

Quarter ending Mar 2014: Result Update
Accumulate

Industry	Tractors
Close Price (Rs)	126.35
FY15E Target Price (Rs)	141
52 Week H/L (Rs)	145.15/63.20
Volumes (BSE+NSE)*	2,373,000
Shares O/S (mn)#	122.6
Market Cap (Rs bn)	15.5
Free Float (%)	58.0
Bloomberg	ESC IN
Reuters	ESCO.BO

*Three month average

#Post ECEL merger

Share Holding Pattern as on March 31, 2014

Particulars	Shares (mn)	Holding
Promoters	51.4	42.0%
Institutions	11.1	9.0%
Corporate Bodies	13.2	10.8%
Public & Others	46.9	38.2%
Total	122.6	100.0%

Source: BSE

Consolidated Financial Highlights

Y/E March (Rs mn)	FY14#	FY15E*	FY16E*
Revenues	64,358	44,963	49,030
EBITDA	3,869	2,731	3,363
EBITDA Margin	6.0%	6.0%	6.8%
Net Profit	2,467	1,610	2,094
EPS (Rs)	20.1	13.1	17.1
P/E (x)	N.A	9.6	7.4
RoCE	N.A	7.4%	8.8%
RoE	N.A	8.5%	10.2%

FY14 is for 18 months period ending March 31, 2014

*March ending

Note: Escorts has decided to change its financial year-ending from September to March. FY14 (18 month period ending March 31, 2014), FY15E & FY16E are as on March ending.

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Quarterly Result Review

After showing robust growth in the tractor demand over past few quarters, Escorts reported tapering of tractors sales volumes growth in quarter ending March 2014. This was largely due to growth disparity across regions, with South India, where Escorts has low presence, witnessing sustained demand growth, while demand in North India was muted. **Escorts expects tractors to report a de-growth of close to ~5% in the next two quarters, while it expects to start reporting good growth in H2FY15 (with overall growth for FY15 to be 4-5%).** The management expects the exports to double every year over the next few years due to change in its overseas selling policy from institutional sales to distributor driven sales. Also, the company launched its new range of Europe line and Heritage Series tractors at Hanover, Germany in November 2013, to increase its footprint in the overseas markets. The Construction Equipments Division (formerly ECEL) reported significant deterioration in both demand and profitability. However, the company reported improved performance in the Railways Division and recently got clearance for BMBS (Bogey Mounted Brake Systems), which is likely to spur growth going forward.

Tractor sales growth tapered due to regional disparity; demand to remain muted for next two quarter ...

In the quarter ending March 2014, Escorts reported a relatively muted growth of 5.4% Y-o-Y to 15,556 units, while the Industry grew by a robust ~12% over the same period. This coupled with almost flat Y-o-Y realizations led to a 6.1% Y-o-Y growth in the EAM's (Escorts Agri-Machineries) revenues to Rs 8,022mn during the quarter, largely in-line with our estimate of Rs 7,978mn. Further, the ERP (Railway Equipments) segment reported a sequential pick-up of 35.8% in revenues to Rs 451mn during the quarter, with its orderbook at Rs 360mn.

The Construction Equipments division (ECE) reported a sequential de-growth of 8.1% in the sales volumes to 677units, leading to significant decline in its revenues and profitability during the quarter. The ECE division reported a 15.6% Q-o-Q de-growth in revenues to Rs 1,105mn, lower than our estimate of Rs 1,381mn.

Standalone income from operations stood at Rs 9.8bn in the quarter ending March 2014, compared to our estimate of Rs 10.2bn.
Agri-Machineries' margin fell; ECE losses significantly widened due to volume de-growth...

Lower capacity utilizations, newer products and discounts offered by competitors resulted into significant sequential decline of 159bps in the EAM's margin to 7.9% during the quarter. This coupled widened loss reported by the Construction division led to a muted profitability during the quarter. Escorts' overall EBITDA margin of Escorts declined 77bps Y-o-Y to 4.7%. EBITDA during the quarter declined 15.6% Y-o-Y to Rs 458mn, compared to our estimate of Rs 714mn. However, a significant decline in the interest outgo and a forex gain of Rs 45mn, led the profit to Rs 318mn during this quarter, lower than our estimate of Rs 435mn.

