

Escorts reported record-high operational performance in Q3FY21. Top line grew 24% YoY to INR2,042cr while EBITDA margins were up 490bps YoY to 17.8%. Demand is expected to rise further in FY22 owing to (a) better cashflow position with farmers due to back-to-back three bumper crop seasons, and (b) buoyant sentiment on account of two good monsoon seasons and healthy ground water levels. Further, we also expect non-agricultural demand recovery from infrastructure/construction activities. Moreover, construction equipment (CE) and railway equipment (RE) businesses should also recover strongly from Q4FY21 due to pick-up in new ordering. While the rise in input cost is a challenge, we believe aggressive cost control initiatives and operating leverage benefits in CE/RE would maintain the company's financial profile at healthy levels. Hence, we maintain 'BUY' rating on the stock with a revised target price of INR1,590.

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CMP: INR 1,384
Rating: BUY
Target Price: INR 1,590
Upside: 15%

Cost control and operating leverage benefits drive impressive performance

EBITDA margins expanded by 490bps YoY to 17.8% in Q3FY21. This improvement in profitability was driven by operating leverage gains along with aggressive cost control done during pre-Covid period. While we believe input price rise is a challenge, any sharp deterioration in margins would be restricted due to benefits of operating leverage in CE/RE businesses coupled with cost efficiency built over the last few quarters. The company has taken a price rise of ~2% in Q2FY21. It is expected to hike prices again by 2-3% by end-Q4FY21, which would also help negate margin pressure to some extent.

Non-agri demand for tractors to lead growth

Strong recovery seen in infrastructure/construction activities is leading recovery in the CE business, which can be gauged from the 20% YoY rise in Q3FY21 CE revenues. Further, with new ordering activities picking up in Railways/Metro projects, growth in the RE business is poised to recover strongly. We expect next phase of the tractor growth cycle to begin from FY22 on the back of strong non-agriculture demand, which would be fuelled by healthy revival in infrastructure/construction activities. We estimate tractor sales to grow ~7-9% in FY22E.

Valuation and outlook

We expect strong demand scenario for Escorts' CE/RE businesses. Domestic tractor industry should continue to see healthy growth momentum, driven by an increase in demand from the non-agriculture segment. While the spiralling input cost is a challenge, benefits of operating leverage and aggressive cost control efforts should prevent a sharp deterioration in margins. We expect the company's financial profile to remain strong. Hence, we maintain 'BUY' rating on the stock with revised target price of INR1,590.

Bloomberg:	ESC:IN
52-week range (INR):	526 / 1,453
Share in issue (cr):	12
M cap (INR cr):	17,989
Promoter Holding (%)	35.69

(INR Cr)	Q3FY20	Q3FY21	% change	Q2FY21	% change	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	1650	2042	24%	1654	23%	6265	5810	6735	7704	8424
Revenue Growth(%)						24%	-7%	16%	14%	9%
EBITDA	213	363	70%	298	22%	701	658	1078	1163	1306
EBITDAM (%)	12.9%	17.8%		18.0%		11.2%	11.3%	16.0%	15.1%	15.5%
Adj. PAT	155	286	85%	227	26%	474	469	845	903	1056
Growth(%)						36.7%	2.1%	76.7%	6.9%	16.9%
Adj. Diluted EPS						38	39	69	74	86
Diluted P/E (x)						36.1	35.6	20.0	18.8	16.1
EV/EBITDA (x)						23.9	25.3	14.3	13.2	11.7
ROACE (%) adj to cash and invt						37.5%	29.5%	52.3%	51.1%	51.1%

