PROJECTED TO CLOCK HIGHER 7% CAGR**



Source: Company, BOBCAPS Research

**FIG 6 – AVG. REALISATION TO BE FLATTISH IN FY21E ON HIGHER SHARE OF LOWER-HP TRACTOR SALES**



Source: Company, BOBCAPS Research

## Investment rationale

### Key drivers in place for strong tractor demand

ESC is the third largest tractor manufacturer in India commanding ~11% market share in an ~800,000-unit p.a. industry. A healthy outlook on agricultural output, an augmented product slate, aggressive tractor financing and geographic expansion are among the primary growth drivers for the company. We model for an 8% revenue CAGR in ESC’s tractor business over FY20-FY23.

- Healthy agri output:** Sowing data released by India’s agriculture ministry shows that the area under rabi cultivation has risen 7% YoY from 53.5mn hectares sown last year to 57.1mn hectares. Water levels have remained adequate and the onset of a normal monsoon should ensure robust kharif cultivation. ESC, a key player in the agri belts of Central and North India with 18-20% regional market share and 77% of revenues derived from agricultural machinery (primarily tractors), will be a direct beneficiary.
- Enhanced product bouquet:** The ‘Farmtrac’ and ‘Powertrac’ brands have been the face of ESC’s tractors. During the last few years, the company has aggressively added new products under these brands, thus broadening its portfolio. Most of its offerings are now in line with market leaders in the segment. ESC has also entered into a strategic alliance with Rajkot-based Adico Group for manufacturing sub-20hp tractors.

To strengthen its presence in Maharashtra and South India, ESC has launched specialised tractors for orchards and rice plantations (in southern markets), as well as a midrange model christened ‘ALT 41-50hp’.

**FIG 7 – BRAND MIX: FARMTRAC VS. POWERTRAC**



Source: Company, BOBCAPS Research

- Deeper market penetration:** In FY20, ESC maintained its pan-India tractor market share at ~11%. It enjoys 18-20% share in North India, but only ~5% in South India. ESC’s strongholds are the states of Punjab, Haryana, Rajasthan, Uttar Pradesh, Madhya Pradesh and Bihar. The company has identified opportunities in the southern region and is focused on expanding market share through newer launches and rationalising of dealerships.

Growth is being targeted in states such as Andhra Pradesh, Maharashtra, Gujarat, Tamil Nadu and Karnataka, which ESC refers to as the ‘Opportunity Market’. At present, cumulative market share in these states stands at ~5%. The company has ~1,000 dealerships across India with ~30% located in its opportunity market. Strong dealership expansion is planned for these areas.

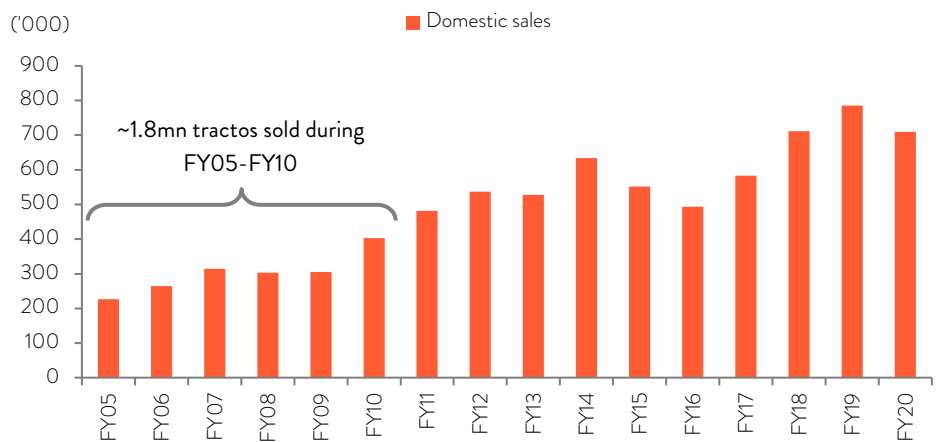
**DEALER COUNT OF PEERS**

Company	Dealerships
Escorts	1,017
Mahindra	1,400
TAFE	950
Sonalika	870

Source: Company, BOBCAPS Research, Media

- High levels of vehicle financing:** As far as tractor financing goes, our channel checks in Rajasthan, Uttar Pradesh and Madhya Pradesh suggest that close to 95% of the on-road cost is financed if the buyer’s credit history is sound. On average, this number settles at ~85%.
- Large discounts on offer:** Discounts, another key driver of sales, remain high – in the range of 6-7% of the tractor price. Our channel checks show that freebies range from a 100cc motorcycle offered on purchase of a 40hp tractor to cash discounts of Rs 30,000-35,000.
- Robust replacement demand:** In mature markets, vehicle replacement begins in 5-6 years. In India, the life of a tractor is ~12 years. As per industry data, ~1.8mn tractors were sold in the domestic market during FY05- FY10. Most of these will now enter the replacement cycle.

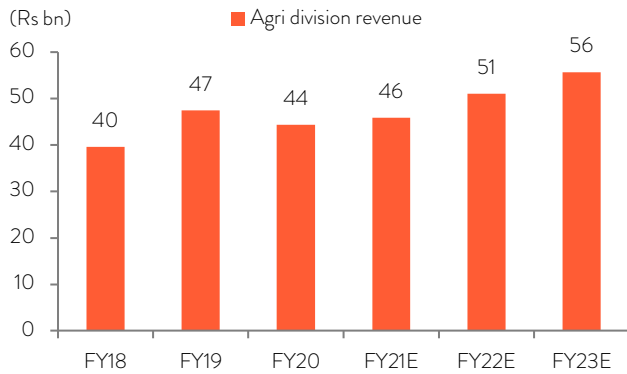
**FIG 8 – ~1.8MN TRACTORS AVAILABLE FOR REPLACEMENT**



Source: Company, BOBCAPS Research, Tractor Manufacturer Association

- Emphasis on exports:** ESC intends to focus explicitly on its export strategy and reach newer markets. The company believes Africa could be a strong potential market. It has launched newer products in the >75hp category only for international markets. The target is to export ~10k units annually by FY23.

