Edelweiss Professional Investor Research
Insightful. Independent. Decisive.

# Escorts Ltd.


**Vishal Srivastav**
**Research Analyst**
Vishal.srivastav@edelweissfin.com


Date: 6th July 2020

# Long Term Recommendation
# Escorts Ltd

## Journey from turnaround to excellence

**Vishal Srivastav**
**Research Analyst**
vishal.srivastav@edelweissfin.com

**CMP: INR 1,070**
**Target price: INR 1,332**
**Rating: BUY**
**Upside: 25%**

| Bloomberg: | ESCT:IN |
|---|---|
| 52-week range (INR): | 423/1,069 |
| Share in issue (crore): | 12 |
| M-cap (INR crore): | 12,992 |
| Promoter holding (%) | 40.25 |

**Escorts has been among the leading players in the tractor industry and well-known brand in the farm equipment space since independence. During the last 2 decades, it has forged one of the most extraordinary turnaround stories in the history of the domestic automobile industry through focused and rigorous efforts. With the turnaround implemented successfully, the management now has arsenals like: 1) Strong financials and Balance Sheet; 2) Healthy product offerings across businesses; and 3) Access to foreign technology and tie-ups with strategic international partners to kick-off the next growth phase. Given the strong traction in the rural economy on the back of a bountiful crop season last year, supported by increase in the minimum support price (MSP), expectation of a plentiful monsoon this year and healthy reservoir levels, we expect the start of next tractor upcycle which may last for another 2 years. We believe Escorts will be in a better position to reap benefits of this upcycle like never before. We estimate 18% earnings per share (EPS) CAGR during FY20-23E, and further improvement in cash flow and return on capital employed (RoCEs) from these levels as well, which will continue to support the stock's valuation. The stock is currently trading at 16x/19x (adjusting to treasury share/without treasury shares) FY22E EPS. We initiate coverage with a BUY rating with a target price of INR 1,332 per share, valuing at 20x/24x (adjusting to treasury share/without treasury shares) on FY22E EPS.**

### Turnaround implemented successfully, Escorts all set for the next growth phase

The management's focused strategies pulled the company off the brink, these included: 1) Taking hard decisions of divesting in a few non-core loss making businesses and paring down its alarmingly elevated debt levels; 2) Effective and rigorous cost control in core business with a focus to improve both profitability and cash flows; 3) Investing in core businesses to regain lost market share in the flagship tractor business. Having successfully executed the turnaround, the management now has few arsenals like: 1) Strong financials and Balance Sheet; 2) Healthy product offerings across businesses; and 3) Access to foreign technology and tie-ups with strategic international partners like Kubota Corporation and Tadano to kick-off the next growth phase.

### New JVs and product lines to lead the next leg of growth

Expanding market presence across domestic and international markets, combined with enhancing product offerings in its three core businesses, is the right strategy to scale up. The upcycle in tractors is the next crucial fillip for Escorts, more than any other upcycle in the last 2 decades, as it is fully equipped to gain market share and fully explore the joint venture with Kubota. The high margin railways business can be a surprise package, given its strong order book, and virtually no competitors in its new product lines. The construction equipment (CE) business too is ready for the next phase of growth, with new product lines, as investments from the government towards infrastructure is expected to pick-up with a revival in the macroeconomic scenario once the novel coronavirus, or COVID-19, pandemic ebbs.

### Improving profitability, effective capital allocation bolsters valuation

We expect an economic revival after the COVID slowdown to fuel growth across all business segments for Escorts. The management's confidence on improving margin across businesses through efficiencies and cost reduction is comforting and will further scale up RoCEs. No major near-term capex and purchase of stake from Kubota will improve cash flows and strengthen its Balance Sheet. Given its strong growth prospects and robust Balance Sheet strength, we value the company at 16/20x (adjusting to treasury share/without treasure shares) FY22E EPS. We initiate coverage with a BUY rating and a target price of INR 1,332 per share, valuing the company at 20x/24x (adjusting to treasury share/without treasury shares) on FY22E EPS.

| Year to March (INR crore) | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Net revenue | 5,059 | 6,265 | 5,810 | 5,883 | 6,942 |
| EBITDA | 542 | 701 | 658 | 723 | 867 |
| Adjusted PAT | 341 | 475 | 468 | 563 | 681 |
| EBITDA margin (%) | 10.7 | 11.2 | 11.3 | 12.3 | 12.5 |
| PAT margin (%) | 6.7 | 7.6 | 8.1 | 9.6 | 9.8 |
| EPS basic (INR) | 28.0 | 38.3 | 38.9 | 45.9 | 55.5 |
| EPS adjusted for treasury shares* | 38.3 | 53.4 | 52.6 | 55.7 | 67.3 |
| P/E (x) | 38.2 | 27.9 | 27.5 | 23.3 | 19.3 |
| P/E (x) (adjusted to treasury shares) | 27.9 | 20.0 | 20.3 | 19.2 | 15.9 |
| EV/EBITDA (x) | 24.4 | 19.0 | 20.0 | 17.6 | 14.7 |
| RoCE (%) | 33.5 | 37.5 | 29.5 | 31.3 | 34.4 |

*We have factored the Kubota deal and adjusted the same in EPS from FY21

Date: 6th July, 2020

## Table of Contents

PAT is expected to grow at 18% CAGR over FY20-23E, led by good growth in the tractor and the railways business, led by robust convergence of positive macro and focussed company efforts , along with strong order book position in the railways

**PAT growth will be driven by increased revenue and improvement in operating margin for the key segments**

**Core RoACE is expected to improve driven by increased profitability and lower capex**

**We recommend a BUY with a target price of INR 1,332/share, valuing Escorts at 24x FY22E earnings**

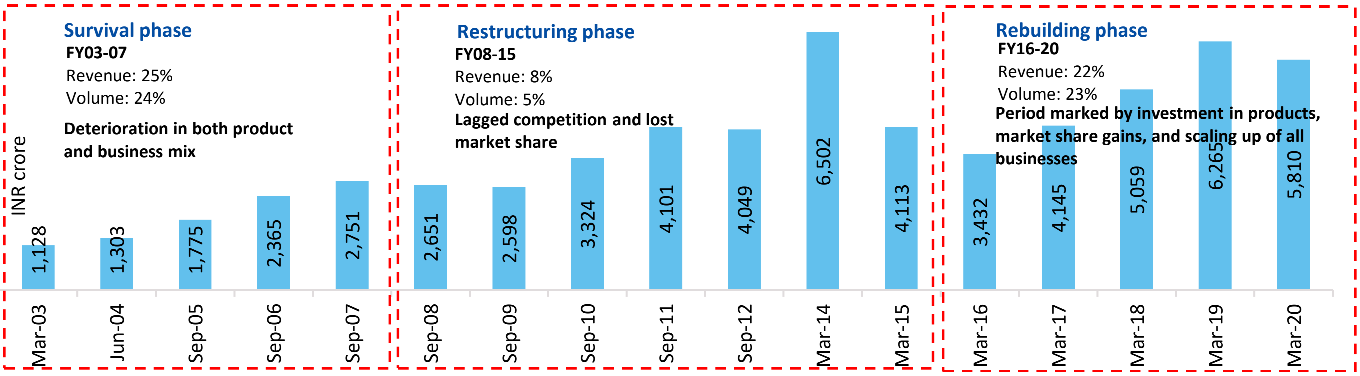
| | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenue ( | 6,265 | 5,810 | 5,883 | 6,942 | 7,650 |
| EBITDA margin (%) | 11.2 | 11.3 | 12.3 | 12.5 | 12.7 |
| PAT | 475 | 468 | 563 | 681 | 776 |

| | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| RoAE (%) | 19.2 | 16.5 | 14.4 | 13.7 | 13.7 |
| RoACE (%) | 37.5 | 29.5 | 31.3 | 34.4 | 33.4 |

