Escorts Ltd.	
No. of shares (m)	134.8
Mkt cap (Rs crs/$m)	17692/2422.5
Current price (Rs/$)	1312/18.0
Price target (Rs/$)	1610/22.0
52 W H/L (Rs.)	1453/526
Book Value (Rs/$)	441/6.0
Beta	1.2
Daily volume NSE (avg. monthly)	1930680
P/BV (FY21e/22e)	2.7/2.3
EV/EBITDA (FY21e/22e)	14.2/12.3
P/E (FY21e/22e)	18.3/16.3
EPS growth (FY20/21e/22e)	1.1/33.0/12.5
OPM (FY20/21e/22e)	11.4/14.2/13.6
ROE (FY20/21e/22e)	16.7/17.5/15.3
ROCE(FY20/21e/22e)	15.4/17.0/15.0
D/E ratio (FY20/21e/22e)	0.1/0.0/0.0
BSE Code	500495
NSE Code	ESCORTS
Bloomberg	ESC IN
Reuters	ESCO.NS

Shareholding pattern	%
Promoters	36.6
MFs / Banks / FIs/Others	8.5
FPIs	21.6
Govt. Holding	0.0
Public & Others	33.3
Total	**100.0**

As on Sep 30, 2020

Recommendation

BUY

Analyst

KISHAN GUPTA, CFA, FRM
Phone: + 91 (33) 4488 0043
E- mail: kishan.gupta@cdequi.com

Company Brief

Escorts in involved in production of agri-machinery, construction and material handling equipment and railway equipment from its plants at various locations. With a domestic market share of 11.6% at the end of last fiscal the company sells a wide range of tractors under the Farmtrac, Powertrac and Steeltrac brands. Its domestic tractor and components annual capacity is 1.2 lakh units.

Highlights

- Despite national lockdown the Indian tractor industry has seen little moderation in demand in the current year all thanks to good monsoons, higher MSP prices, increased Kharif crop sowing and emergency policy response by GOI on account of the pandemic. Higher availability of retail finance coupled with record crop output has buttressed of take of tractors in last few months. Supply side bottlenecks, which have pushed down dealer and depot stocks, are expected to be corrected thus supporting growth.
- Escorts railway equipment business order book has scarcely seen any build up not least due to postponement of Indian Railways orders to next fiscal as national lockdowns completely discontinued operation of trains for much of this fiscal. Wherefore outstanding order book pummeled to slightly over Rs 350 crs by Q2 from some Rs 510 crs by Q4 of last fiscal. Forging new technical tie ups or launching new products (read: technologically advanced products) has been mainstay of this business for it recently bagged RDSO approval for microprocessor controlled electric brake system (MCBS), the first Indian company, and tied up with Medel Elektronik (Turkey) for vacuum toilet systems.
- Sensing gradual rise in use of tractors for commercial purposes Escorts has stepped up its resolve to prop up its business of higher HP tractors. Framtrac to Powertrac product mix improved to 41:59 last fiscal compared to 39:61 in the preceding year and share of >40 HP segment jumped to 51% from 47% in FY19. Due to supply disruptions seen this fiscal, further gains are expected.
- The stock currently trades at 18.3x FY21e EPS of Rs 71.53 and 16.3x FY22e EPS of Rs 80.48. Diversification in other businesses (read: construction equipments & railways equipments) has made little dent to earnings for its agri-machinery business accounted for over 83% of allocable EBIT last fiscal, thus lending its fortunes to no small dependence on vagaries of monsoons, agricultural reforms, rural spending et al. Striking "velocity" in Indian tractor industry over the last few months have little stymied growth prospects for next fiscal; agri machinery revenues are estimated to rise by some 12% next fiscal. Balancing odds, we assign a buy rating on the stock with a target of Rs 1610 based on 20x FY22e earnings over a period of 9-12 months.

(Figures in Rs crs)	FY18	FY19	FY20	FY21e	FY22e
Income from operations	5059.34	6262.02	5810.09	6248.52	7148.32
Other Income	65.32	99.85	97.60	168.11	245.06
EBITDA (other income included)	612.16	824.38	750.78	1056.46	1219.81
Profit after EO	349.72	472.93	478.16	701.51	813.97
EPS (Rs)	39.35	53.21	53.80	71.53	80.48
EPS growth (%)	94.6	35.2	1.1	33.0	12.5

Company Overview

Headquartered in Faridabad and having presence in high growth business segments of agri-machinery, construction and material handling equipment and railway equipment, Escorts has helped power India's socio-economic development for decades. Specifically, the company is engaged in manufacturing of agricultural tractors, engines for agricultural tractors, earth moving and material handling equipment, round and flat tubes, heating elements, double acting hydraulic shock absorbers for railways coaches, centre buffer couplers, automobile shock absorbers, telescopic front fork & Mcpherson struts, brake block, internal combustion engines and all types of brake used by railways. It also trades in oils & lubricants, implements, trailers, tractors, compressor accessories and spares, earth moving and material handling equipment and aero parts.

Escorts covets fourth largest position in Indian tractor industry - after M&M, Tractors and Farm Equipment Ltd and International Tractors Ltd - with domestic market share of 11.6% at the end of last fiscal, vending a wide range of tractors under the Farmtrac and Powertrac brands. It also sells 10-15 hp tractors under the Steeltrac brand through a JV. It has seen various restructurings in the past with sale of healthcare, software, telecommunication and auto component businesses and merger of Escorts Construction Equipment, Escotrac Finance & Investments and Escorts Finance & Leasing with itself.

