

Escorts (ESC) - BUY

Result Update

Current Market Price (CMP)

Rs.1311

Target Price

Rs.1700

Our fair value of Rs.1700 offers 29.7% upside from the current market price.

Rationale:

- We expect the tractor industry to show strong growth over the next two years.
- We estimate Esc tractor volumes to grow at 14.5% yoy in FY21E & 10.7% in FY22E.
- We expect earnings per share (EPS) to grow by 14.8% in FY22E and 12.3% in FY23E.
- Stock is trading at a PE of 13.1x FY23E EPS; we value the stock at 17x Mar'23E EPS.

Q3FY21 Earnings update:

Positives:

- Net revenues increased by 24% yoy to Rs2,017 cr; tractor volumes grew 25.7% yoy.
- Tractor EBIT (Earnings before interest & depreciation) margin was 20.1%, +560 bps yoy.
- Construction segment EBIT margin came in a 7.5% (+270 bps yoy, +580 bps qoq).

Negatives:

- Railway segment EBIT margin came in 12.7% (-570bps yoy, -760 bps qoq).
- Esc lost 24 bps market share yoy in Q3FY21 due to adverse geographical mix.
- Esc expects 200-300 bps commodity headwinds impact on gross margins in Q4FY21.

[Click here](#)

For detailed report dated 2nd Feb 2021. Note: CMP & valuation may differ due to difference in dates.



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