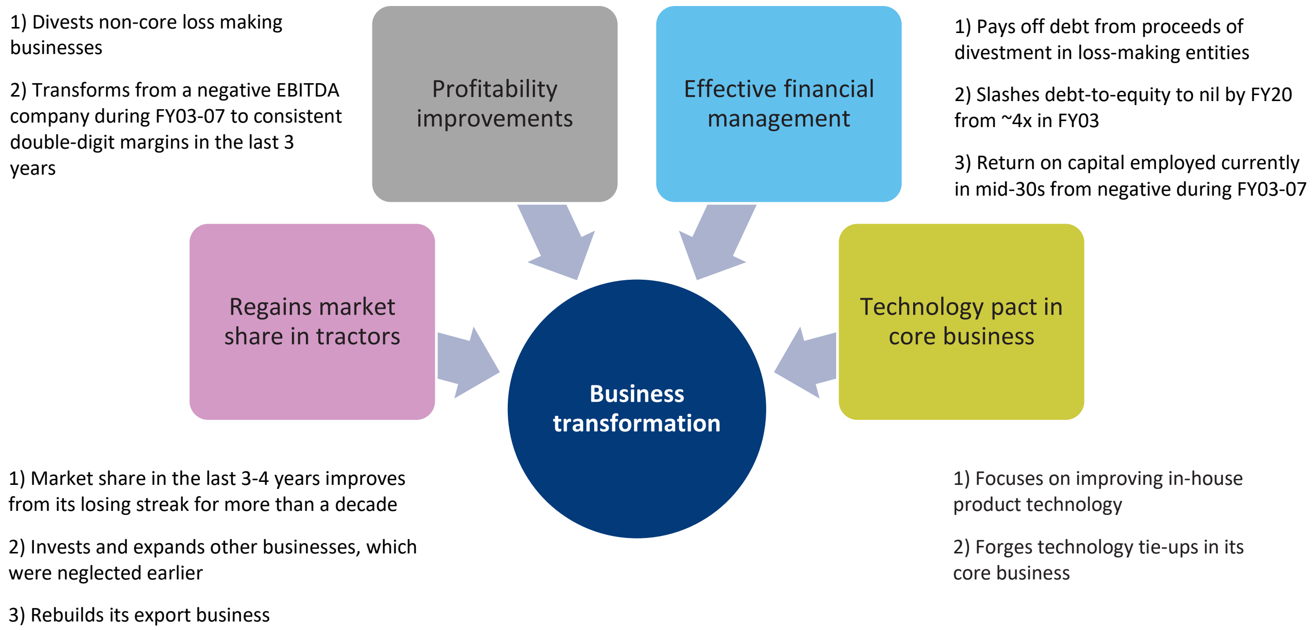
**18% EPS growth over FY20-23E** + **FY20-23E EBITDA margin of ~140 bps** + **At 24x FY22E EPS**

**Upside 25%**

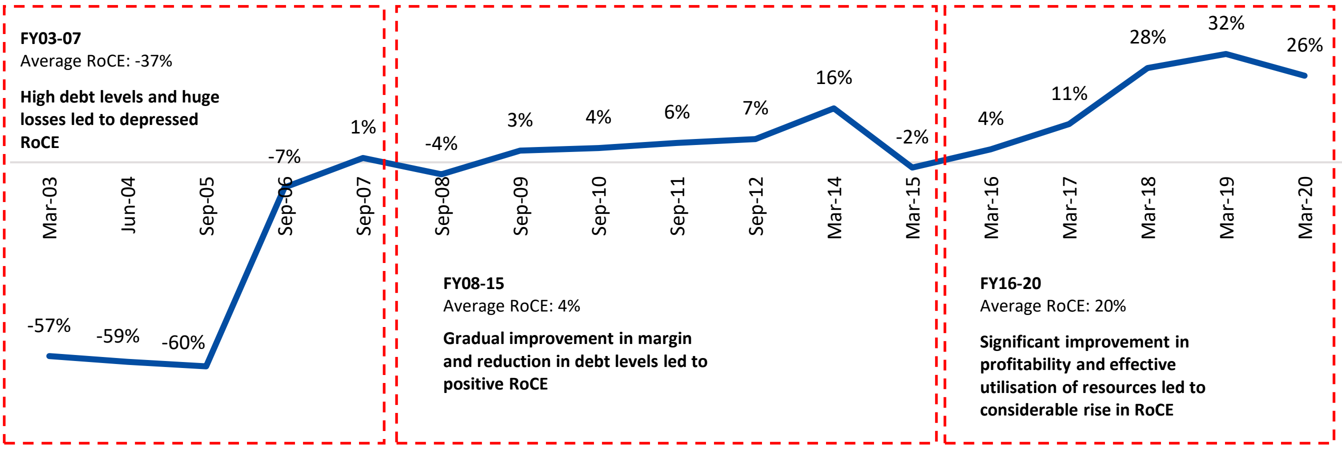
### Survival and restructuring phase helped Escorts benefit from the upcycles in the last 2 decades



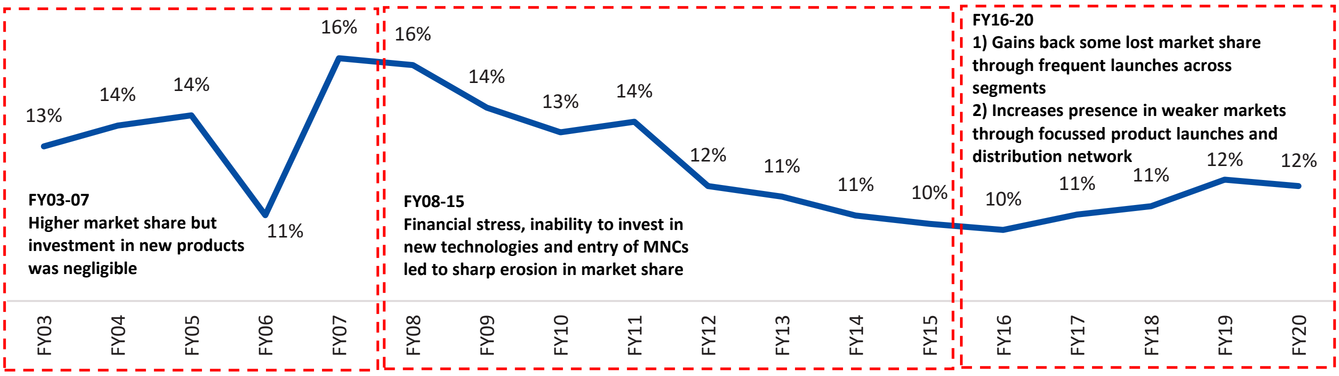

### Effective implementation of a broad-based organisation restructuring strategy led to the turnaround




### Higher profitability and reduction in debt led to gradual improvement in RoCE in the last 10 years



### Frequent launches led to increase in market share during the last 4-5 years




### Key drivers that are boosting rural consumption and tractor demand

**Increase in farm income**

- MSP increase in current decade has been around 6%, which was similar to last decade
- Procurement as % of total food grain production has increased from average 25% in last decade to 33% in current. Last 2 years procurement was all time high at 37%
- Overall food grain production in current decade was 3% CAGR, which didn't grew last decade.

**Agri credit availability**

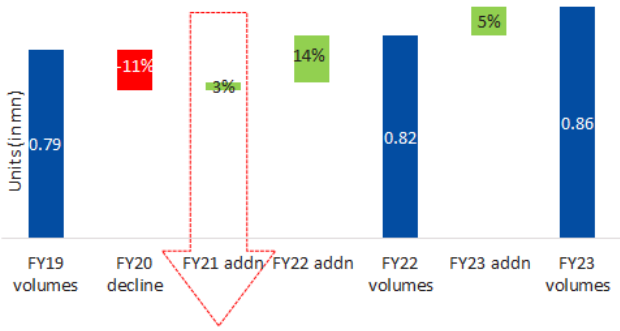
- Govt expenditure towards agriculture and farmer welfare has increased by around 4.5x in last 5 years.
- Gradual decline in agri credit disbursement in last 4-5 years had bearing on rural consumption, especially in last 2 years, where it has been historically lowest.

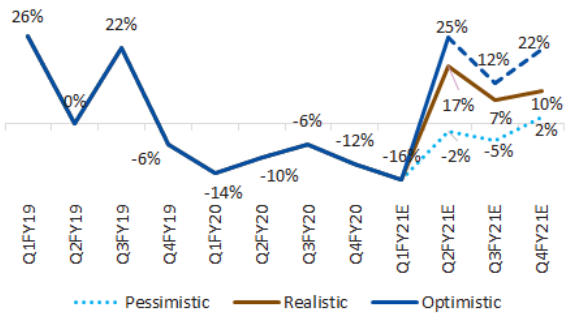
**Good rainfall and record reservoir levels**

- Rainfall in current decade has been 95% of LPA. While since FY16, the average rainfall was around 89% of LPA. Average rainfall in last decade was ~93%.
- Average reservoir levels was 55 bn cu mtr in current decade, which was ~40 bn cu mtr last decade. In FY20 the reservoir levels were at all time high levels of 88 bn cu mtr.