**FIG 9 – AGRI DIVISION REVENUE**



Source: Company, BOBCAPS Research

**FIG 10 – AGRI DIVISION EBIT**



Source: Company, BOBCAPS Research

### Joint venture with Kubota to energise growth

The 60:40 JV between Japan-based Kubota and ESC is for brownfield expansion at the latter’s existing premises (earlier the auto ancillary division) at a capex of Rs 3bn (ESC’s share Rs 1.2bn). This will add a 50,000-tractor capacity with commercial production to start in FY21. ESC has rented out 18 acres of its own land for the JV setup which will generate Rs 80mn in other income.

Kubota has 1,500 dealers in the US – this eases the challenges to market entry as ESC will be routing its US sales through the Japanese partner’s distribution channels. Management has guided for 10,000 tractors in the export market by FY23.

### Transformative strategy unfolding

ESC is strategising to transform from a tractor manufacturer to an agri-service provider. The company intends to provide complete crop solutions by offering implements and knowhow to farmers, and has pilot projects running in Odisha and Andhra Pradesh.

It also plans to introduce an Uber-like model for tractors that makes mechanised solutions more affordable for small-scale farmers, besides laying the groundwork for commercial production of its first electric tractor. Notably, management is aggressively targeting the digital agri space with timely initiatives that will go a long way toward brand building and driving market share.

Some key initiatives are as follows:

- **48-hour Parts:** Spare parts will be delivered to customers/dealers within 48 hours across India, in partnership with GATI. Spares will be provided free of charge if the deadline isn't met.
- **Care Button:** An added feature in upcoming tractors, the care button is meant to offer aid to farmers facing technical tractor issues. It generates a call from the technical team to the farmer's mobile phone to understand and resolve the problem at the earliest. Reliance Jio has built the enterprise solution for this, partnering with Motherson Sumi.
- **TRAXI:** This is a digital platform meant to bring about 'Uberisation' of the tractor. As tractors are not used by the owners at all times, they can be rented out to marginal farmers. TRAXI has converted this rental tractor market into an organised segment that helps small farmers lease tractors with ease. A pilot for the same has started in Mathura (UP) and Faridabad (Haryana).
- **MolAnmol:** Farmers trade in their tractors every 10-12 years. 'MolAnmol' is an exchange programme that helps them get the best price for their old tractor.
- **Digitrac:** This is a website that enables farmers to customise and order a tractor online. ESC, in turn, can penetrate markets faster without the additional cost of opening a dealership. Pilot testing is currently underway in regions of Punjab.

## Other businesses on a steady wicket

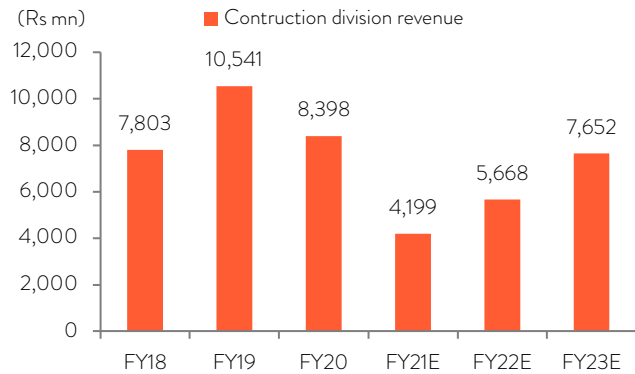
### Construction equipment margins to improve

Construction equipment contributed Rs 8bn to ESC's revenue in FY20 (~15% share) and earned a ~3% EBIT margin. ESC manufactures and markets a diverse range of construction and material handling equipment, including cranes, loaders, vibratory rollers and forklifts. The company was a pioneer in introducing the concept of Pick-n-Carry hydraulic mobile cranes in India in the 1970s and continues to be the world's largest manufacturer of these cranes. It currently commands 40%+ market share for this product in India.

ESC's JV with an Italian company will help ensure superior quality and also stable margins in the construction equipment segment. The company recently launched several new products, including the 'Jungli' 4X4 backhoe loader for mining purposes and pick-n-carry cranes such as the 'CT Smart 15' with a low turning radius for smart cities and the 'Hydra 14EX Plus'.

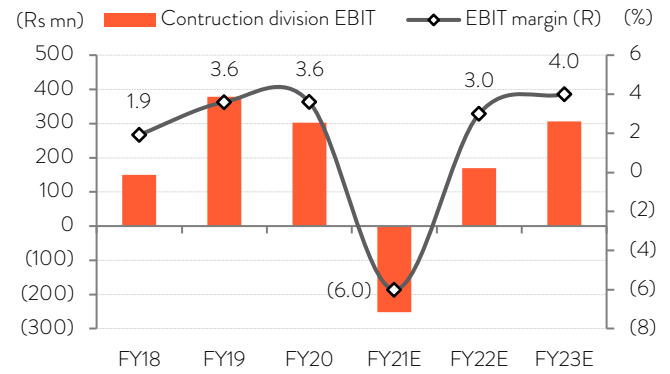
Current capacity utilisation in the segment is low with sales volume of 1,500 units against installed capacity of 10,000 units per annum. Also, despite a strong government focus on infrastructure activities, we expect revenues from the business to decline at a CAGR of ~3% during FY20-FY23 due to the economic slowdown. But with new product launches and better cost management in the segment, management expects margins to improve.

