

January 5, 2019

<b>Rating:</b>	<b>BUY</b>
Ticker:	ESCORTS
CMP:	Rs. 724
Target:	Rs.832
Upside:	15%

**Key Stock Data**

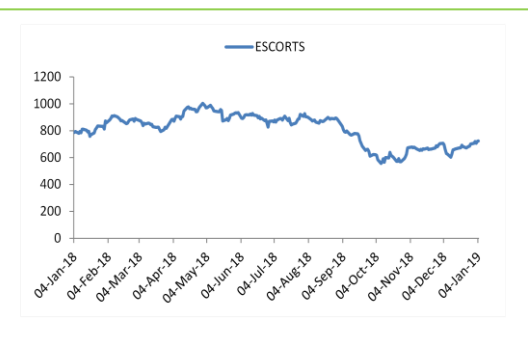
Sector	Commercial Vehicles
No. of shares	12.2 Crs
FV (Rs)	10
MCAP (Rs)	8876 Crs
MCAP (\$)	127 Crs

**Key Financials (Rs. in Crs)**

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	5075	5837	6712
EBITDA	617	759	940
PAT	345	409	537
EPS /sh.	28.85	33.33	43.81
BV /sh.	207	239	274
P/BV (x)	3.48	3.02	2.63
PE (x)	25.09	21.72	16.53

**Shareholding Pattern**

Promoters	40.07%
FII's	22.42%
DII's	5.73%
Others	31.78%



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**Escorts Ltd. - ESCORTS****2QFY19 Result Update**

The Company reported good set of 2QFY19 numbers on all counts on a yearly basis. The topline of the company grew by 16% Y-o-Y to Rs.1420 Crs in 2QFY19 as against Rs.1220 Crs in 2QFY18. EBITDA for the quarter grew by 20% Y-o-Y to Rs.179 Crs in 2QFY19 as against Rs. 149 Crs in 2QFY18. PAT for the quarter grew by good 32% Y-o-Y to Rs. 103 Crs in 2QFY19 as against Rs. 78 Crs in 2QFY18. EBITDA Margin increased by 41bps Y-o-Y to 12.63% as against 12.22% in 2QFY18. PAT Margin increased by 87 bps Y-o-Y to 7.23% in 2QFY19 as against 6.36% in 2QFY18.

**Strong monthly sales numbers.**

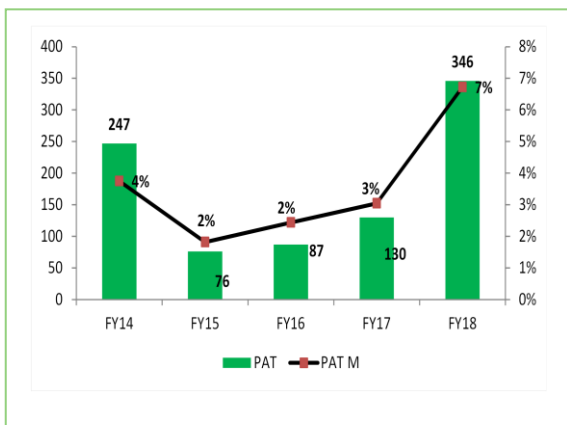
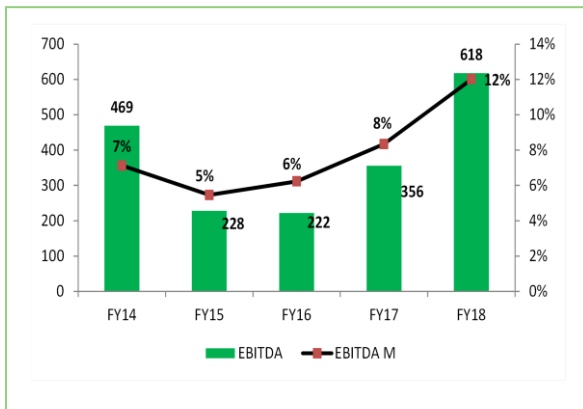
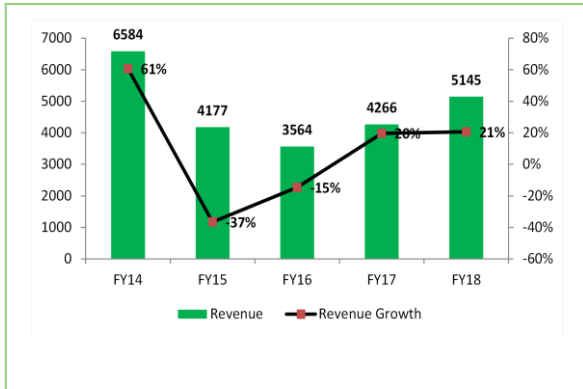
Escort which is primarily into tractor sales has been consistently reporting good set of monthly automobiles sales numbers. The total sales data for the month of October, November and December 2018 grew by 29%, 56% and 21% respectively on a yearly basis. Exports for the company has also picked up by steeply and reported an export growth of 34%, 104% and 197% for the Month of October, November and December respectively. The domestic business has also reported good growth and grew by 29%, 55% and 21% for the month of October, November and December 2018 respectively.

