

High inventory and RM inflation are key headwinds

- Escorts printed a strong operating performance amid covid impacted quarter. EBITDA margin beat estimates, stood at 14% (+269bps YoY; -164bps QoQ) led by price hike and better mix. Revenue at Rs 16.7 bn (-24% QoQ) led by 19% QoQ de-growth in Agri machinery products, 56% in construction equipment and 18.5% in railway equipment segment.
- Management is hoping low single growth (~5-6%) on high base for the tractor segment for FY22 on the back of positive macroeconomic factors like high reservoir levels, better retail financing, record crop production and better food grain price.
- We expect high channel inventory (45-50 days at industry level while 30 days for Escorts) to constraint dispatches growth.
- In construction division, the management expects a stronger recovery from Oct-21 onwards post the monsoon season, with mid teen-digit growth. On the Railway segment, The Indian Railways is still not running its full operations. Order book for the Railway division stood at around Rs 3bn as of Q1FY22 end, expect book to improve going further as railways resume operations.
- In 1HCY21, RM costs increased by 7-8% and Escorts took a price hike of 3%. In 2Q RM inflation is expected to be 2%, the company has taken 3% price hike in July which will help in improvement in gross margin.
- Export volume is ramping up well largely through its own network. Exports of e-Kubota branded Tractors through Kubota's global network began from 4QFY21 in four markets. It would add more markets and expects volumes to really pick-up from FY23.
- We expect tractor demand to moderate due to high channel inventory (~more than 5 weeks) and high base in FY21, industry volume grew ~27% YoY. Margins are also expected to be under pressure due to lower scale, reduced share of high HP tractors and commodity inflation. We maintain Reduce with target price Rs 1,252 (based on 15x FY23E).

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	16,715	10,616	57.4	22,105	(24.4)
Total Expense	14,383	9,420	52.7	18,658	(22.9)
EBITDA	2,332	1,196	95.0	3,447	(32.3)
Depreciation	314	264	18.7	304	3.0
EBIT	2,019	932	116.6	3,143	(35.8)
Other Income	472	298	58.2	399	18.2
Interest	30	19	52.8	26	14.8
EBT	2,461	1,211	103.3	3,516	(30.0)
Tax	609	289	110.6	803	(24.1)
RPAT	1,852	922	101.0	2,713	(31.7)
APAT	1,852	922	101.0	2,713	(31.7)
			(bps)		(bps)
Gross Margin (%)	31.7	32.9	(113)	31.5	23
EBITDA Margin (%)	14.0	11.3	269	15.6	(164)
NPM (%)	11.1	8.7	240	12.3	(120)
Tax Rate (%)	24.8	23.9	87	22.8	192
EBIT Margin (%)	12.1	8.8	330	14.2	(214)

CMP	Rs 1,225
Target / Upside	Rs 1,252 / 2%
NIFTY	16,295

Scrip Details

Equity / FV	Rs 1,348mn / Rs 10		
Market Cap	Rs 149bn		
	USD 2bn		
52-week High/Low	Rs 1,468/ 1,077		
Avg. Volume (no)	13,88,540		
Bloom Code	ESC IN		
Price Performance	1M	3M	12M
Absolute (%)	2	9	7
Rel to NIFTY (%)	(1)	(3)	(40)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	36.6	36.6	36.6
MF/Banks/FIs	8.0	6.4	6.7
FIIIs	32.9	35.0	30.4
Public / Others	22.5	22.0	26.4

Valuation (x)

	FY21A	FY22E	FY23E
P/E	14.2	14.7	14.7
EV/EBITDA	10.6	11.4	10.4
ROE (%)	19.7	14.4	12.6
RoACE (%)	19.6	14.3	12.5

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	69,293	77,861	77,858
EBITDA	11,292	10,603	10,268
PAT	8,741	8,398	8,436
EPS (Rs.)	86.5	83.1	83.4

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Tractor growth to moderate in 2HFY22

Currently tractor demand is healthy due to normal monsoon three years in a row; adequate water reservoir levels; OEMs support dealer and extended credit facility. Management is hoping low single growth (~5-6%) on high base for the tractor segment for FY22. Growth momentum would be constrained by 1) low procurement of wheat and lower wholesale prices over MSP (especially in UP) 2) lower uses of haulage tractors due to reduced trolley sizes and 3) high base.