**FIG 11 – CONSTRUCTION DIVISION REVENUE**



Source: Company, BOBCAPS Research

**FIG 12 – CONSTRUCTION DIVISION EBIT**



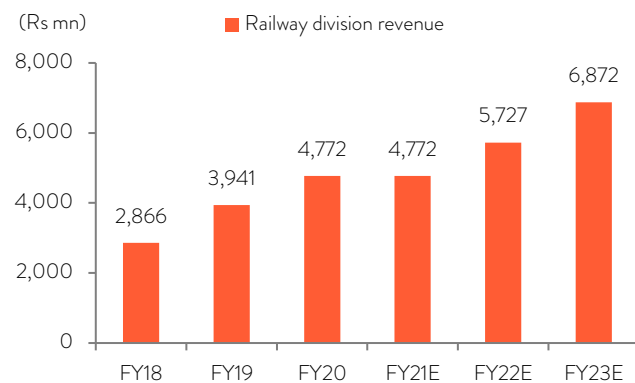
Source: Company, BOBCAPS Research

**Railway components – the steady line of business**

In FY20, the railway segment accounted for ~8% (Rs 4.8bn) of the company’s revenue and clocked healthy EBIT margins of 18%. ESC manufactures critical railway systems aimed at safety and comfort. It was the first to commence manufacturing compressed air brake systems for railway applications in India and currently has a market share of over 40%. The existing product portfolio consists of brakes, couplers, brake pads and suspension units, among others.

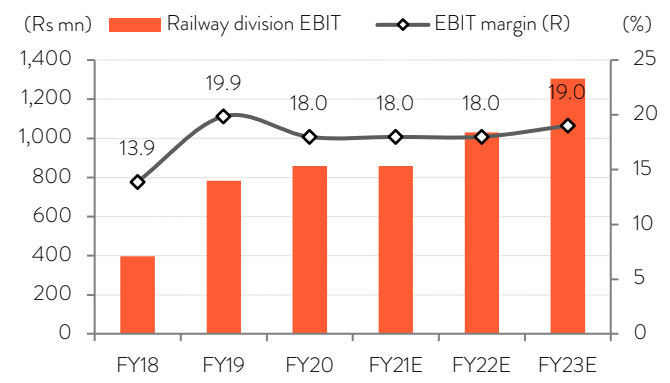
So far, the company has been growing organically but is now ready to capture inorganic opportunities in the industry. We expect a revenue CAGR of 13% over FY20-FY23 and believe margins could sustain at 18-19% for this vertical.

**FIG 13 – RAILWAY DIVISION REVENUE**



Source: Company, BOBCAPS Research

**FIG 14 – RAILWAY DIVISION EBIT**



Source: Company, BOBCAPS Research



## Tractor industry profile

### Indian tractor market the biggest in the world

Agriculture has always been a key sector of India's economy, in turn fuelling the largest tractor market in the world. Agriculture currently contributes ~17% of Indian GDP, accounts for ~13% of exports and is growing at an average of 2.2%. India is the largest producer of pulses, second largest producer of rice, wheat, vegetables, groundnuts and fruits, and third largest producer of coarse grains in the world. In 2020, the rabi (winter) crop sowing area has increased to 57.1mn hectares from 53.5mn hectares the previous year.

The Indian tractor industry has developed over the years to become the largest in the world. From just about 50,000 units in the early eighties, it has grown to over 800,000 units per annum due to the increased use of tractors, not only for agriculture but for haulage and non-agricultural applications. The opportunities are still immense considering the low farm mechanisation levels in the country when compared to other developed markets. Key industry players are M&M (~41% market share), TAFE (~21%), ESC (~11%) and Sonalika (~11%).

### Expect 5% volume CAGR through FY23

India's tractor industry volumes declined ~11% in FY20 to ~781,000 units against ~879,000 units in FY19. Key reasons for this underperformance were (1) the NBFC crisis that led to a pullback of aggressive financing, (2) a high base effect, and (3) slowdown in the economy due in part to Covid-19.

We estimate an industry volume CAGR of 5% during FY20-FY23. However, prolonged extension of lockdown restrictions due to the pandemic and a continued halt in mining, road and other construction activities would hurt demand. Also, a spurt in farmer demand would adversely impact the sales mix as agriculture requires cheaper, lower powered tractors.

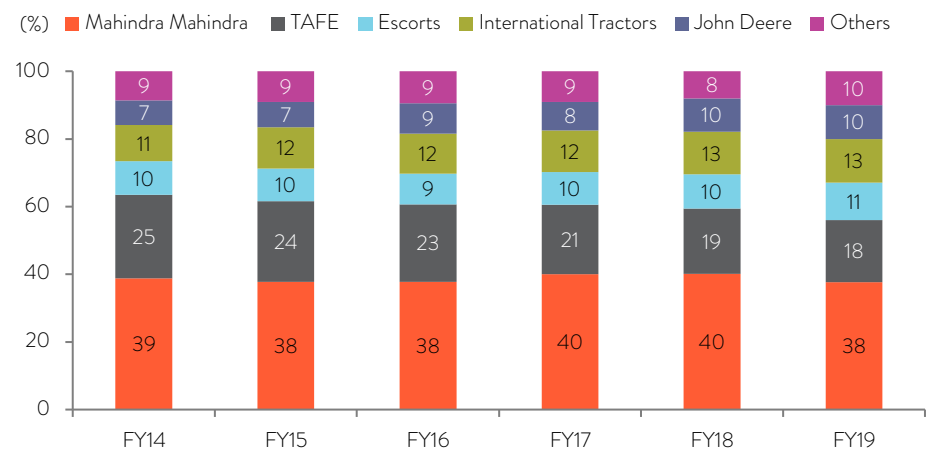
### Market share mix – ESC focusing on 31-40hp category

- **31-40hp:** Our channel checks with dealers suggest that the highest demand comes from the 31-40hp tractor category where ESC has 16% market share and is the No. 3 player. This clearly explains the company's outperformance in the past few months.
- **41-50hp:** The industry volume share of 41-50hp products has come off from 48% to 45% over the last 5-6 years. ESC commands 10% share in this category, in line with its overall market share.

- **>51hp:** Sales of high-powered >51hp tractors depend on pick-up in activities beyond agriculture, such as mining and construction. Dealers are not seeing much demand due to the current slowdown in these activities.