For its various business segments the company has set up manufacturing units at various locations with four plants in India for tractors and components (annual capacity: 1.2 lakh units) and one 2500 unit capacity plant in Poland catering to Eastern Europe set up through a full owned subsidiary. Besides the company has recently unveiled a plant of 50000 units in India set up in JV with Kubota (Japan). Its manufacturing infrastructure also includes one assembly unit for construction equipment (annual capacity: 10000 units) and two plants for railway equipments such as couplers, air brakes, EP brakes and brake blocks

Product Profile

Escorts operate in three main business divisions namely agri machinery, construction equipment and railway equipment.

Agri Machinery division

To help farmers enhance agricultural productivity, Escorts has been shifting its focus from products to services and from machinery to solutions. With this foresight the company tied up with Japan’s Kubota in 2018 for both technological and manufacturing collaboration. This partnership has been further strengthened with Kubota infusing equity funds in Escorts and Escorts taking 40% stake in Kubota's India operations.

Escorts's Powertrac series of tractors (launched in 1998) ranging between 25-60 hp are designed to offer maximum power & fuel efficiency (classified in to four products groups - up to 30 hp; 31-40 hp; 41-50 hp and 51-60 hp). Its premium range of tractors sold under Farmtrac brand, which was launched in 1995 when the company ended its JV with Ford, are also sold in four groups - 21-30 hp; 31-40 hp; 41-50 hp and above 60 hp. The company also manufactures engines for tractors and various other applications like genset, marine propulsion, marine genset, firefighting pumps and also engines for construction and industrial applications.

Escorts supplies tractors to dozens of countries in the world and shares the rare distinction of being the first Indian tractor company to have manufacturing facility in Europe. Its Farmtrac series of tractors, which qualifies for stringent European quality standards, provides great competitive advantage.

Product	Application
Farmtrac 45	invertor tractor
Powertrac 425	fuel-efficient tractors
Farmtrac 4x4	premium tractor with high end technology
Powertrac Anti-Lift	front lift-resistant tractor for commercial operations
Farmtrac 6090	tractor for global market
Farmtrac Atom	tractor for orchard and vineyard farming
Farmtrac F20	tractor with two transmissions

Source: Escorts

Construction equipment division

Escorts supplies a wide range of construction and material handling equipments which is used in infrastructure sector. Specifically, it is present in material handling, earth moving and road building segments of construction equipment. It is one of the world's largest manufacturers of pick-and-carry (PnC) hydraulic mobile cranes.

To attain leadership, Escorts became the first Indian company to indigenously design backhoe loaders. It claims that its backhoe Digmax II ranks among the best in class and beat its global peers in reach, productivity and cost per cubic meter of good earth excavated.

Escorts entered a JV with Tadano in 2019 with a plant in Faridabad to produce specialized high margin cranes that address demand for higher capacity uses. It manufactures rough terrain and truck mounted cranes in 20-80 tonnage categories which cater to big construction companies servicing oil refineries, metro rail projects, smart city construction, solar power projects and ports, among others.

Escorts teamed up with Doosan (Korea) in 2018 an exclusive distribution agreement for Doosan's range of construction equipment. This agreement enables Escorts to cater to a much larger proportion of the overall construction equipment industry, which includes crawler excavators, mini excavators and wheel loaders.

Product	Application
Digmax	indigenously designed backhoe loader
Jungli	high-power backhoe loader
CT Smart 15	Pick-n-Carry cranes for urban use
Hydra NXT	next-generation Pick-n-Carry crane

Source: Escorts

Railway equipment division

This division is engaged in design, manufacture, supply, installation and service of wide range of products like brake systems, couplers, suspension systems and rubber & friction products for last many decades, besides new high-tech products like locomotive brake electronics, loco dampers, axle mounted disc brakes, brake disc and LHB dampers. Escorts has a enduring presence across all rolling stock categories of passenger coach, locomotive, wagons, EMUs in Indian Railways. It is one of the few Indian players to receive the International Railway Equipment Standard (IRIS) ISO TS/22163 certification.

Escorts is also the largest manufacturer of distribution valves in Asia with supplies to Indian Railways for various freight and passenger car applications. Its couplers are used by Indian Railways to haul wide variety of rakes such as high speed trains, metros, EMUs, MEMUs & DMUs. For suspension products it produces heavy duty hydraulic dampers & air suspension control equipment for Indian Railways.

Product	Application
BMBS	indigenously developed bogie-mounted brake systems
AARH couplers	high end couplers
EP Break	high end electro - pneumatic brake system
MCBS	Microprocessor controlled break system for locomotives
Brake Pads	home grown

Product type	Product range
Brake system	air brake system - passenger & freight; electro pneumatic brake system; parking brake system; feed valve; leveling valve
Vestibules	Fire retardant vestibules for passenger coaches
Suspension system	TV type shocker; NTa type shockers; Ta type dampers
Coupler	AAR H centre buffer couple; semi permanent coupler; automatic coupler; AAR H transition couple
Composite material	CBB for freight, coaching, EMU; brake pads

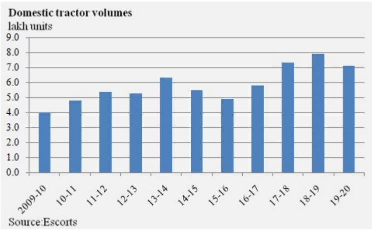
Source: Escorts

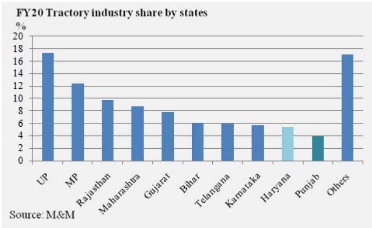
Investment Thesis

India Tractor Industry

The Indian tractor industry has been benefited by structural reforms in Indian agriculture sector including easier availability of institutional credit, introduction of new agri schemes like Paramparagat Krishi Vikas Yojana, Pradhan Mantri Gram Sinchai Yojana and Sansad Adarsh Gram Yojana, increased budgetary allocations towards Pradhan Mantri Gram Sadak Yojana (PMGSY) and the Pradhan Mantri Awas Yojana-Gramin (PMAYG), farm loan waivers, greater impetus of GOI on doubling farm income by 2022 and direct cash benefit transfers. Increase in minimum support prices and approval of National Mission on food processing augurs well too for the Indian agrarian economy.

