

Escorts

Sensex: 20684

CMP: INR 93

Target: INR 115



Automobiles (Tractors)

Escorts reported Q4FY14* sales of INR 9442 mn, up 14.7% YoY, in line with our estimates. PAT came in at INR 436 mn, exceeding our estimates because of lower than expected raw material costs. Market share of Escorts dipped from 11.7% & 11.3% in September 2012 & June 2013 respectively to 11.1% as on September 2013 as the highest growth regions were the South & Western markets where the company has lower presence. We introduce FY15 estimates & retain our buy recommendation on the stock with a revised target price of INR 115 (Previous- INR 109) based on 5x FY15E EV/EBITDA.

14.6% growth in Tractor volumes, Realisation increased by 1.0%

Escorts sold 14842 tractors during the quarter, up 14.6% YoY on the back of inventory build up at the dealer level for the forthcoming festive season & continuing monsoon. Realisations for the agri machinery division increased by 1.0% QoQ (5.3% YoY) to INR 511529/ut. Though the company has hiked prices by ~3.0% in a year realization/ut increased by 5.3% YoY due to shift towards value added tractors. EBIT/tractor increased 25.7% YoY to INR 55540. We expect 10.4% YoY growth in tractor volumes & 2.2% growth in realization/ut in the October 2013 to March 2014 period.

118 bps improvement in margins

EBITDA margin improved by 118 bps YoY to 6.8% on the back of declining raw material costs. COGS & employee costs declined 264 bps & 4 bps as a % of sales to 74.1% & 11.0% respectively. Other expenses rose 150 bps to 13.1% due to higher fuel & repair costs. Interest cost declined 17.3% to INR 182.6 mn & interest coverage ratio stood at 2.76x v/s 1.53x YoY. The company repaid debt of INR 1114 mn. We expect further debt reduction to the tune of INR 152 mn by the end of March 2014 resulting in a net debt to equity ratio of 0.11 (0.25 as at the end of SY12).

Performance of other segments

Construction equipment (CE) segment revenue & EBIT declined 13.4% & 38.7% to INR 1162 mn & loss of INR 48 mn respectively. Realisation/ut for the CE segment stood at 1757806/ut, growth of 15.5% QoQ (16.4% YoY). Auto Ancillary division's revenue & EBIT stood at INR 314 mn & loss of 52 mn respectively whereas revenue & EBIT for the Railway Equipment division stood at INR 505 mn & 43 mn respectively. The railway equipment division's order book stood at INR 340 mn which is executable over the next quarter.

Other Highlights

- (1) Capex for FY15 stands at INR 1000mn, most of which will be used for introducing new products rather than investing in new capacity. The company is expected to introduce facelifts of current tractors.
- (2) Dealer level inventory at the end of September stands at ~45 days because of the festive season v/s normal inventory of 30 days.

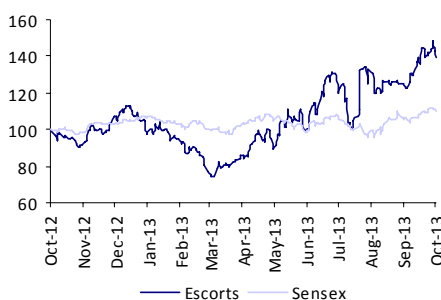
New strategy for the European operations & exports

The company is expected to unveil a new strategy for its European operations & exports from the Indian entity on 11th November 2013 in which the company will present a roadmap & action plan for increasing the revenue & profitability from those divisions. With this new strategy the company plans to increase the contribution from those two divisions multifold over the long term.

Outlook & Valuation

We expect tractor industry to grow at a CAGR of 10.9% between FY13-15E on the back of well diversified above normal monsoon. Water levels at reservoirs have been filled up ~83.9% of their capacity (at the highest level in 10 years) of 155 bn cubic meter which provides room for the growth of tractor industry for the next year even if we see normal to below normal monsoon next year. Escorts's focus on profitability and introduction of higher HP as well as specialised tractors provides visibility on both the revenue & profit front. We expect the top line & bottom line to register a CAGR of 6.8% & 54.7% over SY12-FY15E. We introduce FY15 estimates & retain our buy recommendation on the stock with a revised target price of INR 115 (Previous- INR 109) based on 5x FY15E EV/EBITDA.