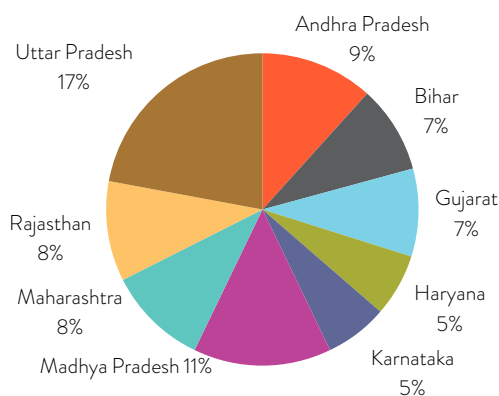
Over the past few years, the industry volume share of this segment has moved up from 9% to 13%, clearly signaling that India is also migrating to higher HP usage. ESC commands only 4% market share here. As the economy and hence >51hp demand revives, the company runs the risk of underperformance due to lower market share in this segment.

**FIG 15 – MARKET SHARE – MOST PLAYERS HAVE HAD STEADY MARKET SHARE OVER THE PAST FEW YEARS, BARRING TAFE**



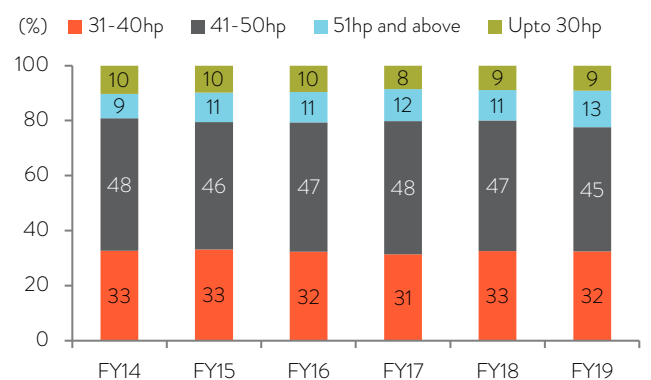
Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 16 – TOP 9 STATES COMMAND ~77% OF TOTAL SALES IN INDIA**



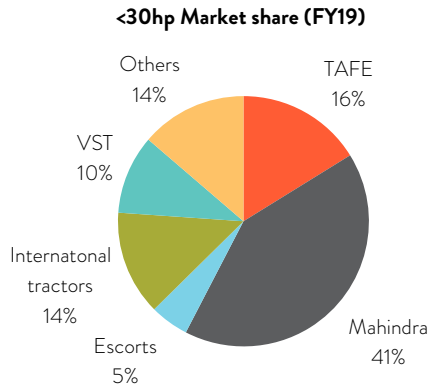
Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 17 – 51HP+ THE ONLY SEGMENT SHOWING STEADY GROWTH**



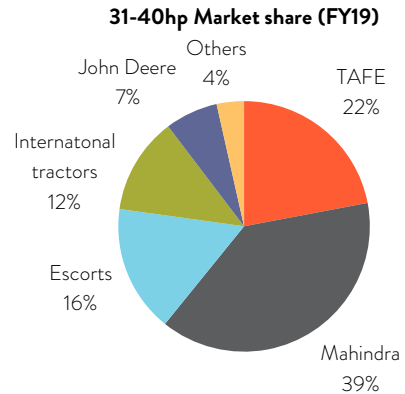
Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 18 – ESC HAS CLEARLY MOVED OUT OF <30HP SEGMENT**



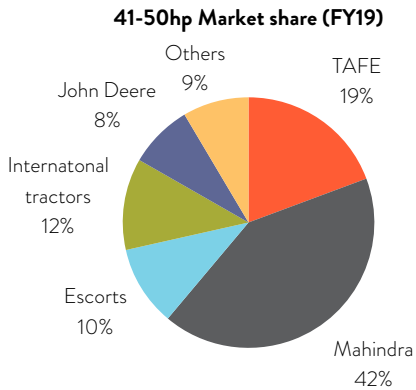
Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 19 – HIGHER SEGMENT SHARE IN 31-40HP -A PRIME REASON FOR ESC'S OUTPERFORMANCE**



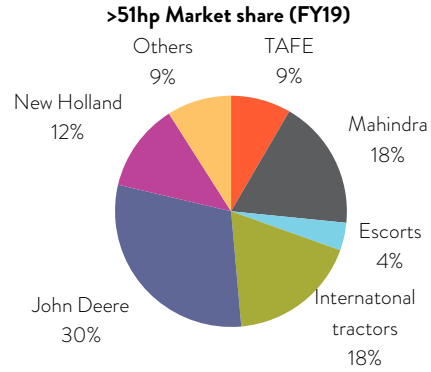
Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 20 – ESC'S SHARE IN 41-50HP SEGMENT IN LINE WITH ITS OVERALL MARKET SHARE**



