

Escorts Ltd.

₹ 119

Good Times Set to Come!**Accumulate**

May 16, 2014

Company Background

Escorts Ltd. (Escorts), is among India's leading engineering companies operating in the high growth sectors of agri-machinery, construction & material handling equipment, railway equipment and auto components. Having pioneered farm mechanization in the country, it has played a pivotal role in the agricultural growth of India for over five decades. As one of the leading tractor manufacturers of the country with a portfolio of more than 45 variants suitable for all agri jobs. As a material handling and construction equipment manufacturer, it manufactures and markets a diverse range of equipment like cranes, loaders, vibratory rollers and forklifts. Escorts today is the world's largest Pick 'n' Carry Hydraulic Mobile Crane manufacturer. The Company has also been a major player in the railway equipment business in India for nearly five decades with products offering ranging from brakes, couplers, shock absorbers, rail fastening systems, composite brake blocks and vulcanized rubber parts. In the auto components segment, Escorts is a leading manufacturer of auto suspension products including shock absorbers and telescopic front forks.

Key Highlights

- ➔ The Agri Machinery division of the company has shown some impressive growth in the last quarter the division recorded 7-10% M-o-M growth over the corresponding months of the previous year.
- ➔ Food security & rural development will remain high on the new government's agenda with the resulting in an increase in Agri credit outlay, interest subvention etc. This, coupled with significantly low levels of mechanisation in Indian farms compared to the global average, indicates that there is significant growth potential for agricultural mechanisation in the country..
- ➔ The present construction equipment industry in India is approx \$7bn and is likely to grow at 12-13% in the next 5 years. This will provide opportunities.
- ➔ Escorts has undertaken activities for plant and machinery upgradation and is in the process of making significant investment for capacity optimisation and enhancement. This has resulted in sizeable and sustainable increase in production which will help it cater to the growth of the auto component segment.

Key Financials

Year Ended 30 st	Sep 10	Sep 11	Sep 12
Revenue (INR mn)	28,368.3	33,272.1	39,490.1
Rev. growth (%)	27.88	17.29	18.69
EBITDA (INR mn)	2,919.7	2,481.1	2,347.7
Net profit (INR mn)	1,375.5	1,200.9	696.0
Shares outstanding (mn)	105.6	105.6	122.6
EPS (INR)	13.0	11.4	5.7
EPS growth (%)	31.65	(12.69)	(50.06)
P/E (x)	16.6	6.2	11.3
RONW (%)	6.9	4.4	3.9
ROCE (%)	5.8	3.7	3.1

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Info Codes

Reuters	: ESCO.BO
Bloomberg	: ESC@IN
NSE	: ESCORTS
BSE	: 500495

Market Data

52 Wk Range (₹)	: 60 / 145
Shares in Issue (mn)	: 122.6
Mkt. Cap (₹ bn)	: 14.4
BSE 2 Wk Avg Vol	: 443000

Share Holding Pattern (%)

Promoters	: 41.97
FII's	: 6.88
DII's	: 2.18
Others	: 48.97

Investment Theme

Escorts is the pioneer to initiate farm mechanisation in India. The segments which it caters too are farm equipments, construction machinery, railway ancillary and auto products. With the current change in the political scenario in India it is expected that most of its segments will gain good momentum with the introduction of easy farm credit & rural focus of government spend, development of various infrastructure projects and setting up of a 100 satellite towns along with initiation of dedicated railway corridors for freight, etc. Another plus point for the company is the 100 acre landbank at Faridabad which has a value of over INR 1000 Cr. Though revalued in 2009 the landbank is still lying idle and there are high chances that it will be monetised in the coming days taking into consideration its location in the expanding NCR region.

The Farmers Friend!

Financial Statements

Income Statement

(₹ mn)