Standalone Quarterly Financials

Particulars (Rs mn)	Quarter ending March 2014	Quarter ending March 2013	Variance (Y-o-Y)	Quarter ending Dec 2013	Variance (Q-o-Q)	Six Quarters ending March 2014	Six Quarters ending March 2013	Variance (Y-o-Y)
Tractor Sales Volumes (Units)	15,556	14,764	5.4%	19,047	-18.3%	100,833	92,543	9.0%
Average Realizations (Rs)	512,852	512,072	0.2%	510,301	0.5%	508,099	487,716	4.2%
Net Sales	9,772	9,971	-2.0%	11,544	-15.4%	62,676	59,009	6.2%
Other Operating Income	57	35	63.6%	51	11.7%	239	218	9.4%
Total Income from Operations	9,829	10,006	-1.8%	11,596	-15.2%	62,915	59,227	6.2%
Net Raw Materials	7,073	7,225	-2.1%	8,400	-15.8%	45,105	43,122	4.6%
Personnel Expenses	1,114	1,117	-0.3%	1,144	-2.6%	6,673	6,310	5.8%
Other Expenses	1,184	1,122	5.6%	1,342	-11.8%	7,324	6,901	6.1%
Total Expenses	9,371	9,464	-1.0%	10,886	-13.9%	59,103	56,332	4.9%
EBITDA	458	543	-15.6%	710	-35.5%	3,812	2,895	31.7%
EBITDA Margin	4.7%	5.4%	-77 bps	6.1%	-146 bps	6.1%	4.9%	117 bps
Depreciation	152	131	16.4%	145	4.9%	832	745	11.6%
EBIT	305	412	-25.8%	565	-45.9%	2,980	2,149	38.6%
Interest	135	217	-38.0%	155	-13.2%	1,107	1,396	-20.7%
Other Income	110	111	-0.3%	158	-30.4%	814	736	10.7%
Extra-ordinary Income/(Loss)	45	7	526.4%	0	N.A.	36	15	139.1%
PBT	326	312	4.3%	568	-42.6%	2,724	1,504	81.1%
Taxes	8	-62	-112.8%	112	-92.9%	275	152	81.0%
Net Profit	318	375	-15.2%	456	-30.2%	2,449	1,352	81.1%
Net Profit Margin	3.2%	3.7%	-51 bps	3.9%	-70 bps	3.9%	2.3%	161 bps
EPS (Rs)	2.6	3.1	-15.2%	3.7	-30.2%	20.0	11.0	81.1%

Note: Average realizations for tractors are based on EAM sales, hence may be different from reported figures

Segmental Financials

Segments	Quarter ending March 2014	Quarter ending March 2013	Variance (Y-o-Y)	Quarter ending Dec 2013	Variance (Q-o-Q)	Six Quarters ending March 2014	Six Quarters ending March 2013	Variance (Y-o-Y)
Segmental Sales (Rs mn)								
Agri Machinery (EAM)	8,022	7,560	6.1%	9,720	-17.5%	51,233	45,135	13.5%
Auto Ancillary (EAP)	305	443	-31.1%	294	3.8%	2,106	2,250	-6.4%
Railways Equipments (ERP)	451	456	-1.0%	332	35.8%	2,558	2,220	15.2%
Construction Equipments (ECE)	1,105	1,674	-34.0%	1,309	-15.6%	7,632	10,449	-27.0%
Segmental EBIT Margin								
Agri Machinery (EAM)	7.9%	8.6%	-71 bps	9.4%	-159 bps	9.7%	8.2%	148 bps
Auto Ancillary (EAP)	-23.2%	-4.9%	-1,831 bps	-32.0%	879 bps	-14.1%	-7.3%	-679 bps
Railways Equipments (ERP)	9.9%	7.6%	231 bps	3.9%	608 bps	5.7%	3.8%	190 bps
Construction Equipments (ECE)	-9.0%	-0.5%	-849 bps	-2.0%	-694 bps	-4.2%	-0.5%	-373 bps