Date: February 3, 2021

INR crore	Q3FY20	Q3FY21	% change	Q2FY21	% change	9MFY20	9MFY21	% change
Net Sales	1,650	2,042	24%	1,654	23%	4,407	4,786	9%
Material cost	1,098	1,337	22%	1,051	27%	2,971	3,119	5%
Gross profit	552	705	28%	603	17%	1,436	1,667	16%
Operating expenditure	1,437	1,679	17%	1,356	24%	3,927	4,003	2%
EBITDA	213	363	70%	298	22%	480	783	63%
Depreciation	27	32	17%	28	15%	78	87	12%
Other Income	28	49	74%	39	24%	66	118	79%
Interest	4	4	10%	4	5%	14	10	-25%
Exceptional	0	0	n.m.	0	n.m.	-9	0	n.m.
Profit from associates	1	7	n.m.	-1	n.m.	0	5	n.m.
Profit before tax	211	382	81%	304	26%	446	809	81%
Tax	56	96	70%	77	24%	102	202	98%
Reported Net profit	155	286	85%	227	26%	344	606	76%
As % of revenues								
COGS	66.5%	65.5%	-	63.5%	-	67.4%	65.2%	-
Operating expenses	87.1%	82.2%	-	82.0%	-	89.1%	83.6%	-
EBITDA	12.9%	17.8%	-	18.0%	-	10.9%	16.4%	-
Reported Net profit	9.4%	14.0%	-	13.7%	-	7.8%	12.7%	-
Tax rate (% to PBT)	26.7%	25.1%	-	25.4%	-	22.9%	25.0%	-
Revenues								
Agri Machinery	1,292	1,670	29%	1,333	25%	3,401	3,979	17%
Construction equipment	217	245	13%	157	56%	630	454	-28%
Rail Equipment	124	117	-6%	160	-27%	369	332	-10%
EBIT								
Agri Machinery	187	333	78%	263	27%	409	737	80%
Construction equipment	10	18	76%	3	576%	21	5	-75%
Rail Equipment	22.9	14.9	-35.1%	32.5	-54.3%	71	49	-31.0%

Key Concall highlights

Industry Outlook

- Agriculture demand for tractors and farm mechanisation is witnessing continuous growth even after pent-up demand being fulfilled.
- Management believes momentum will be sustained on the back of strong growth in farm income levels because of last three bumper crop seasons, healthy ground water levels, coupled with crop prices holding up.
- CE business is also seeing strong traction, with the recent recovery in infrastructure and construction activities.
- The government's efforts on Covid vaccination is expected to further infuse confidence across different sectors and will provide impetus to the economy.
- Management expects industry to see healthy single-digit growth trajectory in FY22.

Escorts Agri Machinery (EAM) Business Updates

- Tractor volumes were up 25.7% to 31,562 units in Q3FY21 (v/s 25,109 units in Q3FY20).
- Segmental revenue was up 28.0% to INR1,652.7cr in Q3FY21 (v/s INR1,291.5cr in Q3FY20).
- Operating leverage, a favourable product mix and cost efficiencies resulted in record high quarterly EBIT margin of 20%, up 564bps YoY.
- Domestic tractor volumes grew 24%, while export volumes increased 67%.

Escorts Construction Equipment (ECE) Business Updates

- CE sales volume for Q3FY21 were up 20.1% to 1,254 machines (v/s 1,044 machines in Q3FY20).
- Segmental revenues were up 13% YoY to INR245cr, while EBIT margins were higher by 270bps YoY to 7.5%.

Railway Products Division (RED) Business Updates

- Revenue at INR117cr declined 5.7% YoY while EBIT margin stood at 12.7%.
- The company executed ~69% of orders in new product categories with higher import content, which consecutively impacted margins. The proportion of the same in the previous fiscal was ~44%.

Other Concall Highlights

- Most of the supply chain issues for tractor segment during Q3FY21 have been resolved, except for ECU units, which continues to remain a worry.
- After almost stockout levels, inventory is now normalising because of seasonally lower December and January months. The channel filling would help fulfil the next demand surge ahead of Kharif season.
- Compared to Q2FY21, inventory levels for the industry is elevated; however, compared to pre-Covid levels, it is still lower.
- The company has taken 2% price hike in mid-November 2020, which helped offset the RM cost hike in Q3FY21; however, cost pressure to the extent of 2-3% still remains uncovered and may weigh on margins in Q4FY21.
- Demand from non-agricultural usage will see significant pent-up demand in the coming 3-4 quarters as the economy is recovering.
- The Western/Southern regions should outgrow the Northern market and these are key focus markets for the company too, because of lower penetration.
- The company is expecting some delay in development of Kubota brands in India due to Covid issues in Japan.

Previous Result/Reports Outlook

Q1FY21 – Encouraging outlook for the tractor business over the next couple of years and healthy order book pipeline for the railways business is encouraging. Improvement in profitability on the back of aggressive cost control measures and strong cash flow and Balance Sheet position enables Escorts to invest for next growth phase. At CMP, stock is currently trading at 20x of FY22E EPS estimates and we continue to maintain our BUY rating with an unchanged target price of INR 1,332 per share.

Q2FY21 – Gradual improvement expected in railway and construction equipment businesses from H2FY21 and encouraging scenario to follow from FY22 as government ordering expected to pickup, we foresee all engine firing for the company from next fiscal. Improvement in margin profile will further add to the benefits and strengthen cash flow position. Hence we continue to maintain BUY rating on the stock with the target price revised upwards to INR 1,470.

