

Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
Escorts	8,397	727	836	15%	Buy

* Note: Investment horizon Approx. 6-9 months., CMP as on 18th Jan, 2019.

CMP	Target
727	836

MARKET DATA

No. of Shares	: 11.6 cr
Market Cap	: Rs 8397 Cr
52-week High / Low	: Rs 1019/543
BSE Code	: 500495
NSE Code	: ESCORTS

Investment Rationale

- Escorts derives 79% of the topline from wide range of 10-75HP tractors primarily under the Farmtrac, Powertrac and Steeltrac brands. The company sources 15% of revenue from Construction and material handling equipment and rest from railway equipment.
- Having turned around on back of revamp of product portfolio over last 3 years, the healthy financing tie-ups along with increase in dealer network has helped the company improve its market share in Western part of the country (from 7.8% in FY16 to 9.5% in FY18). Going forward, the company is focusing on the improving the overall market share to mid-teens. Increasing focus on exports (3.7% of revenue) should help to sustain volume growth in near term.
- Turnaround in the construction equipment business is led by change in product mix and cost rationalization. Focus on further cost cutting along with operating leverage would help the company improve its margins in near future. Ramp up of the profitable railway equipment segment would further help the company build its margins.
- Management expects strong growth momentum in tractors to continue in rest of the FY19 and some moderation in FY20. Escorts is expected to gain market share in tractors on back of wide range of portfolio. The company would also benefit from the robust order book of railways division and construction equipment segment would benefit from steady infra activity.
- We maintain a **BUY** with a target of Rs 836.

Financial Summary

Y/E March	Revenue (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	5,080	347	28.9	18.4	21.0
FY19E	5,885	458	39.5	18.6	21.0
FY20E	6,361	522	45.0	18.2	22.5

Source: Reuters, Consensus Estimates

No of Stocks Matrix

No of Stocks	< 9m	>9m
Met Target	12	-
Not Met Target	28	-

Performance Matrix

% Return	< 9m	>9m
Met Target	10.99%	-
Not Met Target	(12.52%)	-

Benchmark Performance Matrix

% Return	< 9m	>9m
Met Target	2.53%	-
Not Met Target	(0.02%)	-

Note : performance of the pick of the week is calculated for stocks recommended Apr-18 to Dec-18

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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