

Escorts

Rs 894

In an enviable position

BSE Sensex: 35,690

Nifty-50: 10,822

FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBITD	INTEREST	PBDT	DEP.	PBT	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS* (Rs)
1503 (12)	3985.83	4	161.4	60.65	222.04	57.11	164.94	66.06	98.88	-30.63	68.25	-6.46	74.71	8.1
1603 (12)&	3366.76	5.2	176.73	55.82	232.55	49.54	183.01	57.5	125.51	29.27	96.24	12.5	83.74	8
1703 (12)&	4093.16	7.9	323.71	43.46	367.17	31.11	336.06	63.07	272.99	-3.76	276.75	75.61	201.14	16.6
1803 (12)&	4995.13	11.2	557.22	59.41	616.63	28.57	588.06	72.48	515.58	6.76	508.82	164.09	344.73	28.5
1903(12P)&	5544.59	11.3	626.54	61.19	687.73	25.71	662.02	78.28	583.74	0	583.74	192.63	391.11	31.9

* Annualized on diluted equity of Rs 122.58 crore. Face Value: Rs 10. & FY 16, FY 17 and FY 18 financials and FY 19 and FY 20 projections are based on New Accounting Standards (AS) while previous year financials are as per Old AS. (P): Projections. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. Figures in Rs crore.

Source: Capitaline Database

Incorporated in 1944, Escorts is engaged in Agri Machinery, Construction Equipment and Railway equipment business.

The company manufactures tractors in Agri Machinery business under the brand names of Farmtrac, Powertrac and Steeltrac. It has four manufacturing plants in Faridabad and one subsidiary unit in Poland in the name of Farmtrac Europe. The company has marketing offices in more than 40 countries.

Escorts Construction Equipment manufactures and markets construction and material handling equipment like pick and carry cranes, backhoe loader, vibratory rollers and forklifts. The manufacturing and assembly facility is located in Faridabad.

Escorts Railway Products manufactures and supplies critical railway components such as air brake system, EP brake system, draft gears and couplers, composition brake blocks, dampers and rubber components to Indian Railways. Escorts has ultra-modern, precision manufacturing facilities for Distributor Valves and is the largest manufacturer in Asia, having supplied over 100,000 nos. to Indian Railway for various freight and passenger car applications.

Blockbuster quarter

Net sales for the Mar 18 quarter stood at Rs 1436.10 crore, up by 40%. OPM was higher by 480 bps to 12.1% thus resulting in OP growth to 134% to Rs 173.75 crore. For the quarter, sales from the Agri Machinery Product Segment stood at Rs 1094.06 crore and accounted for 76% of sales. PBIT from the same was up by 105% to Rs 165.71 crore and accounted for 87% of total. For the quarter, sales from the Railway Equipment Segment stood at Rs 76.02 crore and accounted for 5% of sales. PBIT from the same was up by 68% to Rs 12.06 crore and accounted for 6% of total. For the quarter, sales from the Construction Equipment Segment stood at Rs 266.02 crore and accounted for 19% of sales. PBIT from the same stood at Rs 13.58 crore up by 252% YoY and accounted for 7% of total.

Other income was up by 23% to Rs 22.56 crore. Interest costs was lower by 44% to Rs 6.28 crore, while depreciation was higher by 13% to Rs 18.83 crore, thus resulting in a 164% rise in PBT to Rs 171.20 crore. There is an EO income of Rs 14.71 crore on account of sale on investments as compared to Nil for Mar 18 quarter. Profit at PBT after EO thus stood at Rs 171.20 crore, up by 115% YoY. After providing total tax of Rs 58.65



STOCK DATA

BSE Code	:	500495
BSE Group	:	A
NSE Code	:	ESCORTS
Bloomberg	:	ESC IN
Reuters	:	ESCO.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 545 / Rs 1019
Sector	:	Automobile

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 24.37
Institutions	: 5.39
Govt Holding	: 0
Corporate Holding	: 0
Promoters	: 40.07
Public & Others	: 30.18

* as on 31/03/2018

Source: Capitaline Databases

crore, PAT for Mar 18 quarter stood at Rs 112.55 crore, up by 90% on YoY basis. Net sales for the 12 months ended Mar 18 stood at Rs 4995.13 crore, up by 22%. OPM was higher by 330 bps to 11.2% thus resulting in OP growth of 72% to Rs 557.22 crore. For the 12 months, sales from the Agri Machinery Product Segment stood at Rs 3957.86 crore and accounted for 79% of sales. PBIT from the same was up by 57% to Rs 539.89 crore and accounted for 91% of total. For the 12 months, sales from the Railway Equipment Segment stood at Rs 286.60 crore and accounted for 6% of sales. PBIT from the same was up by 30% to Rs 39.77 crore and accounted for 7% of total.

For the 12 months, sales from the Construction Equipment Segment stood at Rs 780.34 crore and accounted for 16% of sales. Loss at PBIT from the same stood at Rs 15.01 crore as compared to loss of Rs 13.82 crore.