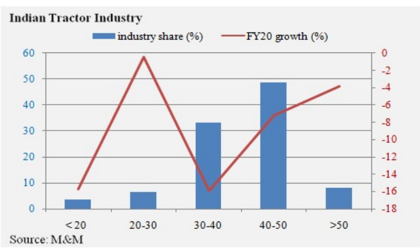
Over the last few years the Indian tractor industry has seen higher competition not least due to entry of foreign players who have forged strategic alliances with Indian OEMs. Though 80% of the demand from Indian tractor industry comes from 31-50 hp segment but the past decade has seen no small growth in > 50 hp and <20 hp segments because of larger land holdings for the former and increased affordability for small and medium farmers and growing mechanization for the latter. In addition, no little scope of growth exists as India still lags behind some of my countries in farm mechanization and there exists perceptible differences in inter-state mechanization levels.

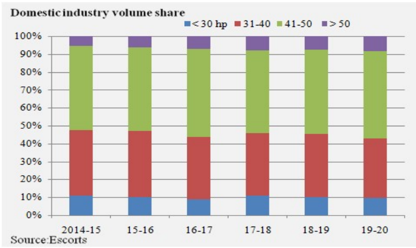




Other demand supporting factors over last few years have been consistent growth in horticulture production for farmers have felt the need to diversify their sources of income. This has fueled demand for increased mechanization solutions for orchards, vineyards and other horticulture crops. Further to arrest the shortage of farm labour during peak season so that farm production does not take a hit, farmers are now left with little other choice than to raise level of mechanization and improve farming practices. After having grown at some 6% CAGR during the last ten years, the growth prospects Indian tractor industry appear barely weak not least due to increased impetus of GOI on agrarian economy, rising need of tractors in non-farm sector and increasing need for farm mechanization.

Yet setbacks in rural economy have cascading effect on the Indian tractor industry as happened last fiscal when the industry contracted by some 10% after three years of spectacular growth. Slowdown in overall economy, Covid induced shutdown in March, liquidity crunch in NBFC sector, kharif crop loss due to erratic rainfall pressured tractor demand.





Construction equipment industry

Various macro factors support the growth of Indian construction equipment industry most notably fast pace of urbanization and industrialization, fillip to affordable housing by GOI, development of smart cities and rise in PPP. No small investments are lined up by Ministry of Road Transport and Highways for development of control highways, economic corridors, coastal and land port roads and strategic highways. Yet the industry faces threat of cheaper imports from low cost countries which are expanding their distribution network in India to tap the great growth opportunity.

By some industry report the global construction equipment industry is estimated to grow by 4.3% CAGR from 2020 to 2027 driven by increasing government investments across the world for boosting public infrastructure. For India, with its shoddy infrastructure, growth opportunities of its construction equipment industry are barely meager for its National Infrastructure project pipeline of Rs 111 lakh crore over a period of six years will lead to higher outlays in metro rail networks, power transmission & distribution projects and urban infrastructure.

Kubota partnership

Partnering with Kubota Corporation, Japan in 2018 after months of deliberations was no puny affair for Escorts for it enabled it to leverage Kubota's coveted production system for manufacturing Farmtrac brand of tractors in India and global distribution network for key export markets like South Africa, Thailand and Europe. This contract manufacturing plant with an annual capacity of 50000 units - commissioned few months back - would not only boost potential tractor production capacity for Escorts but also laid foundation for closer ties of some other sorts - Kubota picked up nearly 10% stake in Escorts (at Rs 850 per share) this fiscal while Escorts acquired 40% stake for Rs 90 crs in Kubota Agricultural Machinery India, the marketing and sales business of Kubota in India. Capital cost of the JV plant has been greatly reduced not least by using Escort's erstwhile auto component business existing infrastructure. Yet perceptible benefits of this alliance - Kubota sourcing Escorts backhoe loaders; product innovation; new revenue streams in agri implements et al. - seemingly have long gestation periods at any rate.

New products

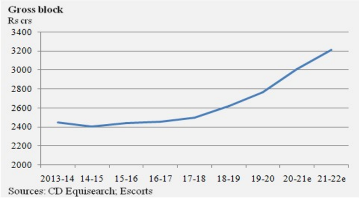
Product innovation barely gets second order attention in industrials not least due to fast changing market dynamics precipitating technological obsolescence. Little deviating from this demand, Escorts has over the years widened its product range (now 11 hp to 120 hp) and made new launches an increasing regularity. Some new products unveiled in last few months include hybrid tractor, mini-sugarcane harvester, self-propelled sprayer, rural transport vehicle, new series Farmtrac "Powermaxx" and the new Powertrac "Euro Next", hybrid backhoe loader. Besides the company launched Stage V European emission norms compliant Farmtrac tractors in 20-130 hp categories which are compatible with mowers, sprayers and loaders. Plants are afoot to launch electric tractors in India after began selling it in Europe. For railways equipment business, technological alliances are being forged for automatic doors, air conditioning systems and bio-toilet, besides commercializing operations for a couple of complex brake systems.