Outlook and Valuations

Regional disparity has led to a significant tapering of tractors sales growth during the quarter and the company expects a de-growth of ~5% in the next two quarters. However, the company expects growth to pick-up significantly from H2FY15. Escorts expects the Construction Division to start showing improvement going forward. We expect domestic tractor sales to grow at a rate of 3.1% in FY15E and then to pick to 5.5% in FY16E, while the exports though small will grow at a CAGR of 100% over the next two years. Our revenue estimates for FY15E and FY16E stand at Rs 45bn and Rs 49bn, compared to our previous estimates of Rs 46.5bn and 50.6bn respectively. On the back of lower Agri-Machineries' profitability, our EPS estimates for FY15E and FY16E are at Rs 13.1 and Rs 17.1 compared to the earlier Rs 16.8 and Rs 19.1 respectively.

We assign an EV/EBITDA multiple of 4.5x FY16E consolidated EBITDA, giving us a target price of Rs 141 for Escorts (after the merger of ECEL), an annualized upside of 6.5% from the current levels. This is in-line with a target P/E multiple of 8x FY16E earnings. We continue to rate Escorts Ltd as an **'Accumulate'**.

Consolidated Income Statement

Particulars (Y/E Sept 30 th) (Rs mn)	FY10	FY11	FY12	FY14 [#]	FY15E*	FY16E*
Net Sales	33,242	40,503	40,025	64,358	44,963	49,030
<i>Net Sales Growth</i>	<i>28.0%</i>	<i>21.8%</i>	<i>-1.2%</i>	<i>38.5%</i>	<i>-30.1%</i>	<i>9.0%</i>
Other Operating Income	541	731	470	660	200	210
Total Operating Revenues	33,783	41,234	40,495	65,017	45,163	49,240
Expenditures:						
Cost of Goods and Services Sold	21,468	26,470	29,510	46,584	31,840	34,714
Personnel Expenses	3,296	3,737	4,198	6,903	4,381	4,776
Admin., Selling, Distribution and Others	6,569	8,992	4,892	7,660	6,211	6,387
Total Expenses	31,333	39,199	38,599	61,148	42,432	45,877
EBITDA	2,450	2,035	1,895	3,869	2,731	3,363
EBITDA Margin	7.3%	4.9%	4.7%	6.0%	6.0%	6.8%
Depreciation	532	487	502	860	591	603
EBIT	1,918	1,549	1,393	3,010	2,140	2,760
Other Income	19	19	0	0	0	0
Interest Expenses	181	372	487	293	125	139
Extra-ordinary Items	57	-99	14	35	0	0
PBT	1,813	1,097	919	2,751	2,015	2,621
Taxes	490	-153	187	282	403	524
PAT	1,323	1,251	732	2,469	1,612	2,097
Minority Interest	3	-13	-6	2	2	3
Net Profit after Minority Interest	1320	1264	738	2,467	1,610	2,094
Net Profit Margin	3.9%	3.1%	1.8%	3.8%	3.6%	4.3%

Segmental Performance:

Segmental Revenues (Rs mn) (Y/E Sept 30 th)	FY10	FY11	FY12	FY14 [#]	FY15E*	FY16E*
Agri Machineries (EAM)	25,366	30,176	30,654	51,233	36,987	39,562
Railway Equipments Division (ERP)	1,978	1,923	1,488	2,558	1,920	2,160
Auto Suspension Products (EAP)	1,089	1,230	1,432	2,106	1,311	1,468
Construction Equipments (ECE)	5,716	8,273	7,486	7,632	4,972	6,066
Total Operating Revenues	33,783	41,234	40,495	65,017	45,163	49,240
Segmental Operating Margins						
Agri Machineries (EAM)	8.4%	5.7%	7.4%	9.7%	8.2%	8.6%
Railway Equipments Division (ERP)	11.5%	12.6%	6.3%	5.7%	9.9%	11.0%
Auto Suspension Products (EAP)	-15.9%	-14.0%	-8.3%	-14.1%	-15.0%	-5.0%
Construction Equipments (ECE)	2.0%	2.9%	0.2%	-4.2%	1.0%	3.0%
Consolidated EBIT Margins	5.7%	3.8%	3.4%	4.6%	4.7%	5.6%