Other income was up by 37% to Rs 59.41 crore. Interest costs was lower by 8% to Rs 28.57 crore, while depreciation was higher by 15% to Rs 72.48 crore, thus resulting in a 89% rise in PBT to Rs 515.58 crore. There is an EO expense of Rs 6.76 crore largely due to VRS expenditure as compared to EO income of Rs 3.76 crore for 12 ended Mar 17. Profit at PBT after EO thus stood at Rs 508.82 crore, up by 84% YoY. After providing total tax of Rs 164.09 crore, PAT for 12 months ended Mar 18 stood at Rs 344.73 crore, up by 71% on YoY basis.

Management upbeat on the future

Speaking on the results, Chairman Mr. Rajan Nanda said, "Growing and much deserved focus on rural upliftment, farm mechanisation & agricultural infrastructure and urban smart ecosystem reflects in our growth across businesses. Government's vision for doubling farmer's income by 2022 & agriculture and adequate infrastructure including railway & metro network policies will further accelerate economic growth and opportunities. Escorts is well prepared and will actively contribute in national development and community welfare."

According to Mr. Nikhil Nanda, Managing Director, Escorts Ltd, "We are in a continuous process to innovate and bring new and advance technology including electric and autonomous capabilities in our much-focused agriculture, urban smart infrastructure and safe railway transport segments. We have been successfully bringing in new initiatives and process efficiencies with better cost compression, better margins & strengthened customer connect.

Our expanded product portfolio and technology upgrades have been expanding our International presence and domestic thought leadership. Our major thrust today is to integrate global best practices, imbibe and innovate futuristic techniques and product standards to address food security and mechanized infrastructure. Our massive transformative purpose of 'Nation Matters' will drive our efforts to further strengthen our customer touchpoints through digital capabilities, inspire global set-ups with our indigenous innovations and value driven offerings.

Aiming for further market share gains

Agri Machinery segment (Tractors and spars and parts) which accounts for around 79% of total sales grew 57.4% to 23568 units in Mar 18 quarter and for full year FY 18 the tractors volume stood at 80417 tractors, up by 26% YoY. This is as compared to Tractor industry, which grew by around 22% to 7.10 lakh tractors in FY 18.

Strong rural sentiments on back of projection of normal monsoon for third consecutive year augur well for tractor industry growth. Robust industry demand coupled with new product launches, higher market share and increased focus on

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Escorts Construction Equipment manufactures and markets construction and material handling equipment like pick and carry cranes, backhoe loader, vibratory rollers and forklifts

high value added products and exports has led to an upbeat performance of the company in this segment, even better than the industry.

This was further accompanied by significant improvement in EBIT margins which was up by 334 bps at 13.6% for FY 18, while EBIT margin for Mar 18 quarter stood at 15.1% were up 507 bps YoY.

Higher sales of higher HP tractors together with increase in reach and penetration and thus market share is leading to higher margins. New models like Farmtrac 6050 and NETS series in higher HP category is well accepted in the market. The company has launched products (specialised tractors for rice cultivation) in the south, and more variants are planned in coming quarters

The higher HP (above 50 HP) share stood at around 30% of total tractors sold by Escorts in FY 18, as compared to 22% in FY 17. Management expects Higher HP share to further inch up in coming years.

The company has been successfully bringing in new initiatives and process efficiencies with better cost compression, better margins & strengthened customer connect.

Around 40-50% of tractors are used for construction or transportation use and given the rise in construction segment, the demand is expected to improve further in FY 19.

The company has grown its market shares in almost all states. Current market share of the company on overall basis stands at 10.4%. Company's internal target is to increase margins by 100 basis points for the tractor business in FY 2019 as well.

The long term growth story is strong with lowering of replacement cycle. The pace of central and state government's policy will drive the short term industry performance.

IMD and Skymet both forecasts normal southwest monsoon rainfall in 2018

India Meteorological Department (IMD) in its first stage operational forecast for the southwest monsoon seasonal (June to September) rainfall for the country as a whole has forecasted the monsoon seasonal rainfall to be 97% of the Long Period Average (LPA) with a model error of $\pm 5\%$. The LPA of the season rainfall over the country as a whole for the period 1951-2000 is 89 cm. Forecast also suggests maximum probability for normal monsoon rainfall (96-104% of LPA) and low probability for deficient rainfall during the season.

According to Skymet Weather, the southwest monsoon 2018 is likely to remain normal at 100% (with an error margin of $\pm 5\%$) of the long period average (LPA) of 887 mm for the four-month period from June to September.

Back to back normal monsoon augurs well for rural economy and for the demand of tractors.