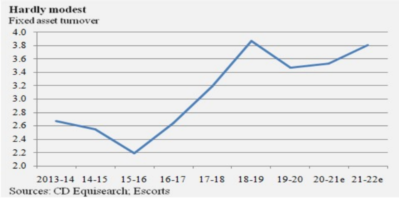
Year	Products
2017-18	NETS series (77-90 HP), Farmtrac Atom (26HP), Concept Electric Tractor and Farmtrac 6050 4WD
2017-18	TRX15, RT40 XP (Powered Boom) and EC 3212
2015-16	Powertrac products (Euro45 and Euro50); Farmtrac Classic Series (41-50 hp)
2015-16	Variants in Hydra series, Tandem HD85, Safe Crane F20

Source: Escorts

Capex

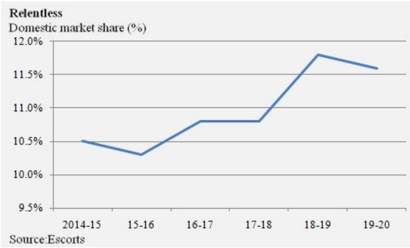
To augment capacities to meet no modest growth in Indian tractor industry, Escorts have firmed plans to erect 30000 units capacity with capex of some Rs 100 crs and outsource some 30000 units from its JV with Kubota to take its potential tractor capacity to 1.8 lakh units by next fiscal. Yet bottlenecks at its suppliers end restricted capacity utilization for much of current fiscal thus hindering production. Going by current trends, production is expected to get a leg up next fiscal though barely enough to make a pronounced dent on overall capacity utilization (on enhanced capacity). Aimed at expanding its global footprint, Escorts have anything but invested modestly in Europe for new product development and capacity enhancement over the last five years.

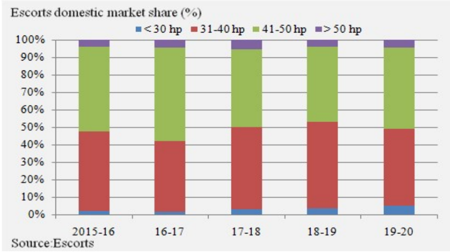




Market share

Dual distribution strategy coupled with new launches under Powertrac and Framtrac brands helped Escorts gradually gain market share over the last few years - from 10.5% in 2014-15 to 11.6% in 2019-20 but not without some setbacks in March quarter due to national lockdowns. More gains are expected for it continues to strengthen its distribution network, forge financing solutions for channel partners and deepen its strategic tie up with Kubota. Yet market share gains over the years have barely remain unhindered not least due to scarcely strong showing in Southern India - one of the biggest tractor markets; its market share stood at a measly 5.4% in FY20 compared to 4.5% in the previous year.



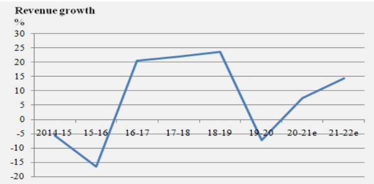


Given over 80% of the domestic tractor volumes are accounted by 31-50 hp segments, Escorts has hardly made unimpressive gains in this segment over the last four years to FY20. Thence its market share in 31-40 hp zoomed to 15.2% in FY20 from 12.8% in FY16 after peaking at 16.5% in FY19, while in 41-50 hp the gains have been all but modest - 11% in FY20 from 10.9% in FY16. Overall gains in market share in some years (like in FY17) was attributed to separate distribution networks for Farmtrac and Powertrac brands, new launches and strong growth in opportunity markets (South and west India).

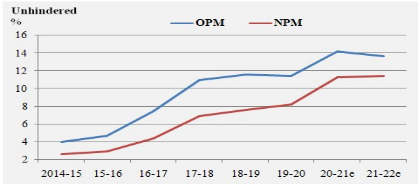
Financials & Valuation

Despite strong concentration of Indian tractor industry (by some estimate top five players together account for over 90% of the market), Escorts have scarcely made great inroads in overall domestic tractor market (its market share inched up dismally from 10.5% in 2014-15 to 11.6% in 2019-20) presumably due to barely entrenched market position in Western and Southern markets of India. Yet stronger policy impetus in form of higher MSP and roll out of newer agricultural programs have done little to stymie the overall tractor industry in last few years. Despite gradual easing of lockdown restrictions and supply chain bottlenecks, the Indian tractor industry has fared well so far this fiscal with Escorts posting 12.3% growth in domestic dispatches in Apr-Dec period little constrained by buoyant festive demand and record rabi crop production.

Resultantly, Escorts agri machinery EBIT margins have scarcely wavered - skyrocketing to 19.7% in Q2 from 10.1% in the same quarter a year ago. Favorable product mix, cost control initiatives and benefits of operating leverage largely supported buoyancy in agri machinery earnings - Rs 262.95 crs Vs Rs 101.77 crs, barely unattractive showing to aid 57.5% growth in FY21 argi machinery EBIT with margins of 17.5% compared to 12.8% in FY20. Low double digit volume growth in tractor dispatches next fiscal would little derail sustenance of Escorts argi machinery business EBIT margins.