Shareholding (%)	Sep-13
Promoters	41.98
FIIIs	12.08
DIIIs	5.38
Others	40.56

Relative Price Performance

Key Data	
BSE Code	500495
NSE Code	ESCORTS
Bloomberg Code	ESC IN
Reuters Code	ESCO.BO
Shares Outstanding (mn)	122.58
Face Value	10
Mcap (INR bn)	12.14
52 Week H/L	100.75/48.35
2W Avg. Qty.NSE	1754427
Free Float (INR Bn)	7.04
Beta	0.99

Y/E (INR mn)	SY11	SY12	18MFY14E*	FY15E
Net Sales	41010	40495	65222	46210
Growth (%)	23.37%	-1.26%	7.38%**	6.27%
EBIDTAM (%)	3.83%	4.68%	6.15%	6.36%
Adj. PAT	1123	728	2453	1741
Growth (%)	-39.05%	-35.22%	124.73%**	6.45%
Adj. EPS (Ann.)	12.19	6.10	13.71	14.60
P/E (x) (Ann.)	6.66	9.27	6.86	6.51
EV/EBIDTA v	6.30	5.72	5.02	4.18
Net Debt/Equity	0.13	0.25	0.11	0.05
RoACE (%) (Ann.)	5.01%	6.23%	9.40%	9.98%
RoAE (%) (Ann.)	6.48%	4.24%	9.21%	8.78%

*The company has changed its accounting year from September ending to March ending to comply with the provisions of Companies Act 2013.
** Figures have been annualized.

Automobiles (Tractors)
Quarterly Results (Standalone)

Particulars (INR Mn)	Q4 FY14*	Q4 SY12	YoY%	12MFY14*	SY12	Change%
Net Sales	9442.48	8234	14.68%	41490.01	38938.85	6.55%
Other Income	159.79	88.2	81.17%	545.35	489.01	11.52%
Total Income	9602.27	8322.2	15.38%	42035.36	39427.86	6.61%
Raw Material Consumed	6797.86	5961.1	14.04%	27458.85	26745.98	2.67%
Stock Adjustment	-1086.03	-512.5	111.91%	-237.07	-578.1	-58.99%
Purchase of Finished Goods	809.73	455.3	77.85%	2409.66	2277.34	5.81%
Employee Expenses	1039.24	909.7	14.24%	4416.01	4061.24	8.74%
Other Expenses	1237.13	954.8	29.57%	4797.97	4610.04	4.08%
Total Expenses	8797.93	7768.4	13.25%	38845.42	37116.5	4.66%
EBITDA	644.55	465.6	38.43%	2644.59	1822.35	45.12%
Depreciation	140.03	126.7	10.52%	534.61	484.23	10.40%
EBIT	504.52	338.9	48.87%	2109.98	1338.12	57.68%
Interest	182.58	220.8	-17.31%	816.73	964.41	-15.31%
PBT	481.73	206.3	133.51%	1838.6	862.72	113.12%
Tax Expense	46.56	17.5	166.06%	154.78	183.45	-15.63%
PAT	435.17	188.8	130.49%	1683.82	679.27	147.89%
Extra-ordinary Items	-1.16	4.8	-124.17%	8.34	-16.82	NA
APAT	436.33	184	137.14%	1675.48	696.09	140.70%
Eq Cap (INR Mn)	1192.6	1192.6	0.00%	1192.6	1192.6	0.00%
FV	10	10	0.00%	10	10	0.00%
EPS	3.66	1.54	137.14%	14.05	5.84	140.70%
OPM (%)	6.83%	5.65%	118 bps	6.37%	4.68%	169 bps
EBITDAM (%)	6.71%	5.59%	112 bps	7.69%	5.94%	175 bps
PATM (%)	4.54%	2.21%	233 bps	4.04%	1.79%	225 bps