Source: Company, BOBCAPS Research, Tractor Manufacturer Association

**FIG 21 – ESC MAY UNDERPERFORM IN TRACTORS IF GROWTH IN THE SEGMENT PICKS UP**



Source: Company, BOBCAPS Research, Tractor Manufacturer Association

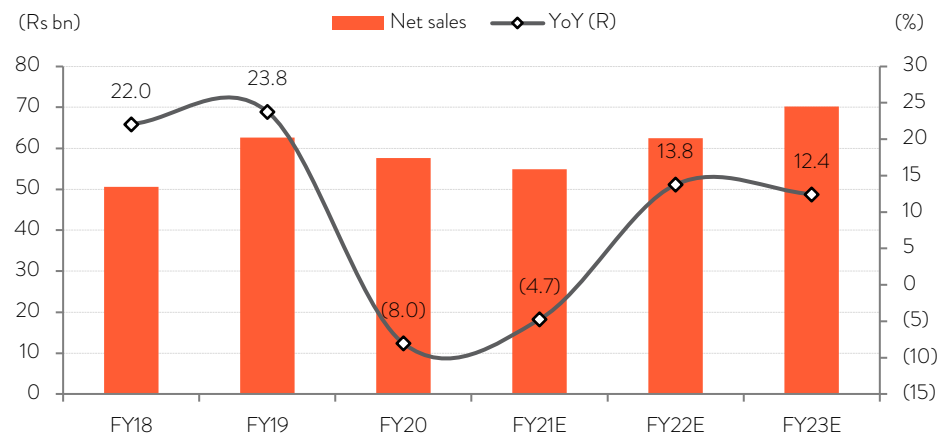
## Financial review

### Expect 7% revenue CAGR

We believe ESC’s tractor division will outperform our industry volume growth estimate of 5% and log a 7% CAGR during FY20-FY23 as it embarks on a transformative growth strategy. Average realisation is projected to be muted in FY21 given that more tractors are likely to be sold for agricultural (lower-HP products) rather than construction purposes amid the ongoing Covid-19 crisis. We model for an 8% revenue CAGR in ESC’s tractor business over our forecast period.

Despite a government focus on higher infrastructure spends to boost the economy, we believe ESC will witness a negative 3% CAGR in its construction equipment business through to FY23. The railway component division continues to witness strong, steady growth – we estimate a 13% revenue CAGR. This translates to an overall 7% CAGR for the company.

**FIG 22 – REVENUE GROWTH TREND**



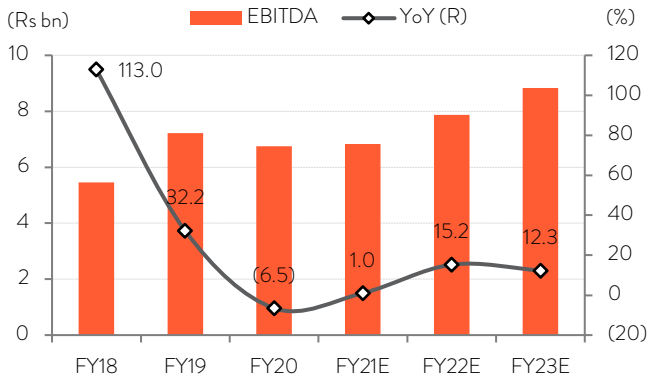
Source: Company, BOBCAPS Research

### Strong margins to aid 13% PAT CAGR

We expect EBIT margins to remain steady at ~14% in the tractor business, hover at low single digits in the construction equipment segment, and hold strong at 18-19% in railway components. Accordingly, we factor in blended margins of ~13% and a 9% EBITDA CAGR over FY20-FY23.

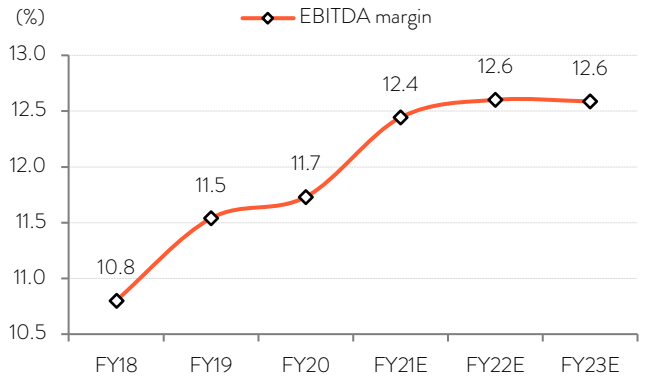
The improved operating performance is projected to flow into profits, aiding a 13% CAGR in PAT. Our estimate includes higher other income from the rent that ESC will receive from use of its erstwhile auto ancillary premises by the Kubota JV.

