

Strong operating Performance

Escorts reported net revenue of Rs 1062.6 crs, down 25% YoY on account of COVID-19 led lockdown. Reported EBITDA was at Rs 120 crs, down by 16% YoY. Despite lower volume, product mix improvement, better realization, lower commodity costs and deferment of Rs 30-40 crs in fixed cost due to lockdown partially helped improve the margin as EBITDA margin still remains healthy at 11.3% in Q1FY21. PAT came in at Rs 92.2 crs; up 5% YoY as against Rs 87.5 crores in corresponding fiscal last year. It was on account of lower corporate tax, higher other income and lower interest costs. We believe tractor industry demand should be at the forefront of recovery given record Rabi output supported by higher crop prices and adequate water reservoir levels once the supply chain normalizes.

Key Result Highlights

Volume: Tractor volumes declined by 13.8% YoY in Q1FY21 to 18,150 as compared to 21,051 in the corresponding period last fiscal. Construction Equipment (ECE) sales volume stood at 234 machines, down by 78% YoY in Q1FY21.

Revenue: Revenue declined 25% YoY and 23% QoQ in Q1FY21 on account of Covid19 led nationwide lockdown and related issues. Revenues were largely in line with the expectations

EBITDA: EBITDA for Q1FY21 stood at Rs 120 crs v/s our estimate of Rs 113 crs. This was on account of better product mix, cost reduction measures and leaner operations. EBITDA margin stood at 11.3% v/s our estimate of 10%.

PAT: PAT for Q1 was up by 5% at Rs 92.2 crores as against Rs 87.5 crores in corresponding fiscal last year. It was on account of lower corporate tax, higher other income and lower interest costs.

Key Con call Highlights

Demand: The overall demand was positive in almost every market except West Bengal & Chhattisgarh. Moreover, Southern region grew by 50%. Company expects FY21E to be a year of positive growth for the tractors. Company expects tractor industry to see single digit growth in FY21.

Margins: Company's gross margin improved on account of improved product mix, focused cost reduction measures and leaner operations during the quarter.

Outlook and Valuation

We are upgrading our EPS estimates by 7%/15% for FY21E/FY22E to reflect improving outlook for tractor volumes, product mix and cost savings. However we revise our rating to HOLD as the positives seem to be fully priced in. We value Escorts at 16x FY22E P/E with a target price of Rs 1158.

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20P	FY21E	FY22E
Net Sales	6,262	5,810	5,948	6,923
EBIDTA	725	662	722	890
EBITDA Margin	11.6%	11.4%	12.1%	12.9%
Net Profit	478	472	590	732
EPS (Rs)	54	53	58	72
PER (x)	20.6	20.8	19.0	15.3
EV/EBIDTA (x)	18.4	20.1	16.0	12.6
P/BV (x)	3.8	3.3	2.3	2.0

Source: Company, Axis Research

(CMP as of Jul 27, 2020)

CMP (Rs)	1,106
Upside /(Downside (%))	5%
High/Low (Rs)	1211/423
Market cap (Cr)	13560
Avg. daily vol. (6m) Shrs.	426,872
No. of shares (Cr)	12.26

Shareholding (%)

	Dec-19	Mar-20	Jun-20
Promoter	40.3	40.3	40.3
FIIIs	20.4	19.3	20.4
MFs / UTI	6.4	9.9	9.9
Banks / FIIs	0.0	0.0	0.0
Others	32.9	30.5	29.5

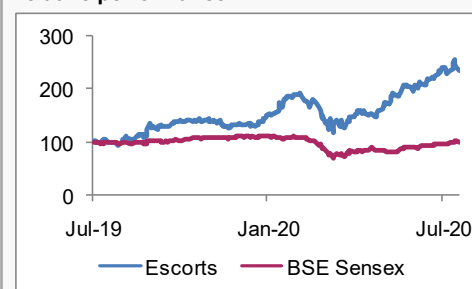
Financial & Valuations

Y/E Mar (Rs. Cr)	2020P	2021E	2022E
Net Sales	5,810	5,948	6,923
EBITDA	662	722	890
EPS (Rs.)	53	58	72
RoE (%)	18.3	15.4	16.8
D/E	0.0	0.0	0.0
PER (x)	20.8	19.0	15.3
P/BV	3.28	2.27	1.99
EV/EBITDA	20.1	16.0	12.6