We expect tractor demand to moderate due to high channel inventory (~3-3.5 weeks) and high base (In FY21, industry volume grew ~27% YoY). Margins are also expected to be under pressure due to lower scale, reduced share of high HP tractors and commodity inflation.

Expanding presence

The company is making all efforts to expand market share in all the southern states led by innovative product and marketing strategy. The company sell Powertrac branded tractors in southern market and looking to introduce Farmtrac brand which would be more suitable for the south.

On export front company currently exporting products to more than 62 countries across the world. Moreover, partnership with Kubota will help in opening opportunities in several other countries.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Est	Var (%)	Comments
Revenue	16,715	16,528	1.1	NA
EBIDTA	2,332	2,132	9.4	cost control measures
EBIDTA Margin (%)	14.0	12.9	105 (bps)	
PAT	1,852	1,720	7.7	Higher other income

Source: Company, DART

Exhibit 2: Change in estimates

(Rs mn)	FY22E			FY23E		
	New	Previous	% Change	New	Previous	% Change
Volumes (units)	1,12,510	1,06,303	5.8	1,06,772	1,09,583	(2.6)
Net sales	77,861	72,614	7.2	77,858	77,222	0.8
EBITDA	10,603	9,045	17.2	10,268	10,118	1.5
EBITDA margin(%)	13.62	12.46	116 bps	13.19	13.10	9 bps
APAT	8,398	7,237	16.0	8,436	8,324	1.3
EPS (Rs)	83.1	71.6	16.0	83.4	82.3	1.3

Source: Company, DART

Exhibit 3: Key Assumption Sheet

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tractor Volume (units)	96,412	86,018	1,06,741	1,12,510	1,06,772
% YoY	19.9	(10.8)	24.1	5.4	(5.1)
Revenue (Rs mn)					
Agri Machinery Products	47,440	44,376	56,673	61,701	59,598
% YoY	19.9	(6.5)	27.7	8.9	(3.4)
Railway Equipment	3,941	4,772	4,790	5,641	6,324
% YoY	37.5	21.1	0.4	17.8	12.1
Construction Equipment	10,541	8,398	7,761	10,519	11,936
% YoY	35.1	(20.3)	(7.6)	35.5	13.5
Total Sales	61,964	57,610	69,293	77,861	77,858
% YoY	23.3	(7.0)	20.3	12.4	0.0

Source: DART, Company

Key Concall Takeaways

- The company is targeting low single digit growth for tractor in FY22 (~5-6% on high base led by positive macroeconomic factors like high reservoir levels, better retail financing, record crop production and better food grain price.
- Export volume is ramping up well largely through own network of Escorts, however from next year onwards significant growth is expected from Kubota channel.
- Current inventory level stands at 45-50 days at industry level while 30 days for Escorts.
- Challenges for margin side to be continue due to RM inflation and normalization of mix, the company is trying to mitigate it through price hike and cost control measure. The company has taken 3% price hike this year to mitigate the impact of 7-8% inflation in tractor segment.
- In 2Q RM inflation is expected to be ~2% while the company has taken 3% price hike in July which will help in improving gross margin.
- West and South will grow better than East and North due to better monsoon in these region.
- Production cut off for 50hp+ tractor starting Q1FY23 due to new emission norms that might come into play. Above 25HP to kick in from 2024 and expect small amount of pre-buying.