**FIG 23 – EBITDA GROWTH TREND**



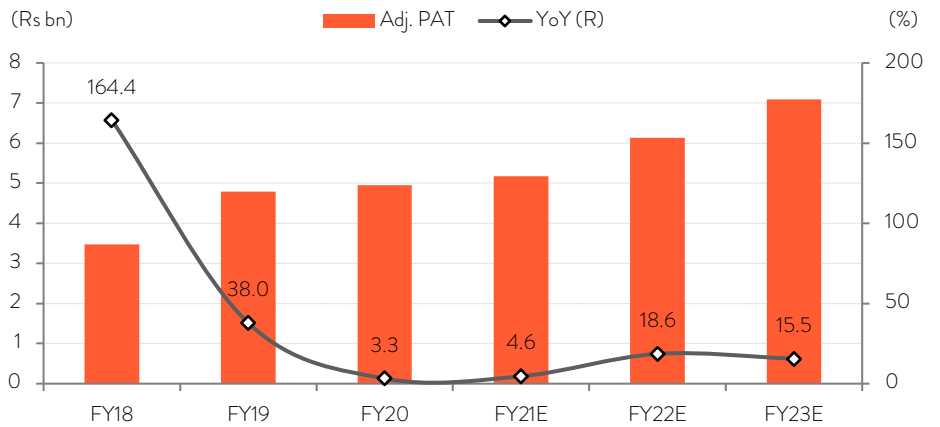
Source: Company, BOBCAPS Research

**FIG 24 – EBITDA MARGIN TREND**



Source: Company, BOBCAPS Research

**FIG 25 – PAT GROWTH TREND**



Source: Company, BOBCAPS Research

**FIG 26 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net sales</b>	<b>15,113</b>	<b>13,984</b>	<b>16,551</b>	<b>16,317</b>	<b>14,230</b>	<b>13,239</b>	<b>16,334</b>	<b>13,807</b>	<b>10,616</b>
YoY (%)	32.3	15.4	37.3	13.6	(5.8)	(5.3)	(1.3)	(15.4)	(25.4)
QoQ (%)	5.2	(7.5)	18.4	(1.4)	(12.8)	(7.0)	23.4	(15.5)	(23.1)
Other income	170	221	244	173	167	211	267	278	298
<b>Expenditure</b>									
(Inc)/dec in stock-in-trade	(830)	(1,677)	98	373	1,551	(862)	970	(1,672)	2,416
Raw Materials	11,050	11,116	11,414	10,854	8,266	9,733	9,946	10,264	4,712
% of sales	67.6	67.5	69.6	68.8	69.0	67.0	66.8	62.2	67.1
YoY (%)	31.0	16.8	43.6	16.0	(3.9)	(6.0)	(5.2)	(23.5)	(27.4)
QoQ (%)	5.6	(7.6)	22.0	(2.5)	(12.6)	(9.6)	23.1	(21.3)	(17.0)
Staff cost	1,211	1,130	1,196	1,180	1,226	1,253	1,329	1,295	1,262
% of sales	8.0	8.1	7.2	7.2	8.6	9.5	8.1	9.4	11.9
YoY (%)	5.0	(11.6)	14.1	8.0	1.3	10.9	11.2	9.7	3.0
QoQ (%)	10.8	(6.7)	5.8	(1.3)	3.8	2.3	6.1	(2.6)	(2.5)
Other expenditure	1,828	1,839	1,837	2,012	1,763	1,847	1,967	1,975	1,031
% of sales	12.1	13.2	11.1	12.3	12.4	14.0	12.0	14.3	9.7
YoY (%)	22.5	36.3	19.9	8.5	(3.5)	0.4	7.0	(1.8)	(41.5)
QoQ (%)	(1.5)	0.6	(0.1)	9.5	(12.4)	4.8	6.4	0.4	(47.8)
<b>Total expenses</b>	<b>13,257</b>	<b>12,408</b>	<b>14,546</b>	<b>14,419</b>	<b>12,806</b>	<b>11,972</b>	<b>14,212</b>	<b>11,862</b>	<b>9,420</b>
<b>EBITDA</b>	<b>1,855</b>	<b>1,575</b>	<b>2,005</b>	<b>1,898</b>	<b>1,424</b>	<b>1,267</b>	<b>2,123</b>	<b>1,944</b>	<b>1,196</b>
YoY (%)	90.2	11.8	38.2	9.2	(23.2)	(19.6)	5.9	2.5	(16.0)
QoQ (%)	6.8	(15.1)	27.3	(5.3)	(25.0)	(11.0)	67.5	(8.4)	(38.5)
OPM (%)	12.3	11.3	12.1	11.6	10.0	9.6	13.0	14.1	11.3
Interest	29	39	43	75	59	39	29	28	19
Depreciation	206	215	215	218	241	260	267	278	264
Exceptional items	0	0	109	-	-	(92)	-	-	-
Profit before tax	1,791	1,543	2,100	1,778	1,291	1,087	2,094	1,916	1,211
YoY (%)	94.0	33.2	62.5	3.9	(27.9)	(29.6)	(0.3)	7.7	(6.2)
Provision for taxation	595	516	699	565	417	41	564	512	289
Tax Rate (%)	33.2	33.5	33.3	31.8	32.3	3.8	26.9	26.7	23.9
<b>Adj PAT</b>	<b>1,196</b>	<b>1,027</b>	<b>1,292</b>	<b>1,214</b>	<b>875</b>	<b>1,138</b>	<b>1,531</b>	<b>1,404</b>	<b>922</b>
YoY (%)	90.8	21.6	40.6	7.8	(26.8)	10.8	18.5	15.7	5.3
QoQ (%)	6.2	(14.1)	25.8	(6.1)	(27.9)	30.1	34.5	(8.3)	(34.4)

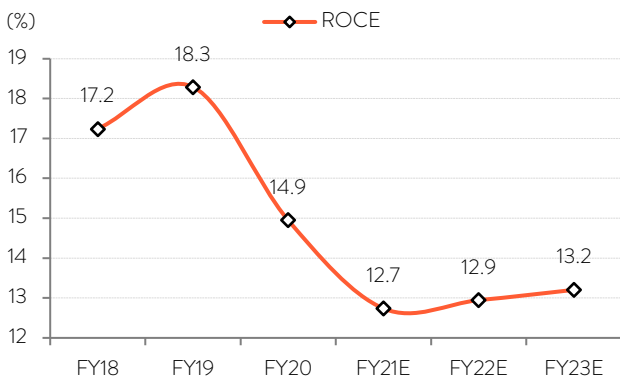
Source: Company, BOBCAPS Research

## Valuation methodology

ESC commands 16% market share in the 31-40hp tractor category where dealers indicate strong demand, explaining the company’s outperformance over the past few months. However, ESC’s low 4% market share in the >51hp segment, which is showing steady growth in industry volume mix, puts it at risk of underperformance as demand revives in higher powered categories alongside economic recovery. We pencil in a revenue/EBITDA/PAT CAGR of 7%/9%/13% for the company over FY20–FY23, with ROCE/ROE estimated to rise to ~13%/~14% by end-FY23.

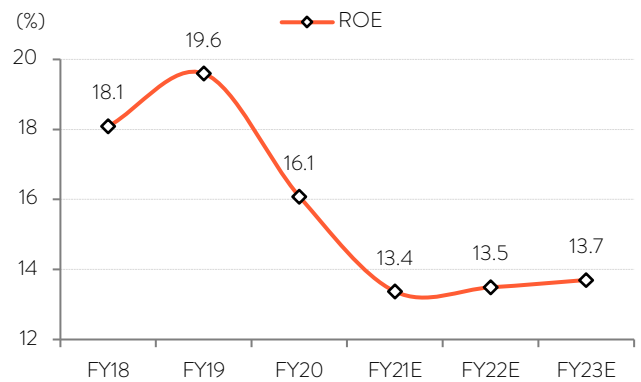
Our Sep’21 target price of Rs 1,030 is set at 19x one-year forward EPS, ahead of the stock’s long-term average due to better growth prospects and an improved balance sheet profile. However, the ~100% rally in share price over the past four months has taken valuations to 23x FY22E EPS, which prices in most positives. Initiate with SELL.