Change in Estimates (%)

Y/E Mar	FY20	FY21E	FY22E
Revenue Growth	-7.2%	2.4%	16.4%
Market Share	11.8%	12.6%	13.0%
EBITDA Margin	11.4%	12.1%	12.9%

Relative performance



Source: Capitaline, Axis Securities

Pankaj Bobade
Research Analyst

Call: (022) 4267 1736
email: pankaj.bobade@axissecurities.in

Key takeaways from the conference call:

- **Demand:** In June 2020, overall, the situation was positive in almost every market except west Bengal and Chhattisgarh. Moreover, demand in southern region grew by 50% while rest of the regions showed a growth of about 22%. Company expects months of October and November to see peak demand on account of festivals of Navratri and Diwali. Company expects FY21E to be a year of positive growth for tractors and expects a single digit growth over last year.
- **Inventory:** Currently the company has inventory of 3-4 weeks for the complete cycle as against 6-7 weeks of inventory for the same cycle. Finished Goods and Raw materials inventory are at extra ordinary low levels due to supply chain issues.
- **Production:** After Government authority's approval, Company started operations in single shift from 2nd week of May 2020. The Company reached 95% of its capacity in June 2020 but it has reduced operations to 50-55% levels on account of supply side constraints. The Company is expecting to reach its full production capacity by mid of August 2020.
- **Supply Chain:** The suppliers are facing issues related to COVID-19 since last 3.5 to 4 weeks and the whole auto industry is affected by the same. But, the management indicated that in last 3-4 days the suppliers have recovered drastically and therefore the company is expecting to reach normal levels soon.
- **Dealers:** The Company currently has 1017 dealers. Company has said that 1200 dealers would be an optimum level for its two brands. Company is planning to add around 150 dealers this year with a target to reach its optimum level by end of FY21. Company has a churn rate of 5-7% (50-70 dealers) are re-appointed every year.
- **Escorts Construction Equipment (ECE):** The Industry growth declined by 60%. The management said that 2nd half is stronger and hence they remain positive going ahead. ECE segment's break-even level sales volumes range between 230-250 machines a month.
- **Railways Equipment Division (RED):** The Company had issues with respect to deliveries due to COVID-19 that impacted the segment in this quarter. Going forward, management said that production units have reopened and they expect a significant recovery in Q2. On the back of localisation trend in India and the Atmanirbhar vision, Company said that if Company's localised contents are approved, then the company may see a great jump in EBITDA going forward. Current order book as of 30th June 2020 is more-than Rs 480 crore that will be executed in the next 12-15 months.
- **Exports:** The Company is targeting to reach 8000-10000 export volumes in tractor over the next 3 years. Kubota partnership will also help in significantly ramping up exports.
- **Kubota JV:** The JV plant is under construction; the production is expected to start by Q3FY21.
- **Others points:** The company has guided for a capex of Rs 225-Rs 250 crores for FY21. The company has targeted cutting down of fixed costs in the range of 10-15% for the year. One-offs savings of Rs 20-30 crores in fixed costs was there in the quarter due to Covid-19 led lockdown. There was a benefit of 200 bps in the margins in current quarter on account of higher production in Q4FY20. In Q1FY21, the commodity prices remained soft and the same is expected to continue in Q2FY21. The company passes price increase in commodities with a quarter lag to its suppliers.

Result Update
(Rs Cr)

(Rs.Cr.)	Quarterly Performance				
	Q1FY21	Q1FY20	% Change (YoY)	Q4FY20	% Change (QoQ)
Sales	1,062	1,423	(25)	1,381	(23)
Other Op. Inc	0	0.0		0.0	
Total Revenue	1,062	1,423	(25)	1,381	(23)
Expenditure					
Net Raw Material	713	982	(27)	859	(17)
Employee expenses	126	123	3	129	(3)
Other Exp	103	176	(42)	198	(48)
Total Expenditure	942	1281	(26)	1186	(21)
EBIDTA	120	142	(16)	194	(38)
EBITDA Margins	11.3%	10.0%		14.1%	
Oth. Inc.	30	17		28	
Interest	2	6	(67)	3	(32)
Depreciation	26	24	10	28	(5)
Exceptional Item	0	0		0	
PBT	121	129	(6)	192	(37)
Tax	29	42		51	
PAT	92	87	5	140	(34)
Share of profit of Associates	0	0		0	
Adjusted PAT	92	87	5	140	(34)
EPS (Rs.)	9	10		16	