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Segmental Performance

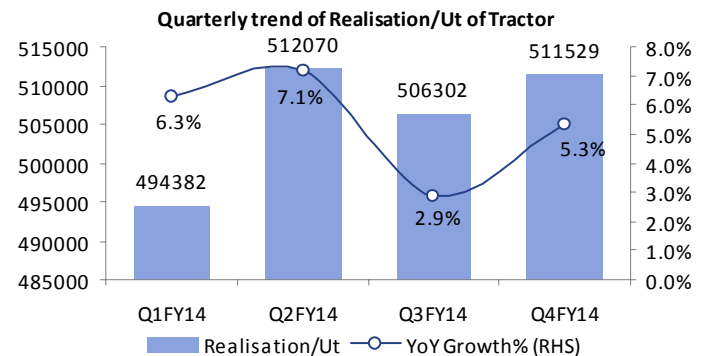
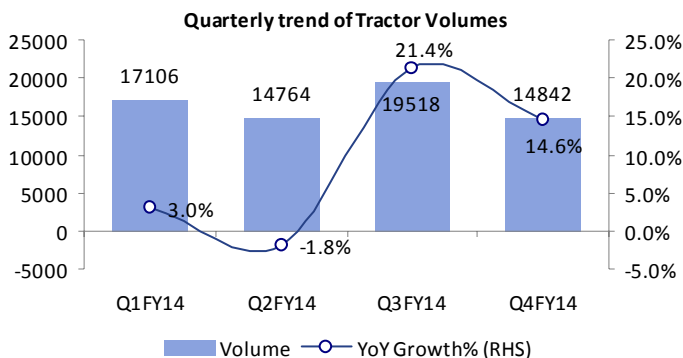
Particulars (INR mn)	Q4 FY14*	Q4 SY12	YoY%	12MFY14*	SY12	Change%
Tractor Volume	14842	12950	14.61%	66230	60673	9.16%
Tractor Realisation/Ut	511529	485923	5.27%	505681	479910	5.37%
Construction Equipment (CE) Volume	661	888	-25.56%	3375	5311	-36.45%
CE Realisation/Ut	1757806	1510698	16.36%	1546181	1409509	9.70%
Revenue from Operations	9573.56	8326	14.98%	41991.63	39555.4	6.16%
Agri Machinery Products	7592.11	6292.7	20.65%	33491.25	29117.6	15.02%
Auto Ancillary Products	314.35	303.8	3.47%	1506.22	1431.9	5.19%
Railway Equipments	505.19	387.8	30.27%	1774.21	1488	19.23%
Others	0	0.2	NA	1.59	32	-95.03%
Construction Equipment	1161.91	1341.5	-13.39%	5218.36	7485.9	-30.29%
Less : Inter Segment Revenues	91.65	103.4	-11.36%	380.19	510.4	-25.51%
Total Segment Revenue	9481.91	8222.6	15.32%	41611.44	39045	6.57%
Add : Other Unallocable Income	0	9.4	-100.00%	41.29	52.5	-21.35%
Net Revenue from Operations	9481.91	8232	15.18%	41652.73	39097.5	6.54%

PROFIT

EBIT	764.99	531.9	43.82%	3166.31	2271.4	39.40%
Agri Machinery Products	824.33	572.1	44.09%	3416.37	2265.7	50.79%
Auto Ancillary Products	-51.56	-34.7	48.59%	-131.13	-118.3	10.85%
Railway Equipments	43.24	77.1	-43.92%	87.92	93.6	-6.07%
Others	-3	-4.3	-30.23%	-9.92	16.9	NA
Construction Equipment	-48.02	-78.3	-38.67%	-196.93	13.5	NA
Less : Interest	182.58	220.8	-17.31%	816.73	964.4	-15.31%
Other Un-allocable Expenditure	100.67	109.9	-8.40%	510.96	444.4	14.98%
Extra-Ordinary Income/Expense	-1.16	5.2	NA	8.34	-16.8	NA
EBT	480.58	206.4	132.84%	1830.28	879.4	108.13%

EBIT Margins

Agri Machinery Products	10.86%	9.09%	177 bps	10.20%	7.78%	242 bps
Auto Ancillary Products	-16.40%	-11.42%	(498 bps)	-8.71%	-8.26%	(45 bps)
Railway Equipments	8.56%	19.88%	(1132 bps)	4.96%	6.29%	(133 bps)
Construction Equipment	-4.13%	-5.84%	171 bps	-3.77%	0.18%	NA