Agri Machinery Segment

- Agri machinery industry remained buoyant in Q1FY22 owing to positive macro-economic factors and pent-up demand. In Q1FY22, Escorts tractor segment grew 38.5% YoY (vs industry at 38.9% YoY) Increased market shares in the 51 above HP segment. Overall Market share at 10.7% flat YoY (vs 12.9% in Q4FY21).
- Agri Revenue breakup- Farmtrac: Powertrac is 43:57 (vs 42:58 YoY; 44:56 QoQ).
- For Q1FY22, ratio of less than 40 HP: 40 HP+ stood at 40:60 (vs 38:62 YoY; 39:61 QoQ). For FY21, ratio of less than 40 HP: 40 HP+ stood at 38:62 (vs 49:51 YoY)
- Capacity utilization was at 90% for tractor segment for Q1FY22.
- Tractor penetration in South and west is lower compared to Northern market. UP and Bihar penetration is lower compared to Punjab and Haryana.

Construction Equipment Segment

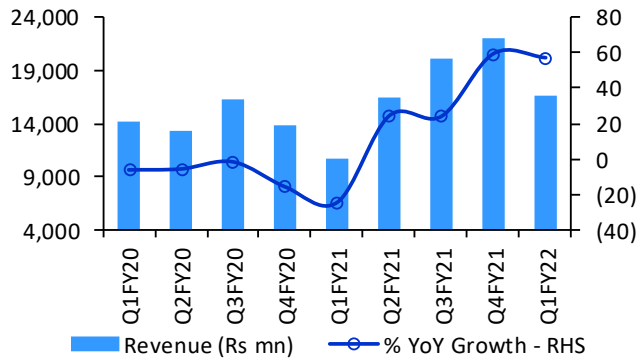
- In Q1FY22, Construction equipment volume grew +159% YoY/ -62% QoQ to 606 units vs industry growth of 65.8% YoY in Q1FY22. Inflation and emission norm impact passed on through price increase. Breakeven point is coming down and current breakeven is around 230-232 units.
- Going forward with improved funding availability and government thrust on infrastructure projects, demand is expected to recover to its full potential from Oct'21 onwards post the monsoon season. Expect segment to grow in mid teen and expect to margin to improve further.
- Q1FY22 Construction Revenue breakup - Crane: Compactor: BHL: Spare is 63:7.4:16.2:13.4
- Q1FY22 Crane market share at 33% vs 38% in Q4FY21.
- Capacity utilization was at 27% for construction segment for Q1FY22 vs 50% in Q4FY21.

Railways Product Segment

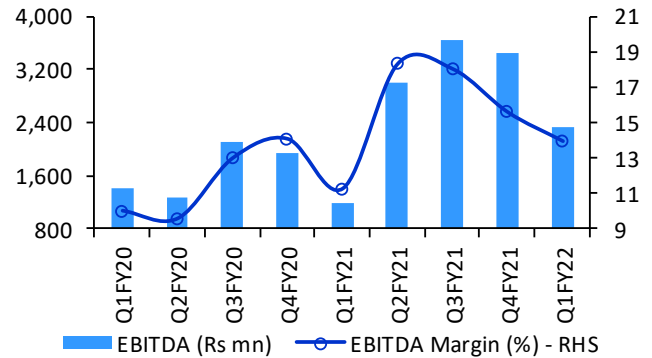
- EBIT margins impacted due to Covid lockdowns and low production. EBIT margin for quarter stood at 14.6% vs 2.6% in last year. Expect segment to grow on lower double digit with margin similar to last level.
- Q1FY22 Railway Revenue breakup- Conventional: NPD is 37:63
- Sales from New products more than doubled and now contribute 63% to total division sales as against 43% during corresponding quarter last year.
- Order book for the Railway division above Rs 3bn as of Q1FY22 end, expect books to improve further as railways resume operations.