Source: Company, Axis Securities

Financials (standalone)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Net sales	6,262	5,810	5,948	6,923
Total income	6,262	5,810	5,948	6,923
Cost of goods sold	5,305	4,912	5,003	5,774
Contribution (%)	15.3%	15.5%	15.9%	16.6%
Advt/Sales/Distrn O/H	232.7	235.8	223.1	259.6
Operating Profit	725	662	722	890
Other income	92	98	181	210
PBIDT	817	760	903	1,100
Depreciation	87	107	106	112
Interest & Fin Chg.	20	17	8	9
E/o income / (Expense)	6	(9)	0	0
Pre-tax profit	716	626	788	978
Tax provision	237	154	198	246
(-) Minority Interests	(2)	(1)	0	0
Associates	1	0	0	0
Reported PAT	482	474	590	732

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Total assets	2,790	3,240	5,193	5,880
Net Block	1,647.6	1,666.3	1,789.2	1,839.4
CWIP	56.6	104.4	62.5	50.0
Investments and Other Assets	215.5	314.6	236.5	249.5
Wkg. cap. (excl cash)	594	797	1,022	1,277
Cash / Bank balance	243.3	324.9	2,047.7	2,428.6
Misc. Assets	32.5	33.1	34.7	35.9
Capital employed	2,790	3,240	5,193	5,880
Equity capital	122.6	122.6	122.6	122.6
Reserves	2,888	3,332	4,919	5,604
Treasury Stock	(337.2)	(337.2)	0.0	0.0
Minority Interests	5.6	5.1	5.1	5.1
Long Term Debt	32	56	56	56
Def tax Liabilities	52.9	30.7	59.1	62.4
Others	26	31	31	31

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20P	FY21E	FY22E
Sources	789	409	1,978	811
Cash profit	585	597	704	854
(-) Dividends	29	29	45	47
Retained earnings	556	568	660	806
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	(31.5)	(38.1)	1,379.1	0.0
Borrowings	263	(222)	0	0
Others	1	101	(61)	5
Applications	789	409	1,978	811
Capital expenditure	188.5	272.9	109.4	163.0
Investments	(51.2)	346.3	(136.3)	185.1
Net current assets	725.9	(291.4)	283.6	82.8
Change in cash	(74.0)	81.6	1,721.0	379.9

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20P	FY21E	FY22E
Sales growth	23.8	(7.2)	2.4	16.4
OPM	11.6	11.4	12.1	12.9
Oper. profit growth	30.9	(8.6)	9.0	23.3
COGS / Net sales	84.7	84.5	84.1	83.4
Overheads/Net sales	3.7	4.1	3.8	3.8
Depreciation / G. block	3.4	3.9	3.6	3.6
Effective interest rate	11.5	9.1	10.0	12.0
NPM	7.7%	8.2%	9.9%	10.6%
Net wkg.cap / Net sales	0.08	0.14	0.16	0.17
Net sales / Gr block (x)	2.4	2.1	2.0	2.2
RoCE	23.4	18.3	15.4	16.8
Debt / equity (x)	0.12	0.03	0.02	0.01
Effective tax rate	33.1	24.5	25.2	25.2
RoE	17.8	15.1	14.2	13.8
Payout ratio (Div/NP)	6.1	6.1	7.5	6.5
EPS (Rs.)	53.8	53.1	58.3	72.4
EPS Growth	37.9	(1.3)	9.9	24.1
CEPS (Rs.)	63.6	65.1	68.8	83.5
DPS (Rs.)	2.7	2.7	3.6	3.9

Source: Company, Axis Securities

About the analyst**Analyst:** Pankaj Bobade**Contact Details:** pankaj.bobade@axissecurities.in**Sector:** Metals, Auto, Auto ancillary**Analyst Bio:** BE (Met.), CFA (ICFAI) with 12 years of Research Experience in Metals, Auto, Auto ancillary**Disclosures:**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Pankaj Bobade, CFA (ICFAI), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582. SEBI-Portfolio Manager Reg. No. INP000000654