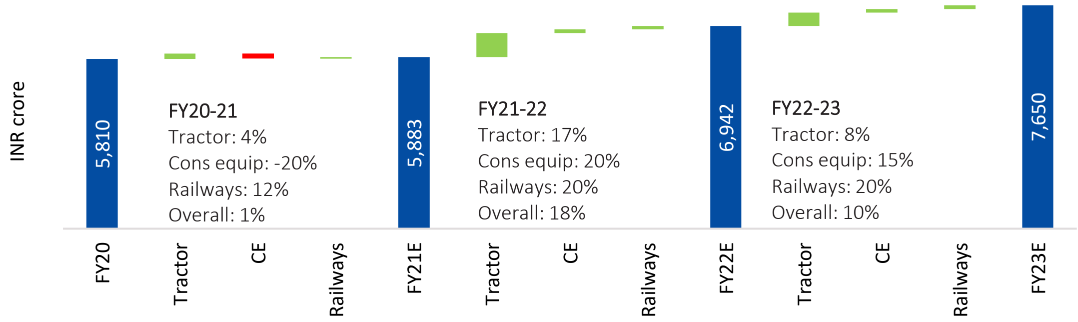
### Overall scoring indicates we are heading into the next upcycle in tractor demand

| Weighted avg score | Wtg | FY21-23E |
|---|---|---|
| **Farm income** | **70** | **45** |
| Increase in farm income (CAGR) | 5 | 20 |
| Procurement by govt (CAGR) | 2 | 10 |
| Food grain production (CAGR) | 3 | 15 |
| **Govt support** | **10** | **34** |
| Agri credit (CAGR) | 6 | 18 |
| Govt expenditure (%) | 4 | 16 |
| **Water supply** | **20** | **50** |
| Rainfall (%) | 5 | 25 |
| Current reservoir levels (bn cu mtr) | 5 | 25 |
| **Overall wtd avg score** | | **45** |

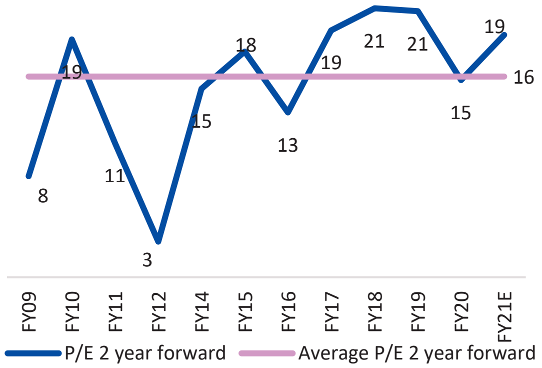


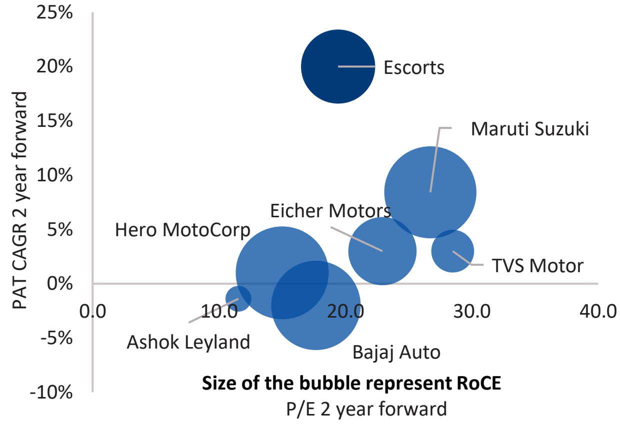



## Tractor business may surprise with marginal growth in FY21

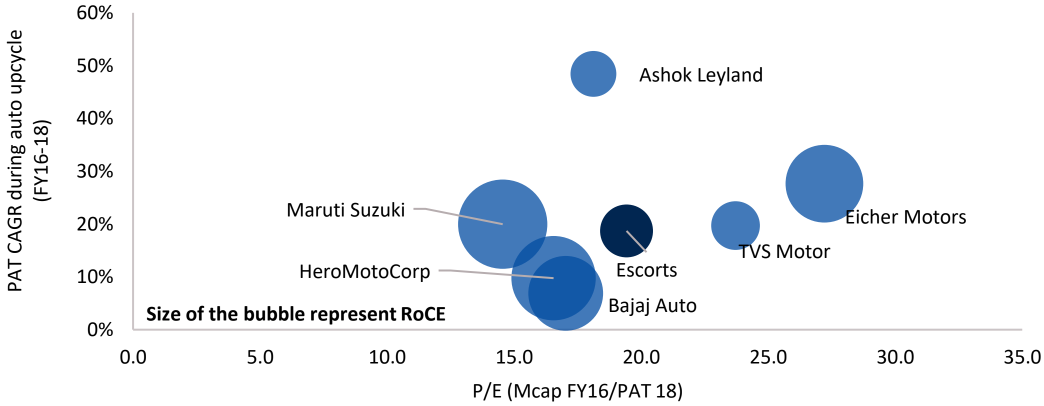



## Recent run up places the stock in upper quadrant of valuation




## … however comparison of current upcycle for Escorts with previous upcycle of automobile OEMs shows valuation upside possible based on growth and improvement in financials




*Note: For Escorts, we have considered PAT CAGR between FY20 and FY22 and P/E is calculated using current market capitalisation to FY22E PAT*

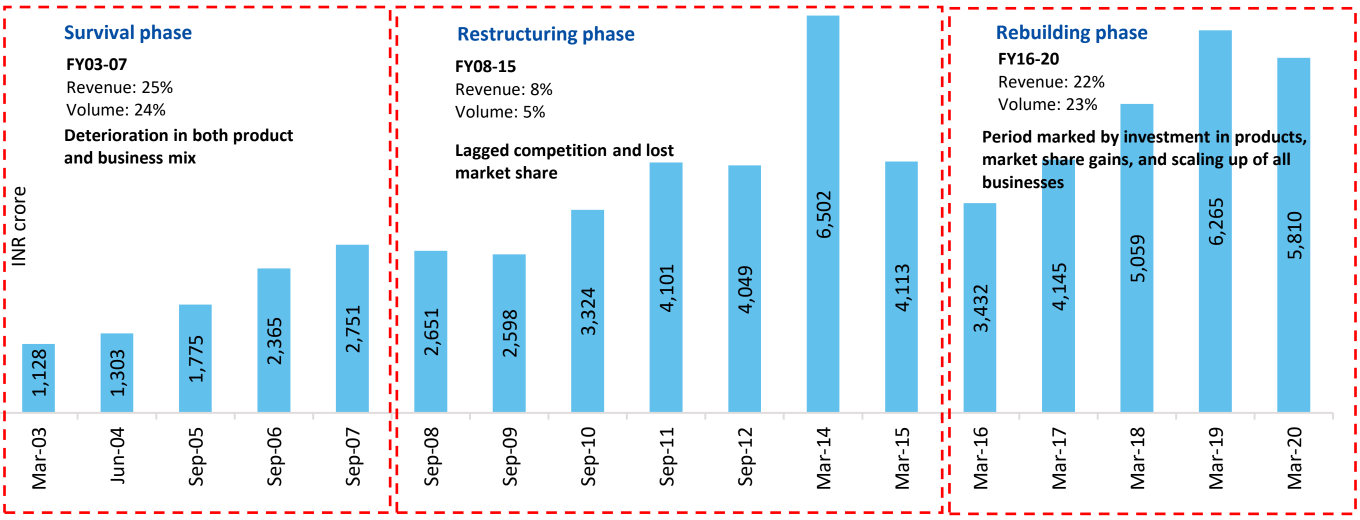
Source: Edelweiss Professional Investor Research

# I. Escorts – A journey from turnaround to excellence

Focussed approach towards bettering profitability, lean Balance Sheet, raising market share, improving product quality and access to technology from the world's leading farm equipment manufacturer has led Escorts to forge one of the most extraordinary turnaround stories in the domestic automobile industry in the last 10 years.

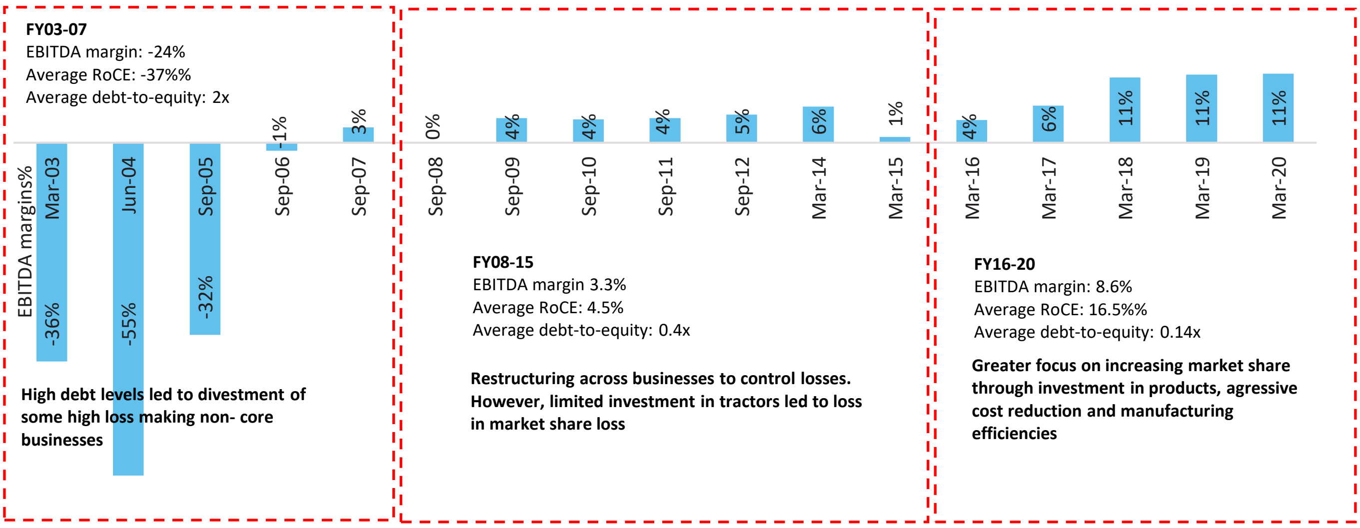
Despite being one of the leading player in the agriculture equipment business since independence and a flagship company of well-known industrial houses from the pre-liberalisation era, Escorts faced its toughest phase in its corporate history during the early 2000. This warranted a structured approach from the management team to address the problems which emerged on almost all strategic fronts.

