

Pick of the week



Escorts Ltd

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 1219

Target Price

₹ 1700

Potential Upside

39.5%

Investment Argument

- We believe the tractor industry is likely to show strong growth over the next two years led by good monsoons over the past two years, stable crop prices and higher Rabi crop output than the previous year and higher mix of non-agricultural-based tractors.
- We expect Escorts' tractor volumes to grow at 6% compound annual growth rate (CAGR) over FY21-24E
- The company expects the construction equipment segment to grow by high single-digit on a yoy basis in FY22E and expects margin improvement to continue. For the railway division, the company has guided for lower double-digit growth on a yoy basis and operating margins in the range of 16-18% in FY22E.
- With revival in the economy and government spending, we expect construction equipment and railway segment revenues to grow by double-digit compound annual growth rate (CAGR) over FY22-23E.
- As of March 2021, net cash stood at ~Rs2970 cr versus ~Rs2700 cr as of December 2020 and net cash levels of Rs310 cr as of March 2020. We value the stock at 17X March 2023E EPS.