Q1FY21

Q1FY21 Result Update

Escorts Ltd

Revenue declined by 4% QoQ to INR 1,885 crore in Q1FY21, while net profit rose 10% QoQ to INR 112 crore. Operating profit rose 12% QoQ to INR 112 crore. EBITDA margin rose to 11.3% from 10.9% in Q4FY20. Net profit rose 10% QoQ to INR 112 crore. Earnings per share rose 10% QoQ to INR 11.20. The company reported a strong order book pipeline for the tractor business and a healthy order book pipeline for the railways business. The company also reported a strong cash flow position and a healthy balance sheet. The company is expected to continue its growth strategy in FY21.

Particulars	Q1FY21	Q4FY20	Q1FY20
Revenue	1,885	1,950	1,850
Operating Profit	112	100	95
EBITDA	213	205	195
Net Profit	112	100	95
EPS	11.20	10.00	9.50

Q2FY21

Q2FY21 Result Update

Escorts Ltd

Revenue declined by 1% QoQ to INR 1,850 crore in Q2FY21, while net profit rose 15% QoQ to INR 125 crore. Operating profit rose 15% QoQ to INR 125 crore. EBITDA margin rose to 11.5% from 11.3% in Q1FY21. Net profit rose 15% QoQ to INR 125 crore. Earnings per share rose 15% QoQ to INR 12.50. The company reported a strong order book pipeline for the tractor business and a healthy order book pipeline for the railways business. The company also reported a strong cash flow position and a healthy balance sheet. The company is expected to continue its growth strategy in FY21.

Particulars	Q2FY21	Q1FY21	Q2FY20
Revenue	1,850	1,885	1,800
Operating Profit	125	112	100
EBITDA	212	213	205
Net Profit	125	112	100
EPS	12.50	11.20	10.00

Income statement						(INR crs)
Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	
Income from operations	6,265	5,810	6,735	7,704	8,424	
Direct costs	4,322	3,841	4,378	5,162	5,644	
Employee costs	485	521	539	609	632	
Other expenses	1,241	1,311	1,280	1,379	1,474	
Total operating expenses	5,564	5,152	5,657	6,541	7,119	
EBITDA	701	658	1,078	1,163	1,306	
Depreciation and amortisation	87	107	118	129	140	
EBIT	614	551	960	1,034	1,166	
Interest expenses	20	17	10	5	5	
Other income	112	98	147	174	246	
Profit before tax	706	632	1,097	1,204	1,407	
Provision for tax	238	154	252	301	352	
Core profit	468	478	845	903	1,056	
Extraordinary items	6	-9	0	0	0	
Profit after tax	474	469	845	903	1,056	
Minority Interest	1	-1	3	0	0	
Share from associates	0	0	0	0	0	
Adjusted net profit	475	468	848	903	1,056	
Equity shares outstanding (mn)	12	12	12	12	12	
EPS (INR) basic	38.3	38.9	69.2	73.7	86.1	
Diluted shares (Cr)	12.3	12.3	12.3	12.3	12.3	
EPS (INR) fully diluted	38.3	38.9	69.2	73.7	86.1	
EPS adjusted for treasury shares	53.4	52.6	83.8	89.3	104.4	
Dividend per share	0.0	2.5	5.5	6.6	8.6	
Dividend payout (%)	0.0	6.5	8.0	9.0	10.0	

Common size metrics- as % of net revenues

Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Operating expenses	88.8	88.7	84.0	84.9	84.5
Depreciation	1.4	1.8	1.7	1.7	1.7
Interest expenditure	0.3	0.3	0.1	0.1	0.1
EBITDA margins (incl OI)	11.2	11.3	16.0	15.1	15.5
Net profit margins	7.6	8.1	12.6	11.7	12.5

Growth metrics (%)

Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Revenues growth %	23.8	(7.3)	15.9	14.4	9.3
EBITDA	29.3	(6.1)	63.7	8.0	12.2
PBT	39.8	(10.6)	73.7	9.8	16.9
Net profit	36.7	2.1	76.7	6.9	16.9
EPS	36.8	1.6	77.7	6.5	16.9