Construction segment turned around and strong growth is expected going forward

For FY 2018, Construction equipment volumes were at 4,486 units up by 35% YoY. This is as compared to the industry which is up by around 30% in FY 2018. In Q4 Escorts construction equipment volume grew 48.6% to 1,541 units. Industry comprising of Backhoe Loaders, PnC and Compactors, all put together has grown by 22% in March 2018 quarter. For Escorts, Backhoe loaders has grown by 64% on YoY basis and Compactors have grown by around 18% in March 2018 quarter.

Escorts Railway Products manufactures and supplies critical railway components such as air brake system, EP brake system, draft gears and couplers, composition brake blocks, dampers and rubber components to Indian Railways

Government's vision for doubling farmer's income by 2022 & agriculture and adequate infrastructure including railway & metro network policies will further accelerate economic growth and opportunities

During the last couple of years, Escorts has launched Premium products and increased localization which has started yielding results. Lot of cost efficiencies have been built in this segment.

Going forward, with the market growth 15-18% and with new product launches, strong growth can continue in FY19.

Pick up in infrastructure activities and increased investments in infrastructure and mining activities have led to strong visibility in construction sector and increased localization and operating leverage will continue to result in better margins going ahead as well.

Railway continues to remain strong

The current order book of Railway product division is around Rs 350 crore which will stand executed in FY 19.

With increase in spends by Indian Railways, more orders are expected to be tendered out in coming years.

The segment which has continued to grow and outperform in the past, is expected to continue to do in future as well.

Other levers for growth

In the past, the company had implemented VRS scheme to rationalise workforce which has resulted in lower employee costs. This has resulted in a 80 bps lower employee costs, despite a 22% increase in net sales in FY 18 on YoY basis.

Despite increase in capex, the company has been reducing its loans and thus interest costs consistently year after year. Total loans (including working capital loans) have come down from Rs 480 crore in FY 15 to Rs 263 crore in FY 17 and further to Rs 50 crore in FY 18. Overall finance costs has come down from Rs 57 crore in FY 15 to Rs 31 crore in FY 17 and Rs 28.6 crore in FY 18.

Cash accruals will increase significantly going ahead which will result in higher dividend declarations.

Outlook

Growing and much deserved focus on rural upliftment, farm mechanisation & agricultural infrastructure and urban smart ecosystem will benefit its growth across businesses.

Supported by expected subsidies from various state governments and given the forthcoming elections tractor industry should continue to do well in FY 19.

Government's vision for doubling farmer's income by 2022 & adequate infrastructure including railway & metro network policies will further accelerate economic growth and opportunities. Escorts is well placed to avail these benefits and has complete product offerings.

The company is in a continuous process to innovate and bring new and advance technology including electric and autonomous capabilities in its much-focused agriculture, urban smart infrastructure and safe railway transport segments.

Valuation

For FY 19 we expect the company to report net sales and PAT of Rs 5544.59 crore and Rs 391.11 crore. This gives an EPS of Rs 31.9 for FY 19. Current market price of Rs 894, discounts FY 19 projected earnings by around 28 times.

The company has been successfully bringing in new initiatives and process efficiencies with better cost compression, better margins & strengthened customer connect

The company has grown its market shares in almost all states. Current market share of the company on overall basis stands at 10.4%. Company's internal target is to increase margins by 100 basis points for the tractor business in FY 19 as well

ESCORTS: SEGMENT RESULTS

	1803(03)&	1703(03)&	VAR. (%)	% TO TOTAL	1803 (12)&	1703(12)&	VAR. (%)	% TO TOTAL
Sales								
Agri Machinery Products	1094.06	801.82		76	3957.86	3346.00		79
Construction Equipments	266.02	184.05		19	780.34	606.78		16
Railway Equipments	76.02	66.58		5	286.60	242.47		6
Discontinued business of auto ancillary	0.00	1.57		0	0.00	51.34		0
Others	0.00	0.00		0	0.00	0.00		0
Unallocated	0.00	0.30		0	0.29	2.03		0
TOTAL	1436.10	1054.32		100	5025.09	4248.62		100
Less: intersegment sales	0.13	6.35			9.12	29.88		
Add: Unallocable sales								
Net Sales	1435.97	1047.97			5015.97	4218.74		
PBIT								
Agri Machinery Products	165.71	80.78	105	87	539.89	344.65	57	91
Construction Equipments	13.58	3.86	252	7	15.01	-13.82	LP	3
Railway Equipments	12.06	7.17	68	6	39.77	30.67	30	7
Discontinued operations of Auto ancillary	0.00	0.36	0	0	0.00	-10.29	0	0
Others	0.00	0.00	0	0	0.00	0.00	0	0
TOTAL	191.35	92.17	108	100	594.67	351.21	69	100
Less interest	5.93	11.19	-47		28.57	40.35	-29	
EO	0.00	-14.71	0		6.76	35.16	-81	
Less unallocable EO	13.86	15.87	-13		50.52	57.41		
PBT	171.56	79.82			508.82	218.29		
Figures in crore. Source: Capitaline Database								