Source: SPA Research

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Consolidated Financials

Profit & Loss Account

Year End March (INR mn)	SY11	SY12	18M FY14E*	FY15E
Net Sales	41010	40495	65222	46210
Growth in Sales (%)	23.37%	-1.26%	7.38%**	6.27%
Cost of goods sold	29947	29510	45558	32479
Employees Cost	3841	4198	6946	4621
Other Expenses	5252	4493	7892	5591
Total Expenditure	39440	38600	61211	43269
EBIDTA (without OI)	1569	1895	4011	2941
% Growth	13.22%	20.73%	41.14%**	9.98%
EBITDA Margin %	3.83%	4.68%	6.15%	6.36%
Depreciation/Amortization	477	502	815	565
EBIT	1,093	1,392	3,196	2,376
EBIT Margin %	2.66%	3.44%	4.90%	5.14%
Interest Expense	711	970	907	698
Other Income	610	497	852	538
Exceptionals	35	10	8	-
EBT	991	919	3,141	2,216
Tax Expenses	(153)	187	664	465
PAT	1,145	731	2,477	1,751
Minority Interest	(13)	(6)	15	10
APAT	1,123	728	2,453	1,741
% Growth	-39.05%	-35.22%	124.73%**	6.45%
APAT Margin %	2.70%	1.78%	3.71%	3.72%

Key Ratios

Year End March	SY11	SY12	18M FY14E*	FY15E
Per Share Data (INR) (Annualised)				
Reported/ Adj EPS	12.42	6.13	13.84	14.68
Adj. EPS	12.19	6.10	13.71	14.60
Growth (%)	-39.07%	-49.96%	124.74%	6.45%
CEPS	17.37	13.35	27.40	19.33
DPS	1.72	1.20	2.40	2.40
BVPS	193.60	137.96	159.94	172.42
Return Ratios (%) (Ann.)				
RoACE	5.01%	6.23%	9.40%	9.98%
RoANW	6.48%	4.24%	9.21%	8.78%
Liquidity Ratios				
Net Debt/Equity	0.13	0.25	0.11	0.05
Interest Coverage Ratio (Ann.)	1.54	1.44	2.35	3.41
Current Ratio	1.33	1.16	1.11	1.17
Efficiency Ratios (Ann.)				
Asset Turnover Ratio	1.87	1.80	1.91	1.93
Inventory Days	57	63	64	61
Debtor Days	44	45	46	45
Creditor Days	76	78	76	75
Valuation Ratios (Ann.)				
P/E (x)	6.66	9.27	6.86	6.51
P/BV (x)	0.42	0.41	0.59	0.55
P/CEPS (x)	5.30	8.93	3.47	4.91
Dividend Yield (%)	2.12%	2.12%	2.53%	2.53%
EV/Net Sales (x)	0.24	0.27	0.31	0.27
EV/EBIDTA (x)	6.30	5.72	5.02	4.18

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** Figures have been annualized.

Balance Sheet

Year End March (INR mn)	SY11	SY12	18M FY14E*	FY15E
Sources of funds				
Share capital	921	1193	1193	1193
Reserves & Surplus	16917	15262	17882	19370
Total Networth	17349	17147	17765	19819
Minority Interest	91	114	129	139
Secured Loan	2797	2572	1704	1704
Unsecured Loan	2061	2964	2566	2000
Total Debt	4858	5536	4270	3704
Total Liabilities	22787	22104	23474	24406
Application of funds				
Net Block	16201	15947	16451	17036
Capital Work-in-Progress	479	668	650	500
Investments	1117	3729	3921	3821
Current Assets	15800	13294	16134	16000
Current Liabilities	11918	11476	14540	13639
Net Current Assets	3883	1819	1594	2360
Net Deferred Tax Asset	132	7	402	57
Total Assets	22787	22104	23474	24406

Cash Flow

Year End March (INR mn)	SY11	SY12	18M FY14E*	FY15E
EBT	991	919	3141	2216
Less: Other Income/Exceptionals	(610)	(497)	(852)	(538)
Add: Depreciation	477	502	815	565
Add: Interest paid	711	970	907	698
Direct taxes paid	62	(62)	(269)	(120)
Change in Working Capital	29	1063	953	(203)
Cash Flow from operations (a)	1659	2895	4696	2618
Change in Fixed Assets	(540)	269	(1300)	(1000)
Change in CWIP	128	(189)	0	0
Change in Investments	596	990	(191)	100
Cash Flow from Investing (b)	184	1070	(1491)	(900)
Change in Equity	0	0	0	0
Debt Raised/(Repaid)	805	678	(1266)	(566)
Dividend paid	(184)	(167)	(333)	(253)
Interest paid	(711)	(970)	(907)	(698)
Others	(1417)	(4507)	30	363
Cash Flow from Financing (c)	(1507)	(4966)	(2476)	(1154)
Net Change in Cash (a+b+c)	336	(1002)	728	564
Opening Cash	2117	2453	1452	2180
Closing Cash	2453	1452	2180	2744

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