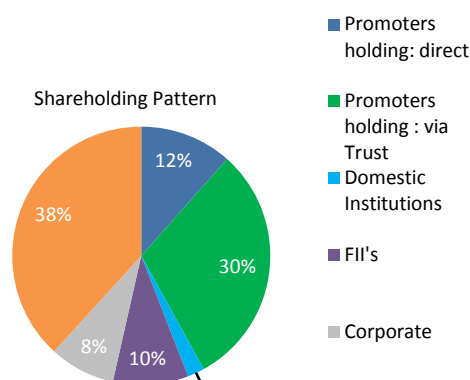


Escorts Ltd-Q5-FY14 RESULT UPDATE

CMP: Rs 126
Target Price: Rs 137
Recommendation: Hold

Stock Info	
BSE Group	B
BSE Code	500495
NSE Symbol	ESCORTS
Bloomberg	ESC:IN
Reuters	ESCO.BO
BSE Sensex	20209
NSE Nifty	6002

Market Info	
Market Capital	Rs 1544 Crores
Equity Capital	Rs 119.3 Crores
Avg Trading Volume	567,655
52 Wk High / low	145/ 48
Face Value	10



Escorts reported subdued quarterly numbers due to lower contribution from non agri business. Company reported 12.8% yoy growth in revenues at Rs1160cr. Within segments, Agri machinery, railway equipment reported 14.9% and 20.2% yoy growth. Construction equipment growth was moderate at 1.4%, while auto ancillary division reported 22% yoy decline in revenues. Operating margin dropped qoq by 50bps to 6.1%. due to higher raw material cost. Management expects RM/sales ratio to remain higher at ~72.4% over next 2-3 quarters.

Auto ancillary, construction equipment business continues to report losses at EBIT level. These divisions have been impacted by weak demand and negative operating leverage. Company reported PAT of Rs46cr, 62% higher yoy and 4.5% growth qoq.

Conference call Highlights:

- Company is witnessing strong traction in tractor market backed by bumper harvest this year. Management has indicated tractor industry growth of ~22% with Western and South Indian market growing at ~35%. Northern markets (*account for 60% of market*) however are growing at ~15-17%. Management expects similar growth trend to continue for some more time. Notably, company has ~4% market share in southern markets thus could not garner much of benefits from higher growth rates.
- Company is increasing its focus on 31-40hp segment at the cost of <30HP segment and is looking forward to increase market share in the same to 20% from 14% at present.
- Traction continues to be subdued in construction and railway business. Environment continues to remain challenging in construction equipment business, while railway business suffered due to lack of orders.
- Annual capex guidance stands at Rs 80-90cr.
- Current debt levels of company: Rs 413cr.

Valuations:

We have upped our target price for Escorts to Rs 137 per share from Rs 96 per shares earlier on ascribing higher EV/EBITDA(x) of 6x (4.5x earlier). We are positive on tractor industry growth and forecast Escorts to benefit from product specific strategy aiming at increasing its market share. Recommend Hold rating on the stock.

Y/E Sept (in Rs cr)	AY12: Sept	AY13: Sept	AY14: Sept	AY15: Sept
Income from Operations	3,893.9	4149	4,716.0	5,246.5
yoy%	20.2%	6.6%	10.4%	11.2%
Operating EBIDTA	182.2	264.5	303.2	344.5
Operating EBIDTA %	4.7%	6.3%	6.4%	6.6%
PBT	87.95	183.0	224.62	276.02
PAT	69.6	167.6	177.4	218.1
yoy%	-42.0%	140.8	5.8	22.9%
EPS reported	5.8	14.1	14.9	18.3
Operating Cash Flow	55.4	165.4	178.4	205.7
P/E	14.3	6.7	5.6	4.6
EV / EBITDA	7.6	5.1	4.6	4.0

Note: 1) Escorts' Financial Year (FY) has been shifted to March from Sept.
2) Estimates haven't been reclassified as per new FY



Quarterly P&L : in Rs crore	Q5 FY14	Q3 FY12	yoy %	Q4FY14	qoq %
Revenues	1159.6	1028.2	12.8	944.2	22.8
Total RM Cost	840.0	745.2	12.7	652.2	28.8
Employee Cost	<i>114.4</i>	113.2	1.1	<i>103.9</i>	10.1
Other expenses	<i>134.2</i>	116.9	14.8	<i>123.7</i>	8.5
Total Expenditure	1088.6	975.2	11.6	879.8	23.7
Op EBITDA	71.0	53.0	34.0	64.5	10.1
Op EBITDA margin %	<i>6.1%</i>	<i>5.2%</i>	18.8	<i>6.8%</i>	-10.4
Depreciation /	<i>14.5</i>	13.03	11.3	<i>14</i>	3.6
Op EBIT before Other	56.5	39.9	41.4	50.5	11.9
Op EBIT Margin %	<i>4.9%</i>	<i>3.9%</i>	25.2	<i>5.3%</i>	-8.8
Other Income	<i>15.8</i>	13.6	16.3	<i>16</i>	-1.3
EBIT before Excp Items	72.3	53.6	35.0	66.4	8.9
Interest Expense	<i>15.5</i>	21.5	-27.7	<i>18.3</i>	-15.3
PBT before Excp Items	56.8	32.1	76.9	48.2	17.8
Excp Items (Net)	<i>0</i>	0.87	-100.0	<i>-0.1</i>	-100.0
PBT	56.8	31.2	81.9	48.3	17.6
Provision for Taxation	<i>11.2</i>	3.09	262.5	<i>4.7</i>	138.3
Net Profit	45.6	28.1	61.9	43.6	4.5



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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