Others

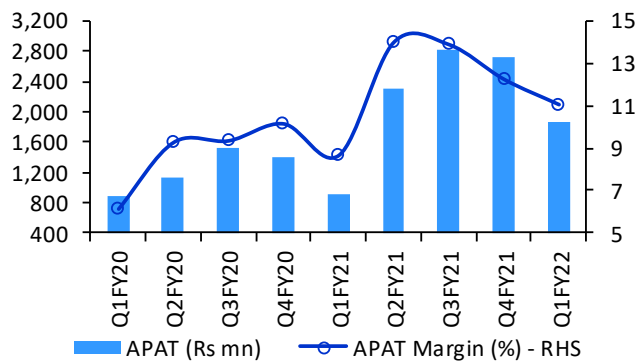
- Total capex guidance for Rs 3-3.25bn in FY22. Capital expenditure would be in the range of Rs. 2.70-2.75 bn.
- ESC currently has over 1,100 dealerships (vs 1,090 at Q4FY21 end). Mostly adding from southern market.

Exhibit 4: Revenue de-grew 24% QoQ


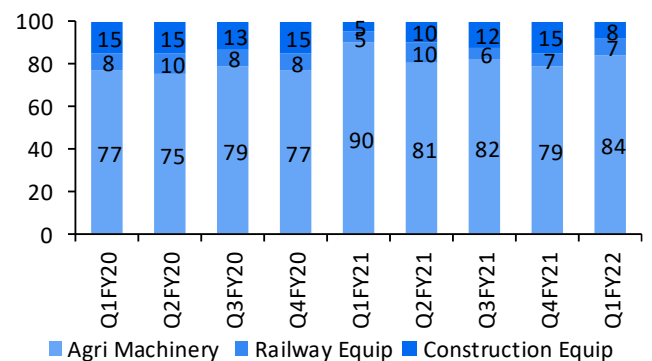
Source: DART, Company

Exhibit 5: EBITDA margin contracted on QoQ basis


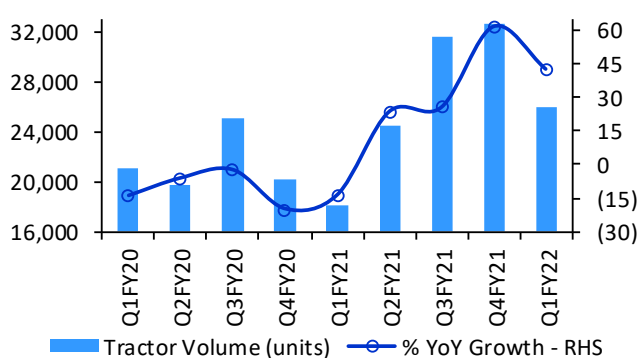
Source: DART, Company

Exhibit 6: PAT (Rs mn) vs PAT Margin (%)


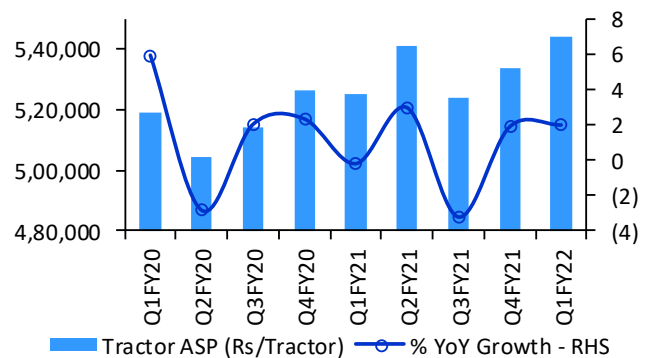
Source: DART, Company

Exhibit 7: Segmental Mix (%)


