

**Escorts Ltd.****₹ 674****Feed Efficiently...!!!****Accumulate****Mar 01, 2019****Company Background**

Escorts Ltd is one of India's leading engineering conglomerates with over six decades of experience. The company has diversified business in three different segments; Agri Machinery, Material Handling & Construction Equipment and Railway Equipment. Escorts Ltd was incorporated in the year 1944 as Escorts Agents Ltd in Lahore. The company was converted into a public Limited in December 1959 and subsequently, the name was changed to Escorts Ltd in January 1960. In 1961, the company set up a manufacturing base at Faridabad for manufactures of tractors in collaboration with URSUS of Poland and launched Escort brand of tractors. In recent months, Escorts' Construction Equipment Division announced entering into an exclusive distribution agreement with Doosan Infracore Co. Ltd, South Korea. Doosan is a global leader in the manufacturing and marketing of Crawler Excavators, Mini Excavators and Wheel Loaders. The product range offered by Doosan complements the current product offering of Escorts Construction Equipment. With this association with Doosan, Escorts Construction Equipment will be able to double its addressed market in Indian Construction Equipment Industry from existing 40% to more than 80% by value.

**Key Highlights**

- ➔ During the current year, Company announced an investment of ₹ 300 crore will be spent in the installation of new machines at its Faridabad plant as also in the expansion of capacity, due to this expansion its capacity increase to 1,50,000 tractors per annum.
- ➔ In Q3, Escorts Ltd announced a joint venture with Kubota Corporation for technology collaboration and joint manufacturing of high-end, value-oriented utility tractor range. The JV will establish with an initial capacity of 50,000 units, and the units will be sold by both players respectively with their sole channel network in domestic markets.
- ➔ During the Q2, Escorts entered into a joint venture with Tadano Group, would manufacture Rough Terrain cranes and truck mounted cranes, for an initial investment of ₹ 60 crore. In Q3 Escorts Ltd was transfer its existing RT Crane business to the JV as a going concern on a slump sale basis for ₹ 35 crore.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	34,944.9	42,260.4	50,753.8
Rev. growth (%)	(17.03)	20.93	20.10
EBITDA (INR mn)	2,032.9	3,302.2	6,098.7
Net profit (INR mn)	837.5	1,604.4	3,447.2
Shares outstanding (mn)	122.6	122.6	122.6
EPS (INR)	6.8	13.1	28.1
EPS growth (%)	13.64	91.65	114.82
P/E (x)	20.36	41.17	29.10
RONW (%)	5.87	8.38	15.19
ROCE (%)	7.54	11.73	21.76

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**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 543/1018
Shares in Issue (mn)	: 122.6
Market. Cap ( bn)	: 82.65
BSE 2 Wk Avg Vol	: 72000

**Share Holding Pattern (%)**

Promoters Holding	: 40.08
Public & Others	: 29.32
Corporate Holding	: 04.07
Foreign Institution	: 21.65
Institutions	: 04.88

**Investment Theme**

Company Q3 results were good as; Net Sales rose by 18.36% to ₹ 16,550.6 million, EBITDA increased by 31.21% to ₹ 2,358 million & Net profit also up by 36.37% to ₹ 1,401.1 million on Q-o-Q basis. The growth was on account of continuing investing in new technologies, product mix and expanded distribution network for significant domestic growth & global reach. It's order book in the railway segment was more than ₹ 450 crore as of December 31, 2018 which will get executed in the next 13-15 months. Company is aiming to transform into a complete farm solutions company from just a manufacturer of tractors the market for which is expected to stable in the coming decade. Company is planning to enter into full-fledged farm solution, this will boost the Escorts market reach in complete farming activities. The railway order will add benefits to the company in the future.

**Grown by nature...!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	33,672.1	40,931.6	21.6	49,951.2	22.0
Other Income	558.2	584.6	4.7	594.1	1.6
Change in Stocks	257.0	496.6	0.0	227.8	0.0
Fuel Charges	23,608.3	28,420.8	0.0	33,806.0	0.0
Employee Exp.	3,993.4	4,013.9	0.5	4,378.4	9.1
Indirect Taxes	714.6	744.2	0.0	208.5	0.0
Other Exp.	4,138.1	5,531.7	33.7	6,281.5	13.6
Operating Exp.	32,454.4	38,710.6	19.3	44,674.4	15.4
Operating Profit	2,032.9	3,302.2	62.4	6,098.7	84.7
Total Interest	495.4	311.1	(37.2)	285.7	(8.2)
Gross Profit	1,537.5	2,991.1	94.5	5,813.0	94.3
Net Dep.	575.0	630.7	9.7	724.8	14.9
Total Taxation	125.0	756.0	504.8	1,641.0	117.1
Net Profit/Loss	837.5	1,604.4	91.6	3,447.2	114.9

### 4 Years Balance Sheet

(₹ mn)