**FIG 27 – ROCE TREND**



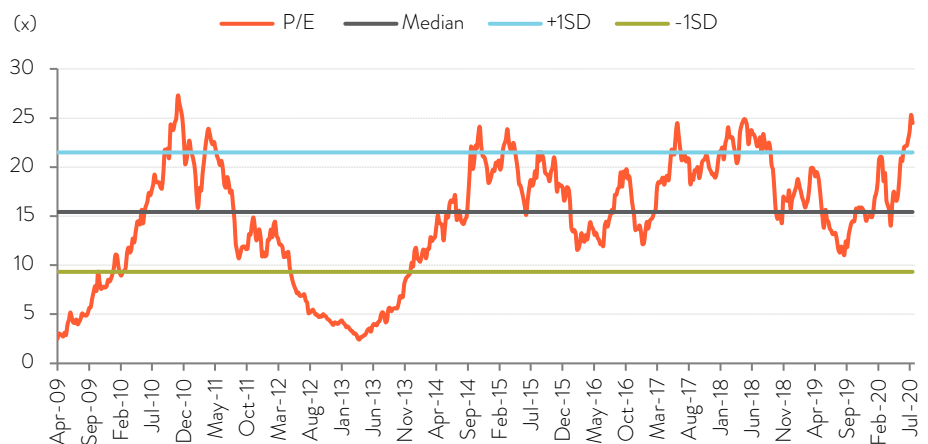
Source: Company, BOBCAPS Research

**FIG 28 – ROE TREND**



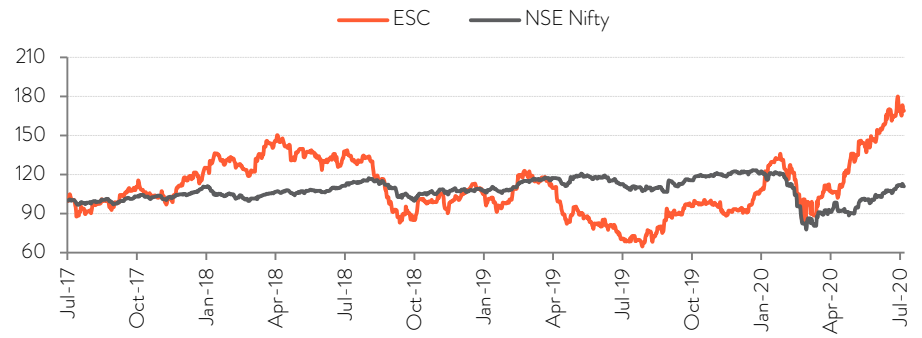
Source: Company, BOBCAPS Research

**FIG 29 – P/E BAND – 5Y AVERAGE AT ~18X ONE-YR FWD**



Source: Company, BOBCAPS Research

**FIG 30 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Above-anticipated volume growth
- Stronger margins in the construction equipment business



## Annexure A: Company profile

Escorts (ESC) is an Indian conglomerate and automotive engineering company that operates in the sectors of agri-machinery, construction & material handling equipment, and railway equipment. Headquartered in Faridabad, Haryana, the company was launched in 1944 and has marketing operations in over 40 countries. Nikhil Nanda is Chairman and Managing Director. ESC manufactures a wide range of tractors, automotive components, railway equipment and construction & material handling equipment.

Escorts Agri Machinery was launched in 1960. The company manufactures tractors under the brand names of Farmtrac, Powertrac and Steeltrac. The current range covers over 45 models ranging from 25hp to 90hp. Escorts Construction Equipment manufactures and markets construction and material handling equipment, including pick-n-carry cranes, backhoe loaders, vibratory rollers and forklifts. The manufacturing and assembly facility is located in Faridabad.

ESC's railway equipment division manufactures and supplies critical components to the Indian Railways – these include air brake systems, EP brake systems, draft gears and couplers, composition brake blocks, dampers and rubber components.

**FIG 1 – A BIRD'S EYE VIEW ON CORPORATE GOVERNANCE**

Name	Designation	Total Remuneration (Rs mn)	No. of board meetings attended	Attended last AGM	Committees (Y/N)/ No of meetings attended			
					1- Audit	2- Nomination & remuneration	3- Stakeholders relationship	4- CSR Committee
Mr Nikhil Nanda	Chairman & MD	113.2	10	Y				Y/2
Mr Hardeep Singh	Director	2.0	10	Y	Y/7	Y/3	Y/1	
Mr PH Ravikumar	Director	1.9	10	Y	Y/7	Y/3		
Mrs Vibha Paul Rishi	Director	1.9	10	Y	Y/7	Y/2	Y/0	
Dr Sutanu Behuria	Director	2.0	10	Y	Y/7	Y/3	Y/1	Y/2
Mr G B Mathur	Director	0.4	8	N				
Ms Nitasha Nanda	Director	32.3	10	Y				
Mr DJ Kakalia	Director	1.5	9	Y				
Mr Shailendra Agrawal	Executive Director	0.6	1	Y				
Mr Ravi Narain	Director	1.9	10	Y	Y/7			Y/2

Source: Company, BOBCAPS Research

**FIG 2 – AUDITORS, CREDIT RATING AND CSR DETAILS**

<b>Auditors</b>	M/s Walker Chandio & Co LLP, Chartered Accountants	
<b>Cost Auditors</b>	M/s Ramanath Iyer & Co	
<b>Credit rating</b>		
Detail of debt	Rating	Rated by
Long term rating	AA-/Stable	ICRA
Short term rating	ICRA A1+	ICRA
Long term rating	CRISIL AA-/Stable	CRISIL
Short term rating	CRISIL A1+	CRISIL
Long term rating	IND AA-/Positive	India Rating & Research
Short term rating	IND A1+	India Rating & Research
<b>CSR</b>		
Prescribed amt (Rs mn)	59.3	
Expensed amt (Rs mn)	61.3	