Sources:CD Equisearch; Escorts



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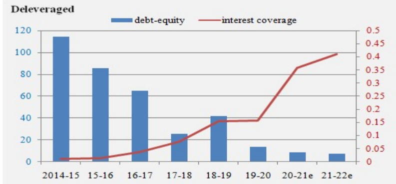
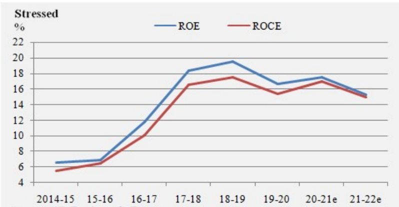


Sources:CD Equisearch; Escorts

Structural reforms in Indian Railways in form of greater private sector participation in major projects across passenger and freight trains, rolling stock and station redevelopment would help Escorts gather traction in its order book. The GOI has now started to give more thrust to rail safety, high speed connectivity, modernization of railway infrastructure and increased connectivity. Escorts expects enhanced orders from Indian Railways to fructify due to increased ordering of passenger coaches and freight wagons, conversion of passenger coaches to the modern Linke Hofmann Busch (LHB) coaches, new metro rail projects and increase in replacement demand.

Escorts railway equipment business has seen a transformation of sorts in last few years with its sales more than doubling in four years ending FY20 and EBIT margins catapulting from 9.9% in FY16 to 18% in FY20 not least due to new product launches, increased innovation and cost control. It upgraded the bogie-mounted brake systems (BMBS) for wagons, launched new type of EP brake systems for the Mumbai Rail Vikas Coaches (MRVC)and unveiled axle-mounted disc brake systems a couple of years back. It also upgraded its production infrastructure to produce new-age coupling systems and shock absorbers and state of the art validation laboratories.

The stock currently trades at 18.3x FY21e EPS of Rs 71.53 and 16.3x FY22e EPS of Rs 80.48. No measly margin expansion in H1 (OPM: 15.3% Vs 9.6%) coupled with sturdy increase in other income explain much of the 62.2% growth in consolidated post earnings when overall sales declined 1.1%. Barely fraying away the momentum, post earnings is estimated to surge by 46.7% this fiscal and 16% in next but on little robustness in return on capital. Increased business "velocity" in Escorts agri machinery business would fling its earnings share to well-nigh 90% by next fiscal. Weighing odds, we assign a buy rating on the stock with a target of Rs 1610 based on 20x FY22e earnings over a period of 9-12 months.



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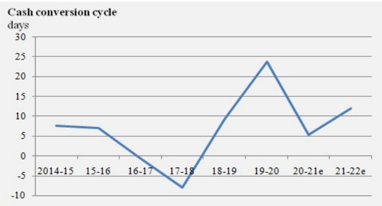

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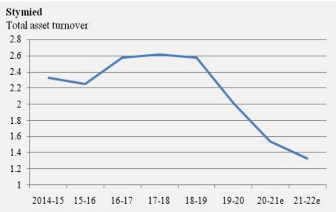


Sources:CD Equisearch; Escorts

Risks & Concerns

Cyclicality of tractor industry

The Indian tractor continues to be affected by a whole host of factors including monsoons, rural spending, policies of GOI and annual budgetary allocations. Apart from this, prospects of Escorts are also influenced by volatility in raw material prices and its limited market reach in West and South India.

Dismal state of construction equipment industry

Lackluster infrastructural spending in India over last few years continues to dog the domestic construction equipment industry. Domestic players have also been affected by cheaper imports from low cost countries that are expanding their distribution and after sales network in India. India's construction equipment exports too are expected to be affected by growing foreign competition.

Volatility in raw material prices

Given industrial nature of Escorts products, raw material cost forms a large component of its total operating cost. Recent increases in steel prices pose no small threat to margins not least due to lag effect in passing on the increase. Its railway equipment business is also tender based which limits its ability to pass on sizeable cost increases, unless price escalation clauses are built in the contracts.

Cross Sectional Analysis

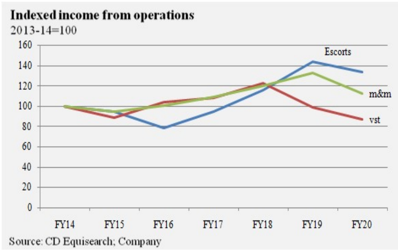
Company	Equity*	CMP	Market cap*	Sales*	Profit*	OPM (%)	NPM (%)	Int. coverage	ROE (%)	Mkt cap / sales	P/BV	P/E
Escorts	135	**1312**	**17692**	5779	601	14.1	10.4	63.3	16.5	3.1	3.0	19.4
M&M	622	749	93128	85090	972	13.4	0.0	1.2	2.5	1.1	2.4	95.8
VST	8.64	1991	1720	610	47	8.7	7.7	62.3	7.7	2.8	2.8	36.9

*figures in crores; calculations on ttm basis

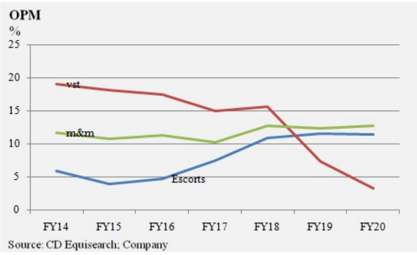
Book value adjusted for goodwill and revaluation reserves where applicable; Escorts valuation ratios adjusted for treasury shares

On back of strong rebound in agricultural activity post easing of lockdown restrictions, VST Tillers not unlike other manufacturers have posted strong growth in tractor dispatches - for the first nine months of current fiscal its tractor dispatches rose by a barely unpleasing 20.7% while volumes of its power tillers grew by an astonishing 35.3%. Bolstered by strong sales growth operating margins zoomed to 14.8% in H1 of current fiscal compared to 6.1% in the same period last fiscal, thus triggering three fold jump in operating profit. Post tax earnings too rose by 162.5% (yoy). To spread its market reach, VST Tillers has laid out plans to launch new generation tractors and tailored solutions in the compact segment.