Year end	Sep 10	Sep 11	% Chg	Sep 12	% Chg
Total Sales + Excise	27767.9	32641.2	17.55	39972.0	22.46
Other Income	826.8	892.3	7.92	575.4	(35.51)
Change in Stocks	557.6	348.7	(37.46)	578.1	65.79
Raw Material Con.	18137.9	21387.0	17.91	27046.1	26.46
Employee Exp.	2931.7	3143.6	7.23	3859.7	22.78
Indirect Taxes	267.3	304.1	13.77	1089.3	258.20
Other Exp.	4895.7	6566.4	34.13	6782.7	3.29
Operating Exp.	25675.0	31052.4	20.94	38199.7	23.02
Operating Profit	2092.9	1588.8	(24.09)	1772.3	11.55
Total Interest	579.4	557.7	(3.75)	964.4	72.92
Gross Profit	2340.3	1923.4	(17.81)	1383.3	(28.08)
Net Dep.	460.1	532.3	15.69	503.8	(5.35)
Total Taxation	504.7	190.2	(62.31)	183.5	(3.52)
Net Profit/Loss	1375.5	1200.9	(12.69)	696.0	(42.04)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 30 st	Sep 09	Sep 10	Sep 11	Sep 12
SOURCES OF FUNDS	16,344.5	19,719.6	21,157.9	21,221.2
Equity Share capital	907.1	1,022.8	1,023.1	1,192.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	12,784.8	15,710.8	16,416.5	14,484.0
Long Term Loans	1,662.5	2,164.8	2,824.8	2,641.7
Short Term Loans	990.1	821.2	893.5	2,902.8
USES OF FUNDS	16,344.5	19,719.6	21,157.9	21,221.2
Gross Block	20,598.3	20,954.5	21,411.2	22,962.6
Less : Revaluation Reserves	750.0	644.7	545.8	462.9
Less : Accumulated Depreciation	6,029.3	6,457.4	6,792.4	7,100.1
Net Block	13,819.0	13,852.4	14,073.0	15,399.6
Capital Work in Progress	107.1	194.3	452.7	664.9
Investments	2,358.0	3,658.0	3,658.0	3,859.1
Current Assets	11,076.8	13,562.6	13,704.1	14,920.3
Less : Current Liabilities	11,070.6	11,567.2	10,748.6	13,635.3
Total Net Current Assets	6.2	1,995.4	2,955.5	1,285.0
Misc. Expenses not written	54.2	19.5	18.7	12.6
NOTE				
Bk Val Unquoted Investments	2,317.9	3,617.9	3,617.9	3,821.9
Mkt Val. Quoted Investments	10.1	55.5	33.3	44.1
Contingent Liabilities	2,773.7	2,842.2	3,360.2	2,700.7
Dividend (%)	10	15	15	12

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	10,006.40	11,759.30	9,442.50	11,595.90
Cost Of Sales	9,463.60	10,831.80	8,798.00	10,886.00
Operating Profit	542.80	927.50	644.50	709.90
Recurring Income	110.60	139.00	159.80	158.50
Adjusted PBDIT	653.40	1,066.50	804.30	868.40
Financial Expenses	217.20	202.50	182.60	155.20
Depreciation	130.90	133.40	140.00	145.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	305.30	730.60	481.70	568.00
Tax Charges	0.00	139.70	46.60	112.40
Adjusted PAT	305.30	590.90	435.10	455.60
Non Recurring Items	69.40	(7.90)	1.20	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	374.70	583.00	436.30	455.60

52 Week Index Relative Percentage Appreciation



Escorts vs SENSEX

The Inside Story

Escorts owns about 100 acres of land at Faridabad and with the relation to the price over there it was revalued in 2009 at Rs 1,000 crore and even if you take a 60% appreciation in property prices since 2009, the value of the land is more than the current EV of the company, leave aside the one lakh tractor manufacturing capacity and the construction business. Both are likely to do well.

Further looking at the segments Escorts caters to most of the segments would do well especially due to the change in government viz. Infrastructure where its construction equipment business and railway division would benefit and the targetted agricultural growth by which the agri equipment division would benefit.

Risks Associated

The raw material cost represents the largest expense head of the tractor industry with alloy steel and pig iron (primary components) accounting for 75-80 per cent of the total raw material cost. Over the last three years, the prices of iron, alloy steel and rubber have been volatile. Any further variation will affect the profitability. With the price of crude oil rising significantly over the past few months, the price of automotive fuel is likely to face upward pressure. With the normal monsoons in the country good agricultural growth can be expected, however tractor sales to some extent run the risk of a demand drop in case of a significant variation in monsoon.

Escorts

In a Nutshell

Incorporated in 1944 Escorts Ltd.(ESCORTS), manufactures farm equipment, automotive components, railway ancillaries and construction machinery. Escorts has played a pivotal role in the agricultural growth of India for over six decades. Having pioneered farm mechanization in the country, it has been developing solutions to enhance agricultural productivity and improve quality of life in rural India. Escorts is one of the country's biggest tractor makers with several brands of tractors; viz. Escort, Farmtrac and Powertrac etc. It also manufactures a variety of other agri related equipments like Paddy Transplanters, Sugarcane Harvesters, etc. As a leading manufacturer of auto products in India for over four decades, its extensive product basket caters to OEMs and replacement market in India and several other overseas markets for all vehicle categories including motorcycles, scooters, passenger cars, commercial vehicles, and multi-utility vehicles. Escorts also designs and manufactures specialised dampers and shock absorbers for railway and defence vehicles. Its replacement market network is strong at 300 dealers and more than 10,000 retailers expanding all over India, South Asia, Europe and the Middle East. Escorts also manufactures and markets a diverse range of construction and material handling equipment like cranes, loaders, vibratory rollers and forklifts. It was a pioneer in introducing the concept of Pick 'n' Carry hydraulic mobile cranes in the 70s in India and continues to be the world's largest manufacturer of these cranes. Since 1962, the company has remained as one of the reliable partners of Indian Railways throughout its journey of modernization.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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