Source: Company, BOBCAPS Research

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>62,620</b>	<b>57,610</b>	<b>54,885</b>	<b>62,442</b>	<b>70,207</b>
EBITDA	7,226	6,758	6,829	7,869	8,837
Depreciation	872	1,046	1,104	1,163	1,241
EBIT	7,345	6,635	7,018	8,302	9,577
Net interest income/(expenses)	(195)	(155)	(100)	(100)	(100)
Other income/(expenses)	992	923	1,293	1,596	1,981
Exceptional items	(131)	(92)	0	0	0
EBT	7,019	6,388	6,918	8,202	9,477
Income taxes	2,371	1,533	1,743	2,067	2,388
Extraordinary items	(10)	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>4,658</b>	<b>4,855</b>	<b>5,174</b>	<b>6,135</b>	<b>7,089</b>
Adjustments	131	92	0	0	0
<b>Adjusted net profit</b>	<b>4,789</b>	<b>4,948</b>	<b>5,174</b>	<b>6,135</b>	<b>7,089</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	11,055	12,639	12,233	12,199	13,224
Other current liabilities	4,156	1,293	2,968	3,740	3,175
Provisions	1,201	1,557	1,256	1,256	1,256
Debt funds	2,810	1,994	1,994	1,994	1,994
Other liabilities	540	533	533	533	533
Equity capital	1,226	1,226	1,226	1,226	1,226
Reserves & surplus	25,509	33,575	41,358	47,125	53,908
Shareholders' fund	26,735	34,801	42,584	48,351	55,134
<b>Total liabilities and equities</b>	<b>46,497</b>	<b>52,818</b>	<b>61,569</b>	<b>68,073</b>	<b>75,316</b>
Cash and cash eq.	2,433	3,185	4,215	3,614	3,578
Accounts receivables	9,311	7,565	8,270	8,554	9,425
Inventories	8,574	8,222	8,270	8,212	8,848
Other current assets	3,206	3,099	3,216	3,459	3,671
Investments	4,908	11,663	18,663	24,663	29,663
Net fixed assets	16,472	17,019	16,915	17,752	18,511
CWIP	800	1,245	1,200	1,000	800
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(517)	(303)	(303)	(303)	(303)
Other assets	1,366	1,123	1,123	1,123	1,123
<b>Total assets</b>	<b>46,553</b>	<b>52,818</b>	<b>61,569</b>	<b>68,073</b>	<b>75,316</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,661	5,993	6,279	7,298	8,330
Interest expenses	(195)	(155)	(100)	(100)	(100)
Non-cash adjustments	(992)	(923)	(1,293)	(1,596)	(1,981)
Changes in working capital	(7,856)	1,518	98	269	(1,259)
Other operating cash flows	(70)	0	0	0	0
<b>Cash flow from operations</b>	<b>(3,452)</b>	<b>6,434</b>	<b>4,984</b>	<b>5,871</b>	<b>4,989</b>
Capital expenditures	(1,609)	(2,038)	(955)	(1,800)	(1,800)
Change in investments	583	(6,755)	(7,000)	(6,000)	(5,000)
Other investing cash flows	992	923	1,293	1,596	1,981
<b>Cash flow from investing</b>	<b>(34)</b>	<b>(7,870)</b>	<b>(6,662)</b>	<b>(6,204)</b>	<b>(4,819)</b>
Equities issued/Others	(30)	10,296	0	0	0
Debt raised/repaid	2,299	(815)	0	0	0
Interest expenses	(195)	(155)	(100)	(100)	(100)
Dividends paid	(239)	(287)	(123)	(368)	(306)
Other financing cash flows	461	(7,105)	2,731	0	0
<b>Cash flow from financing</b>	<b>2,296</b>	<b>1,935</b>	<b>2,508</b>	<b>(468)</b>	<b>(406)</b>
<b>Changes in cash and cash eq.</b>	<b>(1,191)</b>	<b>499</b>	<b>830</b>	<b>(800)</b>	<b>(236)</b>
<b>Closing cash and cash eq.</b>	<b>2,433</b>	<b>3,185</b>	<b>4,215</b>	<b>3,614</b>	<b>3,578</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	39.1	40.4	42.2	50.1	57.8
Adjusted EPS	39.1	40.4	42.2	50.1	57.8
Dividend per share	1.9	1.9	1.0	3.0	2.5
Book value per share	218.1	283.9	347.4	394.4	449.8

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.2	2.4	2.5	2.1	1.9
EV/EBITDA	18.8	20.1	19.9	17.0	15.2
Adjusted P/E	28.9	28.0	26.8	22.6	19.5
P/BV	5.2	4.0	3.3	2.9	2.5

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	68.2	77.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.6	96.3	98.6	98.8	99.0
EBIT margin (EBIT/Revenue)	11.7	11.5	12.8	13.3	13.6
Asset turnover (Revenue/Avg TA)	235.4	170.8	133.2	130.1	129.4
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.0
Adjusted ROAE	19.6	16.1	13.4	13.5	13.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	23.8	(8.0)	(4.7)	13.8	12.4
EBITDA	32.2	(6.5)	1.0	15.2	12.3
Adjusted EPS	38.0	3.3	4.6	18.6	15.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.5	11.7	12.4	12.6	12.6
EBIT margin	11.7	11.5	12.8	13.3	13.6
Adjusted profit margin	7.6	8.6	9.4	9.8	10.1
Adjusted ROAE	17.9	14.2	12.2	12.7	12.9
ROCE	18.3	14.9	12.7	12.9	13.2
<b>Working capital days (days)</b>					
Receivables	44	53	53	49	47
Inventory	41	53	55	48	44
Payables	93	113	125	108	100
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.5	0.5	0.5	0.5
Current ratio	1.4	1.4	1.5	1.4	1.4
Net interest coverage ratio	(37.6)	(42.9)	(70.2)	(83.0)	(95.8)
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): ESCORTS (ESC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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