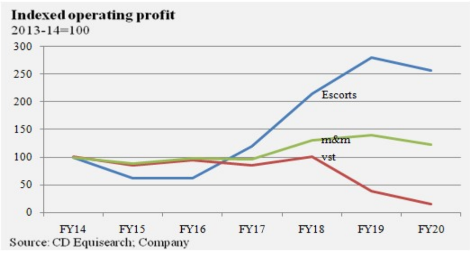
Domestic tractor dispatches of M&M rose by 23% in December and by 8% in the first nine months of current fiscal. It expects wholesale volumes to be strong backed by a motley of factors, including, restoration of channel inventory post the festive season, GOI support in kharif procurement, increase in tractor prices by OEM s and sustenance of demand fueled by higher acreage of rabi crops. Also GOI's outlay under Atmanirbhar Bharat 3.0 is also expected to support the Indian tractor industry. In December the company announced hiking tractor prices across models wef Jan 1 largely due to hike in commodity prices. Recently, M&M also unveiled its plans to new K2 series of tractors at its facility in t Zaheerabad, Telangana. Developed in collaboration with Mitsubishi Mahindra Agricultural Machinery of Japan and Mahindra Research Valley, India, K2 series would enable its presence in light-weight tractors in both domestic and international markets.



Source: CD Equisearch; Company



Source: CD Equisearch; Company



Source: CD Equisearch; Company

Financials

Quarterly Results

Figures in Rs crs

	Q2FY21	Q2FY20	% chg.	H1FY21	H1FY20	% chg.
Income from operations	**1654.18**	**1333.77**	**24.0**	**2743.44**	**2774.22**	**-1.1**
Other Income	39.19	21.44	82.8	69.78	39.37	77.2
Total Income	**1693.37**	**1355.21**	**25.0**	**2813.22**	**2813.59**	**0.0**
Total Expenditure	1356.12	1218.10	11.3	2323.40	2516.15	-7.7
PBIDT	**337.25**	**137.11**	**146.0**	**489.82**	**297.44**	**64.7**
Interest	3.77	4.05	-6.9	6.18	10.29	-39.9
Depreciation	28.00	26.74	4.7	55.08	51.49	7.0
PBT	**305.48**	**106.32**	**187.3**	**428.56**	**235.66**	**81.9**
Tax	77.25	4.08	1793.4	106.30	45.78	132.2
PAT	**228.23**	**102.24**	**123.2**	**322.26**	**189.88**	**69.7**
MI	0.35	-0.20	-275.0	0.47	-0.28	-267.9
Profit of investments	-1.01	-0.70	44.3	-2.46	-0.68	261.8
Reported PAT	**226.87**	**101.74**	**123.0**	**319.33**	**189.48**	**68.5**
Extraordinary Item	-	-7.43	-100.0	-	-7.43	-100.0
Adjusted Net Profit	**226.87**	**109.17**	**107.8**	**319.33**	**196.91**	**62.2**
EPS (F.V. 10)	22.43	12.28	82.6	32.83	22.15	48.2

Segment results

Figures in Rs crs

	Q2FY21	Q2FY20	% chg.	H1FY21	H1FY20	% chg.
Segment Revenue						
Agri Machinery Products	1332.50	1003.28	32.8	2309.21	2108.99	9.5
Railway Equipments	160.21	126.74	26.4	215.12	244.84	-12.1
Construction Equipments	156.92	200.98	-21.9	209.41	413.18	-49.3
Others	4.55	2.77	64.3	9.70	7.21	34.5
Sub Total	**1654.18**	**1333.77**	**24.0**	**2743.44**	**2774.22**	**-1.1**
Inter - Segment Revenue	-	-	-	-	-	-
Net Segment Revenue	**1654.18**	**1333.77**	**24.0**	**2743.44**	**2774.22**	**-1.1**
Segment EBIT						
Agri Machinery Products	262.95	101.77	158.4	403.69	221.61	82.2
Railway Equipments	32.50	24.21	34.2	33.92	47.83	-29.1
Construction Equipments	2.73	5.39	-49.4	-14.06	10.75	-230.8
Sub Total	**298.18**	**131.37**	**127.0**	**423.55**	**280.19**	**51.2**
Interest	3.77	4.05	-6.9	6.18	10.29	-39.9
Other Unallocable Exp.	-11.07	11.78	-194.0	-11.19	25.02	-144.7
Exceptional income/(expense)	-	-9.22	-100.0	-	-9.22	-100.0
PBT	**305.48**	**106.32**	**187.3**	**428.56**	**235.66**	**81.9**

Consolidated Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Income from operations	**5059.34**	**6262.02**	**5810.09**	**6248.52**	**7148.32**
Growth (%)	22.0	23.8	-7.2	7.5	14.4
Other Income	65.32	99.85	97.60	168.11	245.06
Total Income	**5124.66**	**6361.87**	**5907.69**	**6416.63**	**7393.38**
Total Expenditure	4512.50	5537.49	5156.91	5360.17	6173.57
EBITDA (other income included)	**612.16**	**824.38**	**750.78**	**1056.46**	**1219.81**
Interest	29.49	19.54	17.23	11.03	11.14
EBDT	**582.67**	**804.84**	**733.55**	**1045.43**	**1208.67**
Depreciation	73.22	87.21	107.22	110.44	123.94
Tax	162.49	237.77	153.53	229.07	265.76
Net profit	**346.96**	**479.86**	**472.80**	**705.92**	**818.97**
Minority interest	-0.43	-1.03	-0.53	0.95	1.00
Profit of investments	-0.37	-1.96	-1.08	-3.46	-4.00
Reported PAT	**347.02**	**478.93**	**472.25**	**701.51**	**813.97**
Extraordinary item	-2.70	6.00	-5.91	-	-
Adjusted Net Profit	**349.72**	**472.93**	**478.16**	**701.51**	**813.97**
EPS* (Rs.)	39.35	53.21	53.80	71.53	80.48