### Survival and restructuring phase helped Escorts benefit from the upcycles in the last 2 decades




Source: Company and Edelweiss Professional Investment Research

### Focused efforts led to noteworthy turnaround in the domestic automobile industry




Source: Company and Edelweiss Professional Investment Research

## II. A turnaround story

**Effective implementation of a broad-based organisation restructuring strategy led to the turnaround**

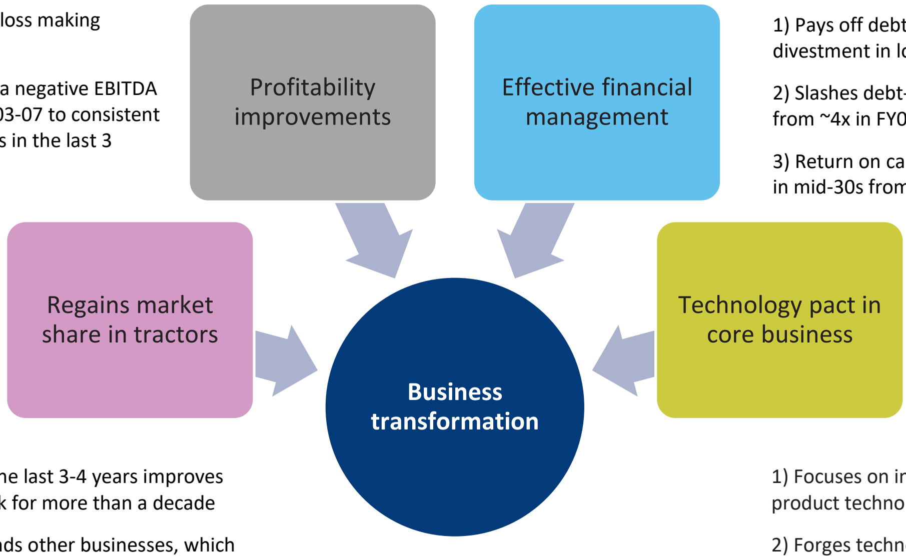
1) Divests non-core loss making businesses

2) Transforms from a negative EBITDA company during FY03-07 to consistent double-digit margins in the last 3 years

1) Pays off debt from proceeds of divestment in loss-making entities

2) Slashes debt-to-equity to nil by FY20 from ~4x in FY03

3) Return on capital employed currently in mid-30s from negative during FY03-07




1) Market share in the last 3-4 years improves from its losing streak for more than a decade

2) Invests and expands other businesses, which were neglected earlier

3) Rebuilds its export business

1) Focuses on improving in-house product technology

2) Forges technology tie-ups in its core business

Source: Edelweiss Professional Investment Research

**Focus on profitability in its core businesses led to improvement in performance**

The early 2000 period was an extremely challenging period for Escorts. For 4 consequent years -- FY03-06 – it had suffered losses at the earnings before interest, tax, depreciation and amortisation (EBITDA) level and its debt-to-equity ratio was as high as 3.8x in FY03.

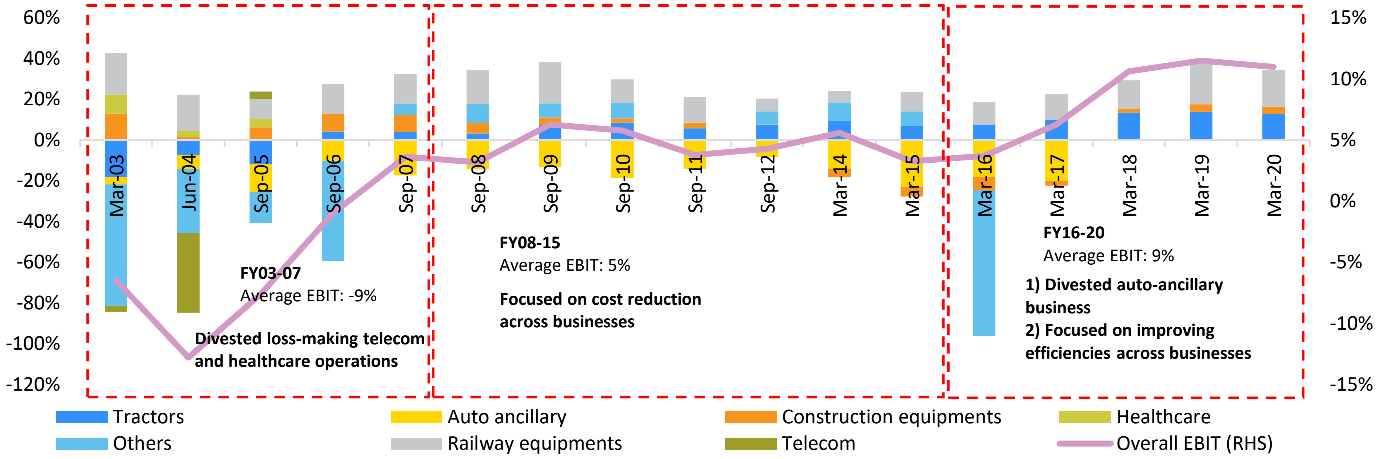
A focused approach towards: 1) Selling of loss-making non-core businesses and gradually paying off debt; and 2) Effective cost control to improve margins across core businesses was adopted.

*Mounting losses and higher debt levels led Escorts hiving off its telecom, IT and hospital businesses*

Rising debt and losses led the management to gradually offload its non-core businesses like telecom, IT, and hospitals in the last decade and thereafter the auto-ancillary business in FY15.

Poor financial health also restricted the company's investments in its core tractor business, which led to considerable market share losses in the last decade. However, offloading of non-core businesses significantly eased management bandwidth to focus on its core business.

**Divesting major loss-making non-core businesses gradually eased off margin pressure**

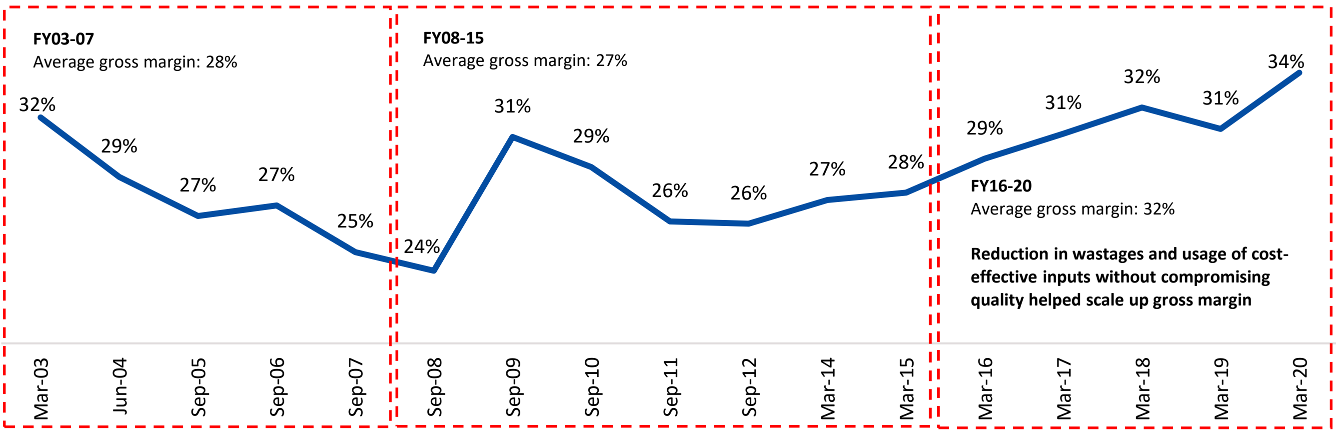



Source: Edelweiss Professional Investment Research

*Improving operational efficiency and reduction in material cost*

Through various cost-cutting initiatives under Project Shikhar, the management reduced raw material cost by: 1) Lowering wastages, 2) Improved efficiencies, 3) Re-negotiated with suppliers; and 4) Opted for alternative cost effective inputs in vehicle design without compromising on strength and stability.