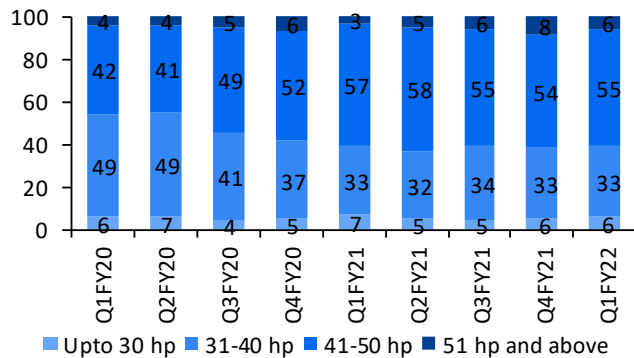
Source: DART, Company

Exhibit 8: Tractor volume (units) de-grew 20% QoQ


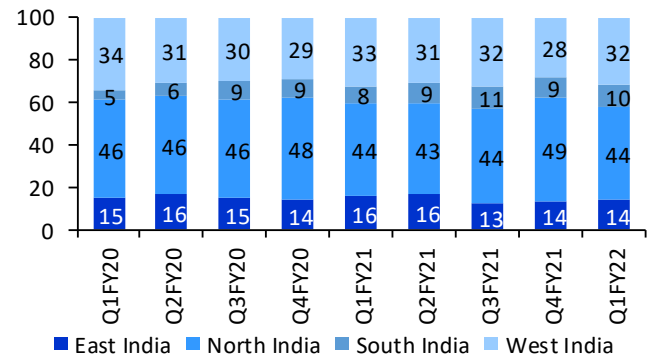
Source: DART, Company

Exhibit 9: Tractor ASP up 2% QoQ


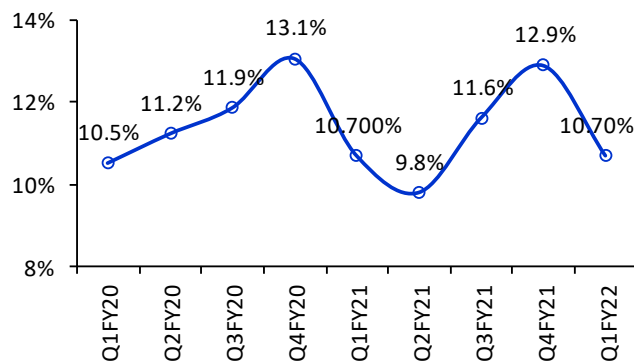
Source: DART, Company

Exhibit 10: Escorts Domestic HP segment share (%)


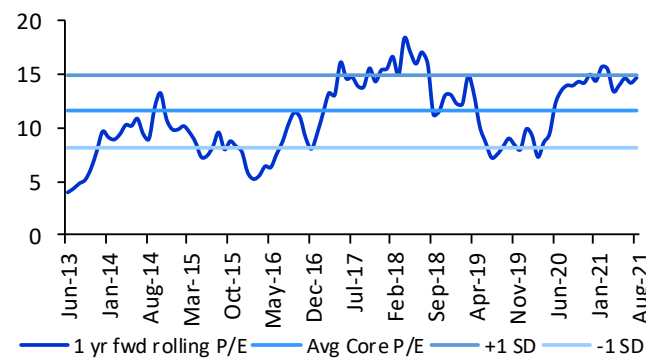
Source: DART, Company

Exhibit 11: Escorts Domestic region wise share (%)


Source: DART, Company

Exhibit 12: Escorts Domestic Tractor Market share


Source: DART, Company

Exhibit 13: PE Band chart


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	57,610	69,293	77,861	77,858
Total Expense	50,851	58,001	67,258	67,590
COGS	38,196	45,937	52,770	52,476
Employees Cost	5,103	5,346	5,826	6,203
Other expenses	7,552	6,718	8,662	8,910
EBIDTA	6,758	11,292	10,603	10,268
Depreciation	1,046	1,157	1,264	1,285
EBIT	5,713	10,135	9,339	8,983
Interest	155	110	76	70
Other Income	923	1,546	2,009	2,411
Exc. / E.O. items	92	0	0	0
EBT	6,573	11,571	11,272	11,324
Tax	1,533	2,831	2,874	2,888
RPAT	5,040	8,741	8,398	8,436
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,948	8,741	8,398	8,436

