

Pick of the week



Escorts Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹1319

Target Price

₹1700

Potential Upside

28.9%

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, higher Rabi crop output and higher mix of non-agricultural-based tractors.
- With revival in the economy and government spending, we expect construction equipment and railway segment revenues to grow by double-digit CAGR (compound annual growth rate) over FY22-23E.
- The company expects strong growth in the construction equipment segment over the next 4-6 quarters. We estimate total tractor volumes to grow at 14.5% yoy in FY21E and 10.7% in FY22E for the company.
- Net cash stood at ~Rs2700 cr as of December 2020 versus ~Rs1670 cr as of September 2020 and net cash levels of ~Rs310 cr as of March 2020.
- We expect EPS (earnings per share) to grow at 22% CAGR over FY20-23E. Our Fair Value of Rs1,700/share is based on 17x March 2023E EPS.