**Control on input cost and improvement in efficiencies across businesses boosted gross margin**



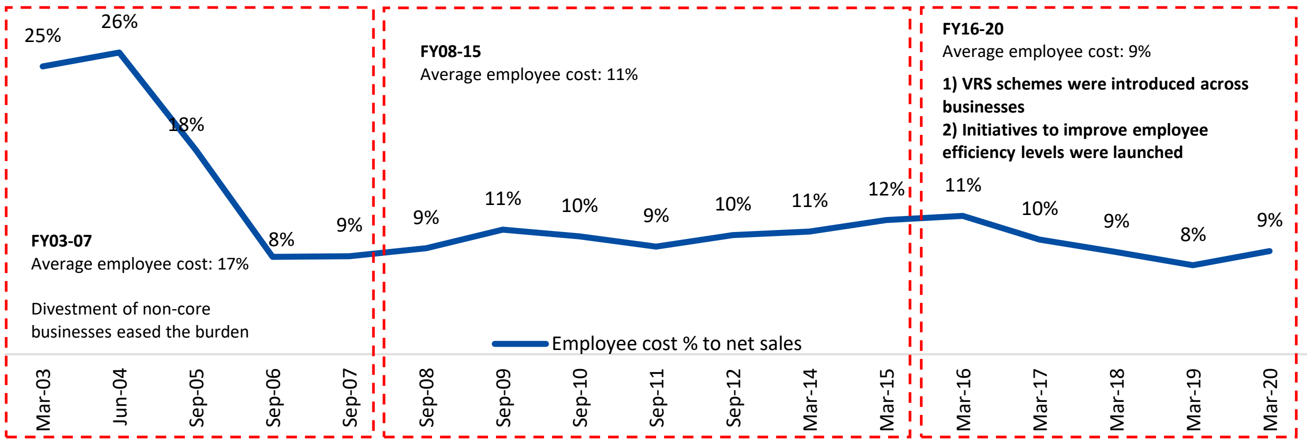

Source: Company and Edelweiss Professional Investment Research

*Controlling employee cost*

High employee cost has been a legacy issue for Escorts. During the early 2000s, employee cost as a proportion of revenue was almost 3x that of its competitors.

Closing of a few businesses helped pare down cost significantly by the end of the last decade, while a series of voluntary retirement schemes (VRS) from FY14 onwards helped cut the flab. Through various initiatives, the management was able to reduce its permanent head count by almost 60% in the last 6-7 years.

### Focus on streamlining employee cost helped scale up EBITDA margin



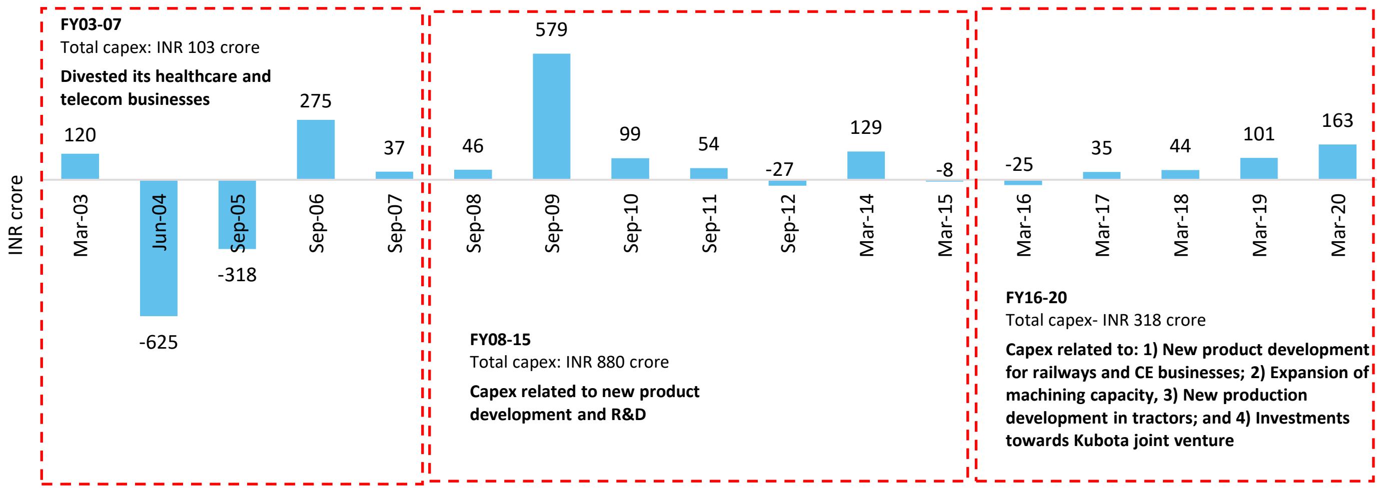

Source: Company and Edelweiss Professional Investment Research

**Focus on maintaining healthy RoCE and cash flow**

*Effective capital allocation and lower capex led to significant cash flow improvements in the last 5-6 years*

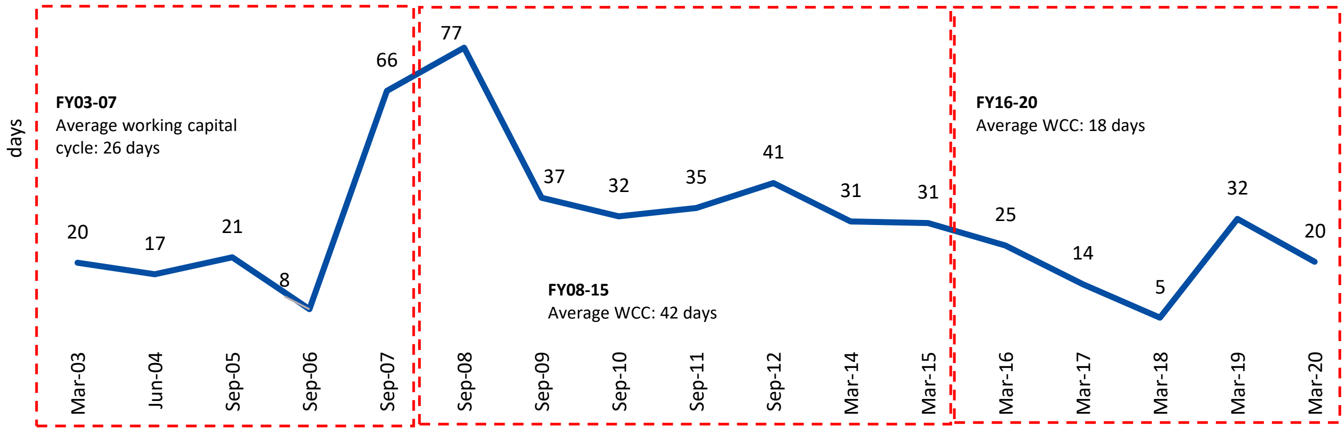
Cash flow management has been the management's key focus during the last 8-10 years. No major capex towards capacity building, effective working capital management and improvement in profitability led to the company turning free cash flow (FCF) positive in 9 years out of the last 10 years.

### Capex directed at backward integration and new products




Source: Company and Edelweiss Professional Investment Research

**Continuous improvement in working capital management also added to the benefits…**



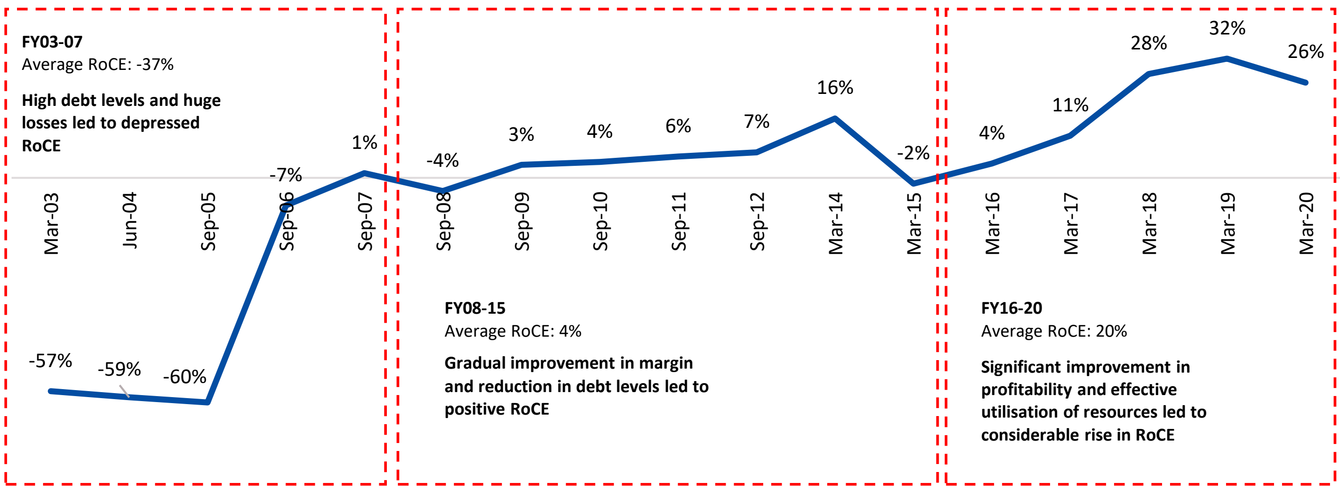

Source: Company and Edelweiss Professional Investment Research

An improvement in FCF from significantly negative in the last decade induces major confidence in the management's turnaround efforts.

*Improvement in RoCE in last 5-6 years is also encouraging*

Escorts was able to significantly improve its return on capital employed (RoCE) to mid-20s in the last 2 years from lower single-digits during the start of the current decade on improving efficiency across businesses, consistent growth in profitability, healthy FCF and declining debt.