Balance sheet					(INR crs)
As on 31st March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Equity share capital	123	123	135	135	135
Preference Share Capital	0	0	0	0	0
Reserves & surplus	2,547	2,995	4,817	5,639	6,589
Shareholders funds	2,669	3,117	4,951	5,773	6,723
Secured loans	4	19	0	0	0
Unsecured loans	54	17	0	0	0
Borrowings	58	19	14	10	10
Minority interest	6	5	6	6	6
Sources of funds	2,733	3,142	4,972	5,789	6,739
Gross block	2,598	2,761	3,185	3,485	3,785
Depreciation	974	1,081	1,199	1,328	1,468
Net block	1,624	1,679	1,986	2,157	2,317
Capital work in progress	80	125	50	50	50
Total fixed assets	1,704	1,804	2,036	2,207	2,367
Unrealised profit	0	0	0	0	0
Investments	637	937	1,637	1,937	2,737
Inventories	857	883	775	781	739
Sundry debtors	931	732	554	992	1,039
Cash and equivalents	243	325	1,535	1,589	1,688
Loans and advances	279	285	260	307	343
Other current assets	0	0	0	0	0
Total current assets	2,311	2,225	3,123	3,669	3,807
Sundry creditors and others	1,799	1,699	1,724	1,923	2,071
Provisions	120	126	101	101	101
Total CL & provisions	1,919	1,824	1,825	2,024	2,172
Net current assets	392	400	1,298	1,645	1,635
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	2,733	3,142	4,972	5,790	6,740
Book value per share (INR)	218	254	404	471	548

Cash flow statement					(INR crs)
Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Net profit	463	487	845	903	1,056
Add: Depreciation	87	107	118	129	140
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	-19	0	0	0	0
Add: Others	1	-1	3	0	0
Gross cash flow	532	593	966	1,032	1,196
Less: Changes in W. C.	469	-8	-307	293	-109
Operating cash flow	63	601	1,273	739	1,304
Less: Capex	138	207	350	300	300
Free cash flow	-74	394	923	439	1,004

Ratios

Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
ROAE (%)	19.2	16.5	21.0	16.8	16.9
ROACE (%) adj to cash and invt	37.5	29.5	52.3	51.1	51.1
Debtors (days)	54	46	30	47	45
Current ratio	1.2	1.3	1.7	1.8	1.8
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	50	55	42	37	32
Payable (days)	73	81	75	75	75
Cash conversion cycle (days)	32	20	-3	9	2
Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Adjusted debt/Equity	(0.1)	(0.1)	(0.3)	(0.3)	(0.2)

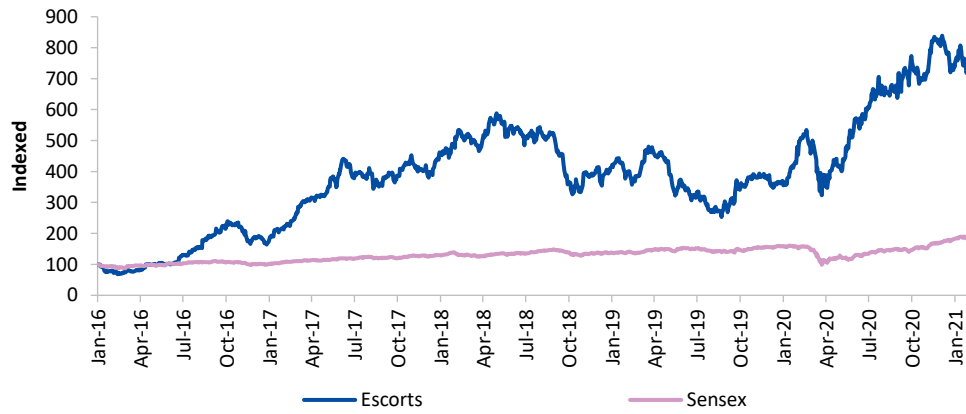
Valuation parameters

Year to March	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Diluted EPS (INR)	38.3	38.9	69.2	73.7	86.1
Y-o-Y growth (%)	36.8	1.6	77.7	6.5	16.9
CEPS (INR)	45.4	47.7	78.8	84.2	97.5
Diluted P/E (x)	25.9	26.3	16.5	15.5	13.3
Price/BV(x)	6.4	5.4	3.4	2.9	2.5
EV/Sales (x)	2.7	2.9	2.3	2.0	1.8
EV/EBITDA (x)	23.9	25.3	14.3	13.2	11.7
Diluted shares O/S	12.3	12.3	12.3	12.3	12.3
Basic EPS	53.4	52.6	83.8	89.3	104.4
Basic PE (x)	25.9	26.3	16.5	15.5	13.3
Dividend yield (%)	0.2	0.2	0.4	0.5	0.6

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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