*adjusted for treasury shares

Segment Results

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Segment Revenue					
Agri Machinery Products	4012.88	4798.51	4472.49	5154.29	5765.72
Railway Equipments	286.60	394.07	477.22	465.12	520.93
Construction Equipments	780.34	1054.07	839.76	609.41	840.00
Others	10.17	15.90	20.69	19.70	21.67
Sub Total	**5089.99**	**6262.55**	**5810.16**	**6248.52**	**7148.32**
Inter - Segment Revenue	9.80	0.53	0.07	-	-
Net Segment Revenue	**5080.19**	**6262.02**	**5810.09**	**6248.52**	**7148.32**
Segment EBIT					
Agri Machinery Products	540.35	666.04	572.49	901.58	1009.00
Railway Equipments	39.77	78.32	85.83	78.92	93.77
Construction Equipments	15.01	37.81	30.22	-4.06	29.40
Auto Ancillary Products	0.00	1.89	-	-	-
Sub Total	**595.13**	**784.06**	**688.54**	**976.44**	**1132.17**
Interest	29.49	19.54	17.23	11.03	11.14
Other Unallocable Exp. (net of income)	49.43	52.45	35.76	30.42	36.30
Exceptional income/(expense)	-6.76	5.56	-9.22	-	-
PBT	**509.45**	**717.63**	**626.33**	**934.99**	**1084.73**

Consolidated Balance Sheet Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
SOURCES OF FUNDS					
Share Capital	122.58	122.58	122.58	122.58	122.58
Reserves	2092.56	2550.91	2994.82	4827.58	5616.32
Total Shareholders Funds	**2215.14**	**2673.49**	**3117.40**	**4950.16**	**5738.90**
Minority Interest	-0.40	5.64	5.10	6.05	7.05
Long term debt	14.71	3.53	24.47	51.94	81.19
Total Liabilities	**2229.45**	**2682.66**	**3146.97**	**5008.15**	**5827.14**
APPLICATION OF FUNDS					
Gross Block	2497.33	2622.80	2764.78	3014.78	3214.78
Less: Accumulated Depreciation	909.53	975.57	1062.37	1172.81	1296.76
Net Block	**1587.80**	**1647.23**	**1702.41**	**1841.97**	**1918.02**
Capital Work in Progress	65.72	79.96	124.66	125.00	100.00
Investments	549.04	490.79	797.36	2733.27	3029.33
Current Assets, Loans & Advances					
Inventory	565.73	857.42	883.36	725.00	1000.77
Sundry Debtors	592.00	931.05	731.86	600.00	929.28
Cash and Bank	317.29	243.30	324.88	477.83	401.25
Other Assets	179.09	334.52	319.92	246.56	271.73
Total CA & LA	**1654.11**	**2366.29**	**2260.02**	**2049.39**	**2603.03**
Current liabilities	1551.16	1798.64	1649.71	1652.32	1710.69
Provisions	132.92	120.04	125.75	132.42	148.16
Total Current Liabilities	**1684.08**	**1918.68**	**1775.46**	**1784.74**	**1858.85**
Net Current Assets	-29.97	447.61	484.56	264.65	744.18
Net Deferred Tax	-18.89	-51.65	-29.27	-26.56	-28.88
Other Assets (Net of liabilities)	75.75	68.72	67.25	69.82	64.49
Total Assets	**2229.45**	**2682.66**	**3146.97**	**5008.15**	**5827.14**

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios					
Revenue (%)	22.0	23.8	-7.2	7.5	14.4
EBIDTA (%)	78.8	30.9	-8.6	34.1	9.7
Net Profit (%)	94.6	35.2	1.1	46.7	16.0
EPS (%)	94.6	35.2	1.1	33.0	12.5
Margins					
Operating Profit Margin (%)	10.9	11.6	11.4	14.2	13.6
Gross Profit Margin (%)	11.6	12.7	12.8	16.7	16.9
Net Profit Margin (%)	6.9	7.6	8.2	11.3	11.5
Return					
ROCE (%)	16.6	17.6	15.4	17.0	15.0
ROE (%)	18.4	19.5	16.7	17.5	15.3
Valuations					
Market Cap / Sales	2.0	1.6	1.4	2.8	2.5
EV/EBIDTA	15.0	11.5	9.5	14.2	12.3
P/E	20.8	15.0	12.3	18.3	16.3
P/BV	3.3	2.7	1.9	2.7	2.3
Other Ratios					
Interest Coverage	18.4	37.3	37.8	85.8	98.4
Debt-Equity Ratio	0.1	0.2	0.1	0.0	0.0
Current Ratio	1.3	1.4	1.6	2.5	2.9
Turnover Ratios					
Fixed Asset Turnover	3.2	3.9	3.5	3.5	3.8
Total Asset Turnover	2.6	2.6	2.0	1.5	1.3
Debtors Turnover	9.7	8.2	7.0	9.4	9.3
Inventory Turnover	8.9	7.8	5.9	6.7	7.2
Creditors Turnover	4.2	4.5	4.1	4.1	4.7
WC Ratios					
Debtor Days	37.8	44.4	52.2	38.9	39.0
Inventory Days	41.2	46.9	61.7	54.8	51.0
Creditor Days	86.9	81.8	90.1	88.3	78.0
Cash Conversion Cycle	-7.9	9.5	23.8	5.4	12.1