**Higher profitability and reduction in debt led to gradual improvement in RoCE in the last 10 years**




Source: Company and Edelweiss Professional Investment Research

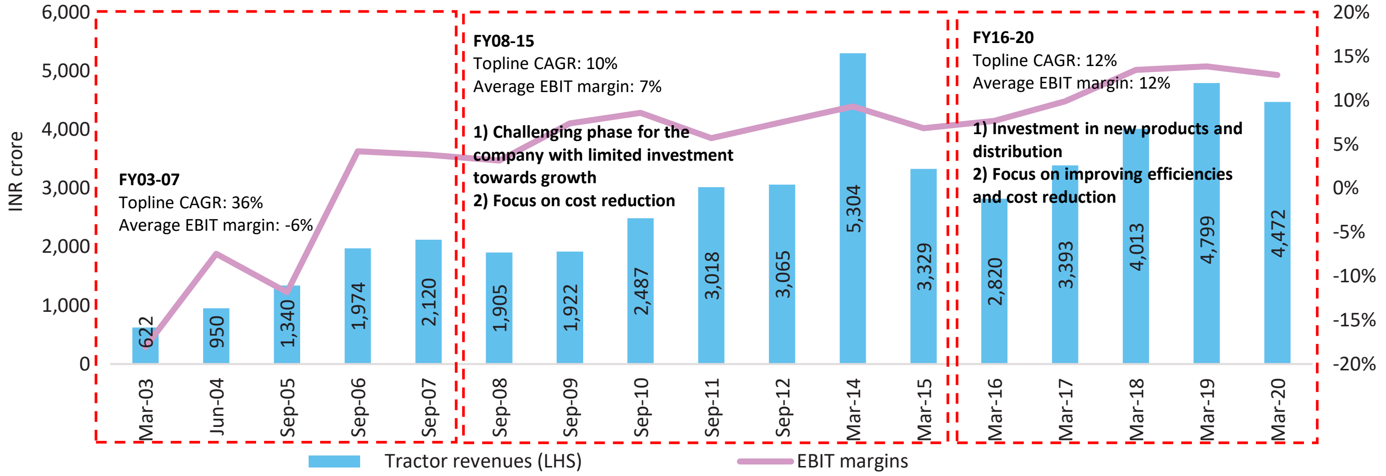
Significant improvement in RoCEs along with healthy FCF led to substantial investor confidence in the management.

## III. Journey towards excellence – The growth phase

**Turnaround of the flagship tractor business was key to Escorts' revival**

Tractors have been the main stay of the company. However, financial stress restrained the management from scaling up this business, which led to significant erosion in market share till FY15. After lowering its heavy debt burden, the management undertook a structured approach towards improving both profitability and its market position during the last 10 years.

**Aggressive cost reduction efforts since the last 8-10 years led to revival of the business**




Source: Company and Edelweiss Professional Investment Research

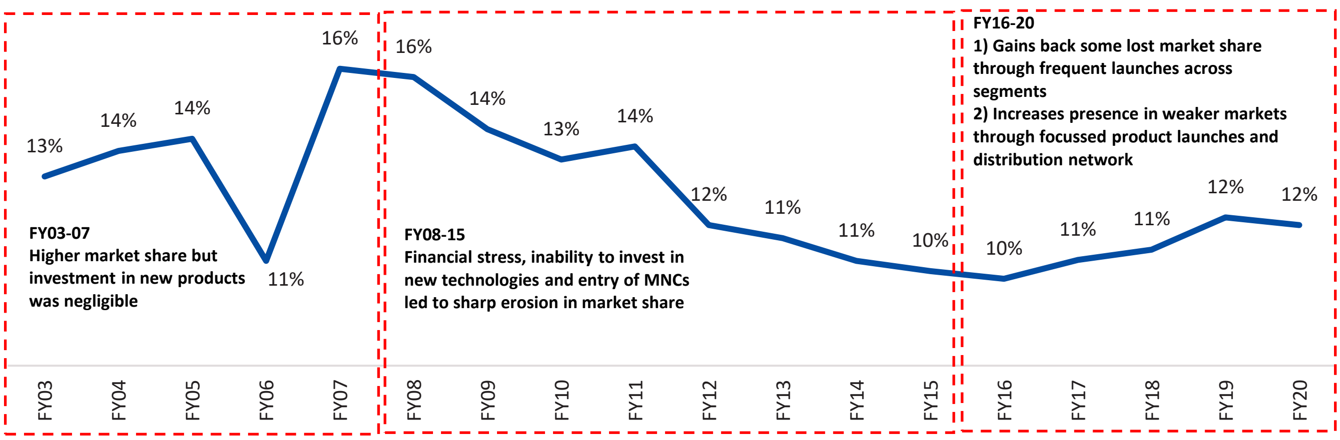
**Focusing on regaining market share through new launches in right product segments and regions**

*Targets model launches across different categories…*

Escorts' market share has seen a free fall from ~14% in FY07 to 9% in FY16. Lack of new launches led to significant market share loss in the early part of the current decade.

However, aggressive new launches and substantial investments to bring its products on par with leading domestic and foreign original equipment manufacturers (OEMs) since FY16 led to the company gradually gaining market share in the last 4-5 years.

**Frequent launches led to increase in market share during the last 4-5 years**




Source: Company and Edelweiss Professional Investment Research

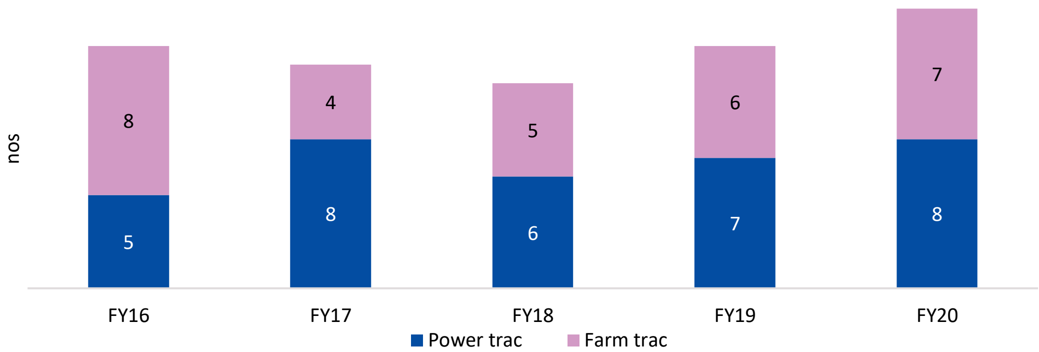
**…leading to improvement in market share in regions where Escorts has a strong and weak presence**

In the past, Escorts was known for its strong presence in mid-range tractors (i.e. 31-40 horsepower and 41-50 hp). However, this strategy constrained growth in western and southern India, where soil conditions suit usage of lower hp tractors. Frequent launches across all segments enabled the company to gradually regain some lost market share in the last 4-5 years.


Atom Series

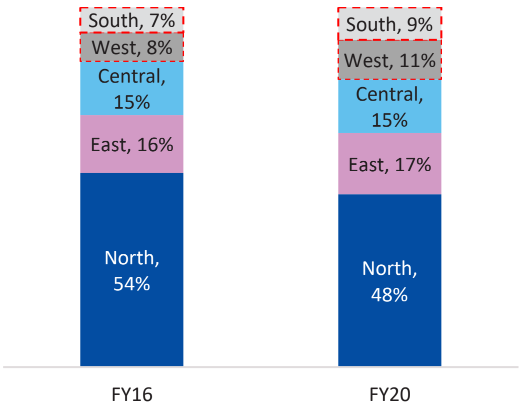

Steeltrac

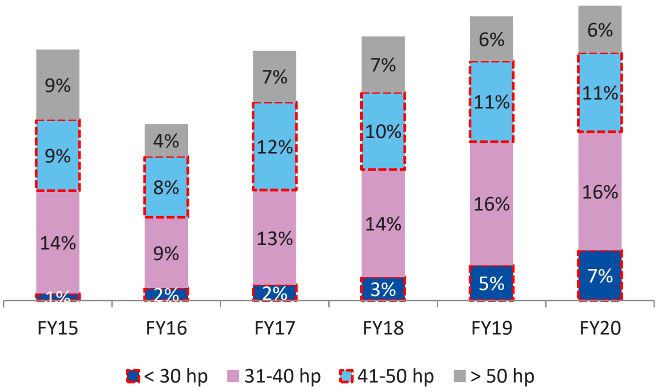
**Aggressive model launches led to market share gains in the last 5 years**




Source: Edelweiss Professional Investment Research

**Improvement in market share across key segments and regions where it had a weaker presence**




Source: Edelweiss Professional Investment Research

*Priority laid on a better distribution network across regions than increase in numbers*

Escorts currently have around 1,000 dealerships and service stations across the country. Around 60% of these are present in its stronghold of north and central India. Rather than increasing the number of dealerships, the management's focus is on providing them training to gain market share and improve customer experience and service quality.