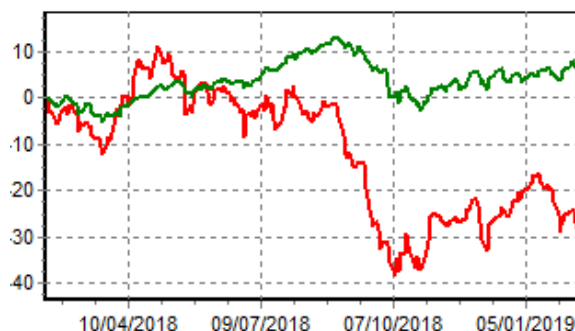
Balance Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>24,253.8</b>	<b>22,537.4</b>	<b>23,031.6</b>	<b>26,369.8</b>
Equity Share capital	1,192.9	1,225.8	1,225.8	1,225.8
Equity Application Money	0.0	0.0	(262.2)	(259.9)
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	16,770.1	17,151.0	18,948.0	24,515.2
Secured Loans	4,779.6	3,605.0	2,628.1	500.6
Unsecured Loans	1,511.2	555.6	491.9	388.1
<b>USES OF FUNDS</b>	<b>24,253.8</b>	<b>22,537.4</b>	<b>23,031.6</b>	<b>26,369.8</b>
Gross Block	24,099.7	24,361.9	24,466.2	24,872.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	8,270.1	8,768.9	8,688.6	9,062.3
Net Block	15,829.6	15,593.0	15,777.6	15,810.5
Capital Work in Progress	554.6	581.9	347.0	640.6
Investments	3,834.5	4,155.2	5,874.6	8,943.3
Current Assets	13,553.9	11,870.6	12,338.0	16,206.0
Less : Current Liabilities	10,224.2	10,385.2	12,099.9	16,128.0
Total Net Current Assets	3,329.7	1,485.4	238.1	78.0
Misc. Expenses not writtenoff	705.4	721.9	794.3	897.4
<b>NOTE</b>				
Book Value of Unquoted Investments	170.3	4,073.7	5,874.6	8,943.3
Market Value of Quoted Investments	4,909.6	65.3	0.0	0.0
Contingent Liabilities	2,326.9	2,679.1	6,252.9	6,407.1
Dividend (%)	12.0	12.0	15.0	20.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 18	Jun 18	Sep 18	Dec 18
Net Sales	14,361.0	15,112.9	13,983.6	16,550.6
Cost Of Sales	12,623.5	13,257.5	12,408.6	14,545.8
Operating Profit	1,737.5	1,855.4	1,575.0	2,004.8
Other Income	225.6	181.1	222.2	353.2
Adjusted PBDIT	1,963.1	2,036.5	1,797.2	2,358.0
Financial Expenses	62.8	28.7	38.6	42.8
Depreciation	188.3	205.7	214.8	215.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1,712.0	1,802.1	1,543.8	2,100.1
Tax Charges	586.6	595.2	516.4	699.0
Reported Profit	1,125.4	1,206.9	1,027.4	1,401.1
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	1,125.4	1,206.9	1,027.4	1,401.1

## 52 Week Index Relative Percentage Appreciation



Escorts vs SENSEX

## Risks Associated

➔ Uncertainties in the form of inadequate monsoon, geopolitical occurrences, industry volatilities and rising fuel prices are some of the potential risks that may impact the business.

## Scope of Growth

- ➔ The company planned investment of ₹ 300 crore to increase the capacity to 1,50,000 tractors per annum. Also planning to increase its distribution network, especially in the southern region from the current 830 dealers, it plans to increase the dealerships to 1,000 to capture more market.
- ➔ On the exports front, company exported a total of 2,000 tractors for FY18. It further plans to increase exports by 50% by tapping new markets in Africa. The company already exports to markets like South East Asia, Myanmar, Sri Lanka and Bangladesh. It is also planning to go to Latin America, Turkey and Algeria.
- ➔ Escorts has revealed its autonomous tractor, this will be India's first autonomous tractor. The company has not revealed much about the project including what level of autonomy the vehicle will employ.
- ➔ Recently, it launched three new products (EC5511, EC 3664 and Hydra NXT 13) in its Construction Equipment arm. This forward step will improve this division's revenue in the coming months.
- ➔ The government is considering several measures to support farmers with nation wide loan waiver scheme ahead of the general election. These include doubling collateral-free loans under Kisan Credit Cards to ₹ 2 lakh and changes in the Pradhan Mantri Fasal Bima Yojana crop insurance scheme to enhance coverage and ensure faster settlement of claims. With all those schemes farmers Income will get improve and will opt to use technology in the farming, that ultimately benefits for the company.

## Escorts

### In a Nutshell

Escorts Ltd manufactures equipment for agriculture, infrastructure and railway for national and international markets. Company has three business divisions like; Agri Machinery, Construction Equipment and Railway Equipment with revenue contributions were 78.7%, 15.6% and 5.7% respectively for FY18. It is one of India's foremost tractor manufacturers, offering more than 225 variants (12 to 75 HP) in the domestic market under three brands, Farmtrac, Powertrac and Steeltrac. And also the Agri Machinery division offers crop solutions, engines, spare parts and lubricants, Sprayers, Harvesters, Implements and Planters. Company is a dominant player in material handling, earth moving and road construction segments of construction equipment. The Company is among the world's largest manufacturers of Pick and Carry hydraulic mobile cranes. It manufactures advanced components for Indian Railways, anchored around safety, comfort and reliability. These include brake systems, couplers, suspension systems, shock absorbers and rail fastening systems, among others. Agri Machinery division has three plants in India and one plant in Poland. India's plants capacity is 1,00,000 tractors per annum. Poland plant has the capacity of 2,500 tractors per annum. Construction Equipment division has one plant in India with an annual capacity of 10,000 units. During the FY18, the company sold 80,417 tractors up by 26.1% as compared with the previous year. In the current financial year, company is planning to produce 1,00,000 units. Company also planning for the investment of ₹ 300 crore to increase this capacity to 1,50,000 units per annum. This additional capacity will strengthen the Agri Machine division revenue share to the total revenues in the future.

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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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