Cumulative Financial Data

Figures in Rs crs	FY14-16	FY17-19	FY20-22e
Income from operations	11901	15467	19207
Operating profit	583	1588	2526
EBIT	581	1564	2693
PBT	396	1483	2654
PAT after MI	369	1002	1994
OPM (%)	4.9	10.3	13.1
NPM (%)	3.1	6.5	10.4
Interest coverage	3.1	19.3	68.4
ROE (%)	7.9	16.3	15.9
ROCE (%)	6.9	13.9	15.0
Fixed asset turnover	2.5	3.2	3.6
Debtors turnover	9.3	7.9	6.9
Inventory turnover	7.9	7.2	6.0
Creditors turnover	4.6	4.6	4.3
Debtors days	39.2	46.2	53.0
Inventory days	46.3	50.9	61.0
Creditors days	78.9	78.9	84.9
Conversion cycle	6.5	18.2	29.1

FY14-16 implies three years ending fiscal 16; *as on terminal year

Growth in volumes (by over 20%) during FY20-22e period explains much of the expected growth in cumulative sales of some 24% when compared to FY17-19 period, though cumulative operating profit of 59% would largely be a function of higher margins - OPM estimated to rise to 13.1% compared to 10.3% in FY17-19 period. Thence cumulative post tax earnings would all but double during this period, thus little hindering rise in NPMs to 10.4% from 6.5% in FY17-19 period, though markedly high from a puny 3.1% in FY14-16 period.

Yet ROE would anything but rise (15.9% Vs 16.3%) not least due to growing stock of liquid assets which get invested at rates lower than cost of equity. Further equity fund infusion of over Rs 1000 crs by Kubota would take some time before it gets channelized in to productive assets; though ROCE would jump marginally to 15% from 13.9% (see table). Increase in creditor days would partially circumvent much of the combined increase in debtors and inventory days thus restricting sharp jump in conversion cycle - 29.1 days from 18.2 days. Massive drop in interest expense during FY20-22e would barely hinder a big rise in interest coverage ratio (see table).

Financial Summary – US dollar denominated

million $	FY18	FY19	FY20	FY21e	FY22e
Equity capital	18.8	17.7	16.3	16.8	16.8
Shareholders funds	337.1	382.7	410.7	674.3	782.3
Total debt	7.9	40.6	5.5	8.2	11.2
Net fixed assets (incl CWIP)	254.2	249.7	242.4	269.3	276.3
Investments	84.4	71.0	105.8	374.3	414.8
Net current assets	-8.0	60.9	61.4	32.8	98.4
Total assets	339.3	384.1	414.6	682.3	794.4
Revenues	785.0	896.0	819.7	855.6	978.8
EBITDA	95.6	116.7	107.0	144.7	167.0
EBDT	91.0	113.9	104.6	143.1	165.5
PBT	79.7	101.4	89.5	128.0	148.5
Profit after MI & others	54.3	67.7	67.5	96.1	111.5
EPS($)	0.61	0.76	0.76	0.98	1.10
Book value ($)	3.79	4.31	4.62	6.67	7.74

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate ($73.03/$)

Recommendation

Sorting out of supply chain bottlenecks helped pushed Escorts tractor capacity utilization from some 50% in July to near peak capacity by the end of Q2, thus enabling spurt in agri-machinery margins in Q2. Structural changes in Indian tractor industry brought about from higher use of higher hp tractors, increasing use of tractors for non-agricultural purposes and growing trend of sharing and renting of tractors from novel concept of tractor aggregators has little demand suppressing potential for domestic tractor manufacturers.

Prospects of Escorts railway equipment division would hinge on expanding its product range (Microprocessor Controlled Electric Brake System and automatic doors to name a few), forging technological alliances (like Medel Elektronik of Turkey for vacuum toilet systems) and leveraging in-house product development capabilities and localization of import content of its new and existing products. Escorts sees no small potential for automatic doors for Indian Railways for it has commenced testing these products.

For construction equipment business, further enhancement of export footprint through collaborations and cross-business synergies and maximizing presence in high-end cranes remain top priorities. Yet the cyclical nature of construction equipment industry pose no small threat for Escorts construction equipment volumes nosedived over 27% last fiscal largely on account of financing stress in infrastructure projects and aggravated by national lockdowns in March. Cheaper imports rattle too.

Yet improvement in market position in rough terrain cranes segment is expected not least due to Escorts JV with Tadano Group for manufacturing customized rough terrain cranes and truck mounted cranes in 20-80 tonnage segments. It unveiled a new range of construction equipment products including safe crane, new hydra safe crane, mini tandem compactor, soil compactor, and backhoe loader early this fiscal. Further its distributorship tie up with Doosan Infracore would help widen its product range, including crawler excavators, mini excavators and wheel loaders.

The stock currently trades at 18.3x FY21e EPS of Rs 71.53 and 16.3x FY22e EPS of Rs 80.48. Conversion to cash and carry model for dealers helped Escorts to not unremarkably bring down debtor days in the first half of current fiscal with the gains expected to extend for much of current fiscal. Near peak utilization of tractor capacity would galvanize fixed asset turnover but with little perceptible impact on return on capital. With a higher base and flat lining of agri machinery margins, overall earnings growth would turn modest next fiscal (16% in FY22). Yet near term catalyst in form of increased of take of higher hp tractors requires little inattention. Weighing odds, we assign a buy rating on the stock with a target of Rs 1610 based on 20x FY22e earnings over a period of 9-12 months.

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CD Equisearch Private Limited (CIN: U67120WB1995PTC071521)
Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, DinshawWachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY17	FY18	FY19	FY20
Average	67.09	64.45	69.89	70.88
Year end	64.84	65.04	69.17	75.39

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.