# Escorts Ltd



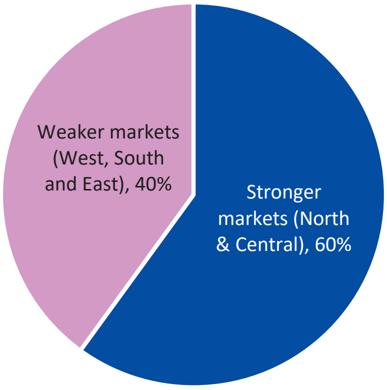
## Key new launches

**POWER TRAC**
- Powertrac 445 Plus 2WD
- Powertrac Euro 45 Plus 2WD
- Powertrac 430 Plus 2WD
- Powertrac Euro 45 Plus 4WD
- Powertrac 435 Plus
- Powertrac 434 Plus
- Powertrac 437 2WD

**Farmtrac Champion**
- Farmtrac Champion Plus2WD
- Farmtrac 50 Powermaxx 2WD
- Farmtrac 6055 Power maxx
- Farmtrac 6055
- Farmtrac 6055
- Farmtrac 6050 Ultramaxx 4WD

**FARM TRAC**
- Farmtrac Champion Plus 2WD
- Farmtrac 45 Ultramaxx 4WD
- Farmtrac 60 Powermaxx 4WD

**Well spread out touchpoints and innovative techniques to connect with customers – Need of the hour**





Source: Edelweiss Professional Investment Research

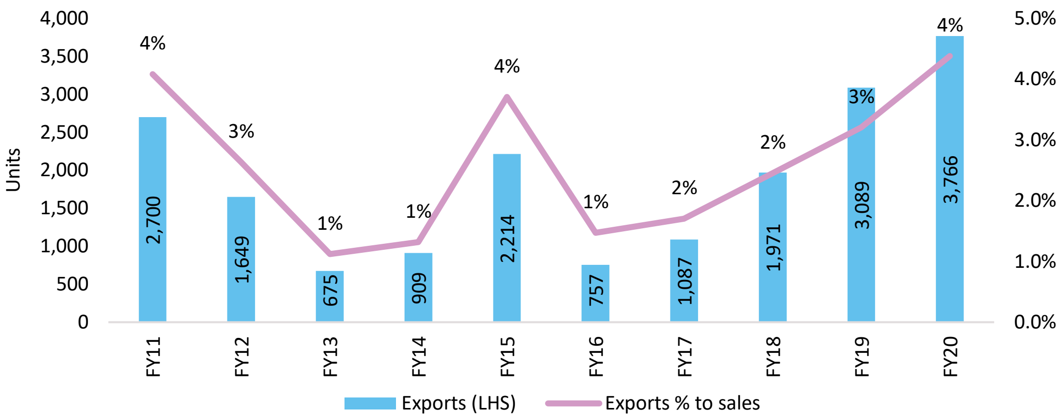
The management's focus is on expanding tie-ups with local mechanics across all regions to reduce turnaround time in case of a service requirement or break down. Recently, the company launched an innovative service feature '24X7 Care Button' which has been installed on all its Farmtrac and Powertrac models. On pressing this special button in case of breakdown or service requirement, the company's service engineer will respond within 2 minutes. This is an innovative service and is first of its kind in the industry. This will help reduce its turnaround time significantly and plays an important role during peak seasons.

*Targeting exports to create new growth avenues*

The management is aggressive working towards expanding its export outreach. In the last 4-5 years, the company has increased its presence in markets like Sri Lanka, Bangladesh and Nepal. The share of exports in total sales have also increased to around 4% in FY20 from 1% in FY16.

The tie-up with Japan's Kubota Corporation can help fast-track growth by granting it access to its global marketing network. However, the management's export target of 8,000-10,000 units by FY22 seems optimistic even with this deal. We have estimated close to 5,000 units by FY22 and over 6,000 units in FY23.

**Exports may get a surprising fillip in the near term from Kubota tie-up**




Source: Edelweiss Professional Investment Research

## IV. Rural India – The only bright spot and key to economic growth

In our previous report, 'Automobile Industry - Coronavirus deals a decade blow', released on April 28, we listed 2 key points. One, the industry, specifically passenger vehicle (PV) and commercial vehicle (CV) players, will clock the lowest domestic sales units since FY10. Two, we expect the rural economy to lead the revival in the economy.

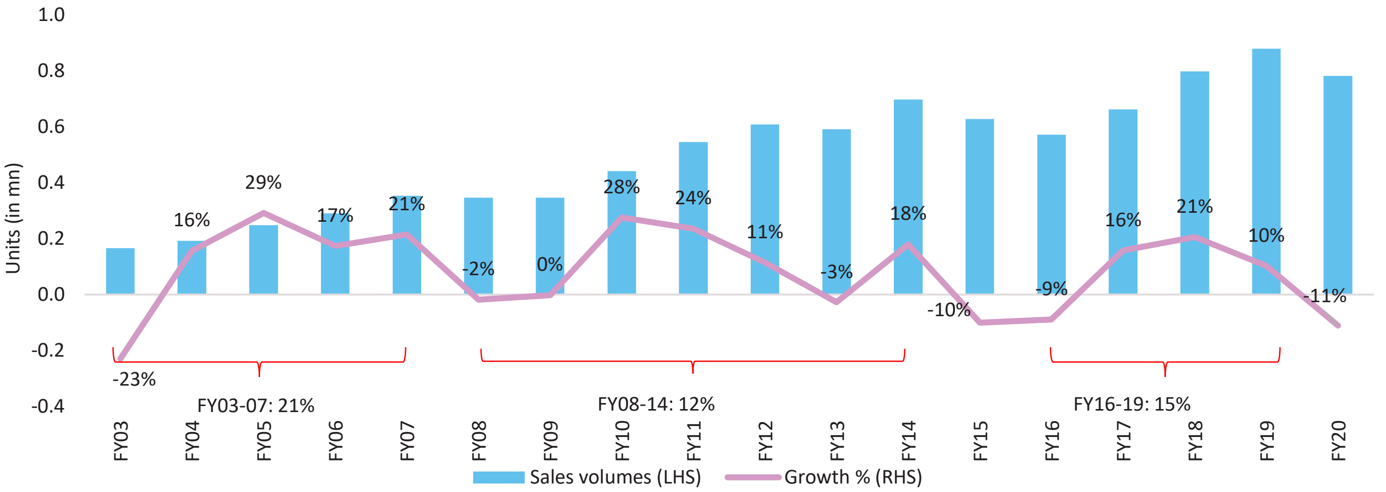
Over 2 months from the release of our report, we see strong rural demand. Back-to-back bountiful harvest seasons, coupled with government support towards procurement, increase in the minimum support price (MSP) and healthy water storage levels boosted rural sentiment.

### Key drivers that are boosting rural consumption and tractor demand

| Increase in farm income | Agri credit availability | Good rainfall and record reservoir levels |
|---|---|---|
| • MSP increase in current decade has been around 6%, which was similar to last decade<br>• Procurement as % of total food grain production has increased from average 25% in last decade to 33% in current. Last 2 years procurement was all time high at 37%<br>• Overall food grain production in current decade was 3% CAGR, which didn't grew last decade. | • Govt expenditure towards agriculture and farmer welfare has increased by around 4.5x in last 5 years.<br>• Gradual decline in agri credit disbursement in last 4-5 years had bearing on rural consumption, especially in last 2 years, where it has been historically lowest. | • Rainfall in current decade has been 95% of LPA. While since FY16, the average rainfall was around 89% of LPA. Average rainfall in last decade was ~93%.<br>• Average reservoir levels was 55 bn cu mtr in current decade, which was ~40 bn cu mtr last decade. In FY20 the reservoir levels were at all time high levels of 88 bn cu mtr. |

Source: Edelweiss Professional Investment Research

### Upcycles in the tractor industry are driven by most of these above drivers

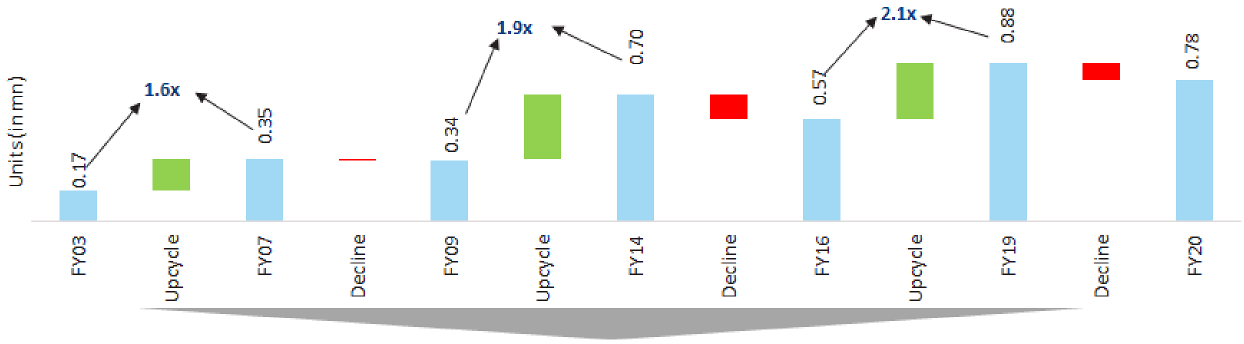



Source: Edelweiss Professional Investment Research

*Convergence of drivers not imperative to boost tractor demand*

After studying the last 3 upcycles and downcycles spanning over 2 decades, we believe that not all drivers are required to converge for rural consumption to improve. Even firing of a few growth engines is sufficient to drive growth in the rural economy and thereby boost tractor demand.