**Outlook & Valuations**

Escort has been reporting healthy volume sales numbers both on domestic as well as on exports front over the last three months. The management has also guided for 12-15% industry growth and the management is confident of surpassing the industry growth. Markets share has also been increasing for Escorts on account of new product launches. The stock is currently valued at 16.53x on an FY20E basis and we would like to allot a PE multiple of 19x on an FY20E on an EPS of Rs. 43.81 to arrive at a target price of Rs. 832 per share.

**Quarterly Financial Highlight Table (Rs. In Crs)**

Particulars	2QFY19	1QFY19	2QFY18	Q/Q	Y/Y	FY2018
Revenue	1420	1528	1220	-7%	16%	5075
EBITDA	179	203	149	-11%	20%	617
PAT	103	120	78	-14%	32%	345
EPS	8.59	10.10	6.49	-15%	32%	28.85
EBITDA M	12.63%	13.25%	12.22%	(62 bps)	41 bps	12.15%
PAT M	7.23%	7.82%	6.36%	(59 bps)	87 bps	6.79%



## Investment Rationale

### 1. Strong Revenue guidance

The Management has guided for a healthy volume growth of 12-15% in tractor industry for FY19. The management further quoted they will fetch better traction from its key markets and expects rural revival through various government schemes. The management maintained its earlier guidance of 12-15% YoY growth for domestic tractor industry in FY19. The management aims to outperform strongly on account of favorable geographical mix. The Management also guided for 50% growth in its export volume. Exports sales growth is reflected in the automobiles sales data which indicates that management is walking the talk. It expects the industry to grow by 18-20% in 3QFY19.

### 2. Increasing Market Share

Escorts Ltd. is consistently increasing its market share across all geographies. Escorts market share in the tractor segment improved by 70bps on a yearly and 40bps on a sequential basis to 11.1% in 2QFY19 as reported by the management. The Management acknowledges this success to products and strong marketing strategies which are able to connect with the dealers and customers. The management has revamped the product portfolio over the past three years which has led to 75% of volume from products launched in last 3 years. Also healthy financing tie-ups which include a joint venture with De Lage Landen Financial Services India (DLL) and an increasing dealer network have helped to gain market share in West India to 9.5% in FY18 against 7.8% in FY16 and has also helped sustain the share in other geographies.

### 3. Cost cutting measures and operating leverage to expand margins

Escort's EBITDAM has consistently improved from 12.95% in 1HFY19 as against 11.11% in H1FY18 and 6.9% in FY17. This increment is driven by several measures like the cost reduction initiatives, benefit of operating leverage and exit from the loss-making automotive component business. Additionally, there was an operating level breakeven in the CE (Construction equipment) segment in fiscal 2018. The management expects further improvement in the margin of 1-2% by FY20 driven chiefly by benefit of operating leverage, changing product mix and cost reduction measures.

January 5, 2019

The Escorts Group is an Indian engineering company.

The company manufactures tractors under the brand names of Farmtrac, Powertrac, and Steeltrac.

Monsoon is a major risk associated with the tractor industry.

Rising cost of metals such as steel influences the businesses thereby impacting margins negatively.

Escort has been reporting healthy volume sales numbers both on domestic as well as on exports front over the last three months.

The management has also guided for 12-15% industry growth.

The stock is currently valued at 16.53x on an FY20E.

## Company Background

The Escorts Group is an Indian engineering company that operates in the sectors of agri-machinery, construction and material handling equipment, and railway equipment. The company manufactures tractors under the brand names of Farmtrac, Powertrac, and Steeltrac. Escorts Construction Equipment manufactures and markets construction and material handling equipment like pick and carry cranes, backhoe loader, vibratory rollers, and forklifts. Railway Equipment Division manufactures and supplies critical railway components such as air brake system, EP brake system, draft gears and couplers, composition brake blocks, dampers and rubber components to Indian Railways

## Risk & Concerns

Monsoon is a major risk associated with the tractor industry, since close to 52% of farm fields are dependent on the mood of the season. Lack of monsoon can be a major risk to the business.

Rising cost of metals such as steel influences the businesses, particularly the construction equipment segment. Any hike in commodity prices will impact the margins negatively.

Increasing international crude oil prices compound the upward pressure on automotive fuel in the domestic economy and raise the cost of equipment ownership, adversely impacting end users of your Company's products.

## Outlook & Valuations

Escort has been reporting healthy volume sales numbers both on domestic as well as on exports front over the last three months. The management has also guided for 12-15% industry growth and the management is confident of surpassing the industry growth. The stock is currently valued at 16.53x on an FY20E basis and we would like to allot a PE multiple of 19x on an FY20E on an EPS of Rs. 43.81 to arrive at a target price of Rs. 832 per share.

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Analyst Stock Rating	
<b>Ratings</b>	<b>Expected absolute returns over 12 months</b>
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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