FY14 is for 18 months period ending March 31, 2014

*March ending

Note: Escorts has decided to change its financial year-ending from September to March. FY14 (18 month period ending March 31, 2014), FY15E & FY16E are as on March ending.

Consolidated Balance Sheet

Particulars (Y/E Sept 30 th) (Rs mn)	FY10	FY11	FY12	FY14 [#]	FY15E*	FY16E*
SOURCES OF FUNDS						
Equity Capital	805	921	1,193	1,193	1,193	1,193
Reserves & Surplus	13,446	15,939	15,262	17,463	18,926	20,660
Total Shareholders' Funds	14,251	16,860	16,455	18,655	20,118	21,853
Total Loans	4,020	4,053	5,536	3,523	4,016	4,176
CAPITAL EMPLOYED	18,369	20,957	22,098	22,220	24,229	26,077
APPLICATION OF FUNDS						
Net Block	15,597	16,082	15,947	16,844	16,653	16,321
Capital Work-in-Progress	123	203	668	80	80	0
Investments	1,067	1,075	3,729	3,720	3,933	3,757
Total Current Assets	11,714	14,021	14,666	15,225	17,752	19,022
Current Liabilities & Provisions	10,187	10,446	12,912	13,649	14,189	13,024
Net Current Assets	1,527	3,575	1,754	1,576	3,563	5,998
TOTAL APPLICATION OF FUNDS	18,369	20,957	22,098	22,220	24,229	26,077

Key Ratios

Ratios (Y/E Sept 30 th)	FY10	FY11	FY12	FY14 [#]	FY15E*	FY16E*
Liquidity Ratios						
Current Ratio	1.3	1.4	1.1	1.1	1.3	1.5
Quick Ratio	0.9	1.0	0.7	0.7	0.8	1.0
Leverage Ratios						
Total Debt/Networth	0.4	0.4	0.3	0.2	0.2	0.2
Interest Coverage Ratio	10.6	4.2	2.8	10.3	17.1	19.9
Working Capital/Sales	0.1	0.1	0.0	0.0	0.1	0.1
Activity Ratios						
Inventory (Days)	47	44	48	N.A.	45	45
Debtors (Days)	48	47	43	N.A.	50	50
Creditors (Days)	69	85	90	N.A.	85	85
Profitability Ratios						
EBITDA Margin	7.3%	4.9%	4.7%	6.0%	6.0%	6.8%
Net Profit Margin	3.9%	3.1%	1.8%	3.8%	3.6%	4.3%
Return on Capital Employed	7.1%	8.1%	4.7%	N.A.	7.4%	8.8%
Return on Equity	13.9%	10.6%	4.8%	N.A.	8.5%	10.2%
Valuation Ratios						
No. of Shares (mn)	95.4	95.4	122.6	122.6	122.6	122.6
Book Value (Rs)	120.4	135.1	167.5	190.6	205.9	224.1
Fully Diluted EPS (Rs)	10.8	10.3	6.0	20.1 [#]	13.1	17.1
P/E	8.0	9.2	21.0	N.A.	9.6	7.4
P/BV	1.0	0.9	0.8	N.A.	0.6	0.6
M Cap/Sales	0.5	0.4	0.4	N.A.	0.3	0.3
EV/EBITDA	6.7	8.3	8.4	N.A.	4.9	4.0

[#] FY14E is for 18 months period ending March 31, 2014

*Y/E March

Notes:

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