

Escorts Ltd.**₹ 298****Favourable Policies !!!****Buy**

Dec 30, 2016

Company Background

Escorts Ltd. (Escorts), is among India's leading engineering companies operating in 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 & 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 5 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 telescopic forks and shock absorbers.

Key Highlights

- ➔ In November 2016 Escorts sold 4,806 tractors growth of 2.1 percent against 4,706 tractor in November 2015. Export for the month of November 2016 up by 620 percent at 108 tractors against 15 tractors in November 2015.
- ➔ India holds the second largest agricultural land in world & has experienced a normal monsoon last year and expects to repeat the same next year. The Introduction of GST would further catalyse growth.
- ➔ Government has taken its stand on improving the rural economy and are planning to double the farmer income by 2022.
- ➔ With infrastructure investment set to go up, demand for construction equipment will rise further. The Govt. policy action and investment in key areas e.g. Roads, Railways, Defence and Smart cities is likely to fuel the industry. Construction equipment accounts for 60+ in infrastructural investment.
- ➔ The management is keen on cost reduction & has taken measures to target improvement in EBIDTA to 15%.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	65,057.9	42,116.0	36,107.0
Rev. growth (%)	60.72	(35.26)	(14.27)
EBITDA (INR mn)	2,328.2	4,662.9	1,914.2
Net profit (INR mn)	2,448.9	747.1	893.8
Shares outstanding (mn)	119.3	119.3	119.4
EPS (INR)	13.5	6.0	7.2
EPS growth (%)	139.01	(55.42)	20.47
P/E (x)	8.54	21.14	19.21
RONW (%)	9.71	5.53	5.55
ROCE (%)	11.00	6.54	6.77

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Info Codes

Reuters	: ESCO.BO
Bloomberg	: ESC:IN
NSE	: ESCORTS
BSE	: 500494

Market Data

52 Wk Range (₹)	: 113 / 414
Shares in Issue (mn)	: 119.4
Mkt. Cap (₹ bn)	: 36.34
BSE 2 Wk Avg Vol	: 121000

Share Holding Pattern (%)

Promoters Holding	: 42.99
Corporate Holding	: 04.76
Domestic Institution	: 03.79
Foreign Institution	: 12.02
Public & Others	: 36.44

Investment Theme

Escorts caters to various segments viz. agriculture equipments, construction machinery, railway ancillary and auto products. With the current focus on all of these it is expected that most of its segments will gain good momentum after the budget with the introduction of easy farm credit & rural focus of government expenditure, 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 considering its location in the expanding NCR region. All this along with the continuous government impetus on agriculture will benefit the company.

Rural Growth... Do you Agri!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	62,915.1	39,858.3	(36.6)	34,722.1	(12.9)
Other Income	814.1	1,499.6	84.2	577.9	(61.5)
Change in Stocks	159.4	(820.7)	(614.9)	53.1	(106.5)
Raw Material Con.	45,264.2	27,665.5	(38.9)	23,993.4	(13.3)
Employee Exp.	6,706.9	4,636.9	(30.9)	4,218.5	(9.0)
Indirect Taxes	1,328.7	758.1	(42.9)	807.0	6.5
Other Exp.	5,925.9	5,562.5	(6.1)	4,301.5	(22.7)
Operating Exp.	59,225.7	38,623.0	(34.8)	33,320.4	(13.7)
Operating Profit	4,662.9	1,914.2	(58.9)	2,032.7	6.2
Total Interest	1,106.7	571.1	(48.4)	512.9	(10.2)
Gross Profit	3,556.2	1,343.1	(62.2)	1,519.8	13.2
Net Dep.	832.2	660.6	(20.6)	601.1	(9.0)
Total Taxation	275.1	(64.6)	(123.5)	24.9	(138.5)
Net Profit/Loss	2,448.9	747.1	(69.5)	893.8	19.6

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	23,097.4	24,153.9	24,253.8	22,905.1
Equity Share capital	1,192.7	1,192.7	1,192.9	1,193.9
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	14,946.9	17,121.1	16,770.1	17,529.0
Secured Loans	5,492.9	4,271.0	4,779.6	3,546.5
Unsecured Loans	1,464.9	1,569.1	1,511.2	635.7
USES OF FUNDS	23,097.4	24,153.9	24,253.8	22,905.1
Gross Block	22,962.6	24,219.5	24,099.7	24,492.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	7,100.1	7,792.6	8,270.1	8,766.7
Net Block	15,862.5	16,426.9	15,829.6	15,725.5
Capital Work in Progress	664.9	373.6	554.6	581.9
Investments	3,859.1	3,815.0	3,834.5	3,899.9
Current Assets	13,110.3	14,405.1	13,553.9	12,768.0
Less : Current Liabilities	11,609.1	11,130.3	10,224.2	10,697.9
Total Net Current Assets	1,501.2	3,274.8	3,329.7	2,070.1
Misc. Expenses not writtenoff	1,209.7	263.6	705.4	627.7
NOTE				
Book Value of Unquoted Investments	192.5	150.8	170.3	230.3
Market Value of Quoted Investments	2,606.2	4,414.9	4,909.6	5,351.1
Contingent Liabilities	2,476.6	3,222.3	2,326.9	2,679.1
Dividend (%)	12.0	18.0	12.0	12.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 15	Mar 16	Jun 16	Sep 16
Net Sales	8,842.2	8,007.9	10,655.9	9,909.9
Cost Of Sales	8,539.6	7,790.7	9,881.8	9,328.7
Operating Profit	302.6	217.3	774.1	581.3
Other Income	170.1	227.0	144.9	114.7
Adjusted PBDIT	472.7	444.3	919.0	696.0
Financial Expenses	111.9	152.1	111.9	96.3
Depreciation	148.5	136.7	145.0	163.0
Other Write Offs	0.0	0.0	0.0	38.7
Adjusted PBT	212.3	155.5	662.1	398.0
Tax Charges	7.3	(8.8)	192.5	85.1
Reported Profit	205.0	164.3	469.6	312.9
Extra Ordinary Items	0.7	(131.3)	(63.0)	(38.7)
Other Non Cash Adjust	0.0	0.0	(18.3)	(8.3)
Adjusted Net Profit	204.3	295.6	514.3	343.3

52 Week Index Relative Percentage Appreciation



Escorts vs SENSEX

Points to Ponder

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. It 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. Each of the segments which Escorts caters to is the targetted segment of next budget so growth is bound to follow.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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