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	1,226	1,348	1,348	1,348
Minority Interest	0	0	0	0
Reserves & Surplus	33,575	52,568	61,434	70,257
Net Worth	34,801	53,916	62,782	71,606
Total Debt	483	716	666	616
Net Deferred Tax Liability	303	230	230	230
Total Capital Employed	35,587	54,861	63,678	72,451

Applications of Funds

Net Block	17,081	18,209	19,624	19,934
CWIP	1,044	644	387	362
Investments	6,468	7,610	9,428	8,610
Current Assets, Loans & Advances	28,528	45,570	55,534	65,195
Inventories	8,222	6,745	10,079	10,666
Receivables	7,565	6,984	9,599	9,599
Cash and Bank Balances	3,185	13,165	10,777	24,239
Loans and Advances	168	104	202	104
Other Current Assets	3,005	2,056	7,361	2,071
Less: Current Liabilities & Provisions	17,534	17,171	21,295	21,648
Payables	12,639	11,871	15,999	15,998
Other Current Liabilities	4,895	5,300	5,296	5,650
<i>sub total</i>				
Net Current Assets	10,994	28,399	34,239	43,547
Total Assets	35,587	54,861	63,678	72,451

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	33.7	33.7	32.2	32.6
EBIDTA Margin	11.7	16.3	13.6	13.2
EBIT Margin	9.9	14.6	12.0	11.5
Tax rate	23.3	24.5	25.5	25.5
Net Profit Margin	8.7	12.6	10.8	10.8
(B) As Percentage of Net Sales (%)				
COGS	66.3	66.3	67.8	67.4
Employee	8.9	7.7	7.5	8.0
Other	13.1	9.7	11.1	11.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	37.0	92.3	122.9	127.4
Inventory days	52	36	47	50
Debtors days	48	37	45	45
Average Cost of Debt	9.2	18.3	11.0	11.0
Payable days	80	63	75	75
Working Capital days	20	10	17	20
FA T/O	3.4	3.8	4.0	3.9
(D) Measures of Investment				
AEPS (Rs)	48.9	86.5	83.1	83.4
CEPS (Rs)	59.3	97.9	95.6	96.2
DPS (Rs)	2.5	7.5	3.5	4.0
Dividend Payout (%)	5.1	8.7	4.2	4.8
BVPS (Rs)	344.2	533.3	621.0	708.3
RoANW (%)	15.5	19.7	14.4	12.6
RoACE (%)	14.7	19.6	14.3	12.5
RoAIC (%)	17.9	27.4	19.7	17.8
(E) Valuation Ratios				
CMP (Rs)	1225	1225	1225	1225
P/E	25.0	14.2	14.7	14.7
Mcap (Rs Mn)	1,48,632	1,48,632	1,48,632	1,48,632
MCap/ Sales	2.6	2.1	1.9	1.9
EV	1,39,548	1,19,667	1,21,006	1,06,493
EV/Sales	2.4	1.7	1.6	1.4
EV/EBITDA	20.6	10.6	11.4	10.4
P/BV	3.6	2.3	2.0	1.7
Dividend Yield (%)	0.2	0.6	0.3	0.3
(F) Growth Rate (%)				
Revenue	(7.0)	20.3	12.4	0.0
EBITDA	(7.8)	67.1	(6.1)	(3.2)
EBIT	(11.8)	77.4	(7.9)	(3.8)
PBT	(6.0)	76.0	(2.6)	0.5
APAT	4.6	76.7	(3.9)	0.5
EPS	4.6	76.7	(3.9)	0.5

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	8,860	12,449	2,584	14,888
CFI	(5,173)	(13,103)	(5,183)	(1,692)
CFF	(2,814)	10,502	342	267
FCFF	6,528	10,564	161	13,318
Opening Cash	2,312	3,185	13,034	10,777
Closing Cash	3,185	13,034	10,777	24,239

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	1,290	1,146
Feb-21	Reduce	1,368	1,334
May-21	Reduce	1,235	1,164
Jul-21	Reduce	1,229	1,200

*Price as on recommendation date

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