**Not all drivers are required to converge to trigger an upcycle in the industry**




| | FY03-07 | FY08-09 | FY09-14 | FY15-16 | FY16-19 | FY20 |
|---|---|---|---|---|---|---|
| **Farm income** | | | | | | |
| Increase in farm income (CAGR) | 14% | 9% | 14% | 1% | 12% | 8% |
| Procurement by govt (CAGR) | 3% | 15% | 7% | 5% | 11% | 2% |
| Overall food grain production (CAGR) | 7% | 3% | 3% | -1% | 3% | 1% |
| **Govt support** | | | | | | |
| Agri credit (CAGR) | 32% | 23% | 16% | 20% | 10% | 10% |
| Govt expenditure (%) | 15% | 2% | 18% | -6% | 44% | 104% |
| **Water supply** | | | | | | |
| Rainfall (%) | 95% | 98% | 95% | 88% | 89% | 100% |
| Current reservoir levels (bn cu mtr) | 38.2 | 39.7 | 51.4 | 47.4 | 55.4 | 88.0 |

Source: Edelweiss Professional Investment Research

**Methodology**

In order to ascertain the importance of each drivers, we tried to quantify the importance of each driver by: 1) Assigning weights to each driver depending on its correlation with tractor sales; 2) Assigning a score based on the performance of the driver in a particular period; and 3) Thereby, arriving at the weighted average score for each driver by multiplying scores with their respective weightages. Finally, we summed up the weighted average score for all drivers to arrive at the overall score. The score helps to predict the near term cyclicality of the industry.

**Delta between the overall score during an upcycle and downcycle indicates effectiveness of the method**

| Weighted average score | FY03-07 | FY08-09 | FY09-14 | FY15-16 | FY16-19 | FY20 |
|---|---|---|---|---|---|---|
| **Farm income** | **42** | **30** | **41** | **22** | **45** | **27** |
| Increase in farm income (CAGR) | 25 | 15 | 25 | 10 | 20 | 15 |
| Procurement by govt (CAGR) | 2 | 6 | 4 | 6 | 10 | 6 |
| Food grain production (CAGR) | 15 | 9 | 12 | 6 | 15 | 6 |
| **Govt support** | **42** | **38** | **40** | **22** | **38** | **38** |
| Agri credit (CAGR) | 30 | 30 | 24 | 18 | 18 | 18 |
| Govt expenditure (%) | 12 | 8 | 16 | 4 | 20 | 20 |
| **Water supply** | **30** | **30** | **45** | **30** | **40** | **50** |
| Rainfall (%) | 20 | 20 | 20 | 10 | 15 | 25 |
| Reservoir levels (bn cu mtr) | 10 | 10 | 25 | 20 | 25 | 25 |
| **Overall weighted average score** | **40** | **31** | **42** | **24** | **43** | **33** |

| Score | CAGR % |
|---|---|
| 1 | <-5% |
| 2 | -5%-0% |
| 3 | 0%-10% |
| 4 | 10%-20% |
| 5 | >20% |

| Score | YoY % range |
|---|---|
| 1 | <5% |
| 2 | 5-10% |
| 3 | 10-15% |
| 4 | 15-20% |
| 5 | >20% |

| Score | % Rainfall LPA Range |
|---|---|
| 1 | < 85 |
| 2 | 85-90 |
| 3 | 90-95 |
| 4 | 95-100 |
| 5 | > 100 |

| Score | Bn Cu Mtr Range |
|---|---|
| 1 | <35 |
| 2 | 35-40 |
| 3 | 40-45 |
| 4 | 45-50 |
| 5 | >50 |

Source: Edelweiss Professional Investment Research

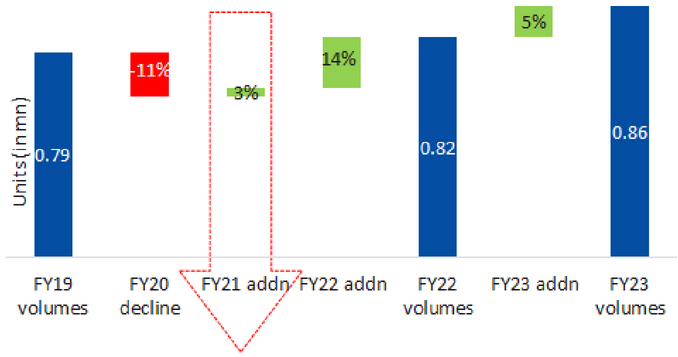
The method helped gauge that not all drivers are needed to converge to lead to an upcycle in the industry. However, it is important that most drivers converge, especially those relating to farm income levels.

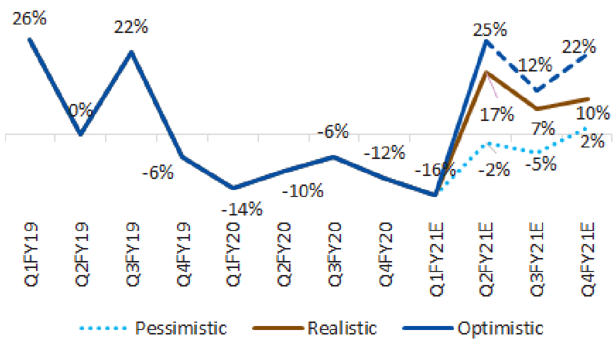
*With all cylinders firing, tractor demand is headed towards the next upcycle*

While the COVID-19 lockdown has badly impacted the urban economy, with majority of the population having to undergo pay cuts or face job losses, rural India is going through one of its best phases.

**Overall scoring indicates we are heading into the next upcycle in tractor demand**

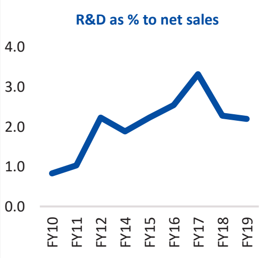
| Weighted avg score | Wtg | FY21-23E |
|---|---|---|
| **Farm income** | **70** | **45** |
| Increase in farm income (CAGR) | 5 | 20 |
| Procurement by govt (CAGR) | 2 | 10 |
| Food grain production (CAGR) | 3 | 15 |
| **Govt support** | **10** | **34** |
| Agri credit (CAGR) | 6 | 18 |
| Govt expenditure (%) | 4 | 16 |
| **Water supply** | **20** | **50** |
| Rainfall (%) | 5 | 25 |
| Current reservoir levels (bn cu mtr) | 5 | 25 |
| **Overall wtd avg score** | | **45** |




Source: Edelweiss Professional Investment Research

Healthy growth in income levels because of bumper production in both seasons of last fiscal, record ground water storage levels, good initial spells of rainfall so far this season and record sowing during kharif leads us to believe that we would witness an upcycle in rural consumption and tractor demand.

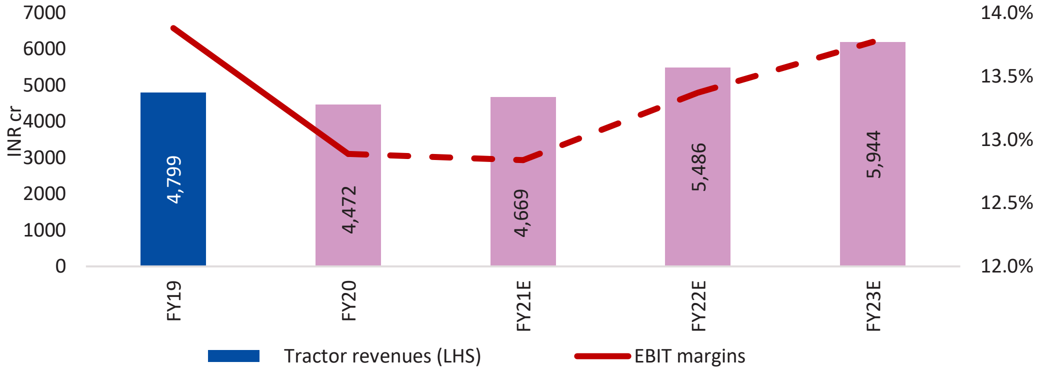



## V. Escorts best placed to reap benefits of this cycle given the hard work done over the last 10 years

Escorts is best placed to reap the benefits of this cycle given the management's focus over the past decade on strengthening its offerings and product technology as well as improving quality and reach of distribution in both strong and weak markets.

We expect its tractor business to grow around 11-12% during FY20-23E due to the company's strong focus on exports, coupled with near-term expectations of healthy growth in the domestic market. Given its successful past record in delivering on commitments, we are sure the management will fulfil its assurance of further scaling up margin from current levels through cost reduction and by improving efficiencies.

**Escorts will be a major beneficiary of the upcoming tractor cycle**



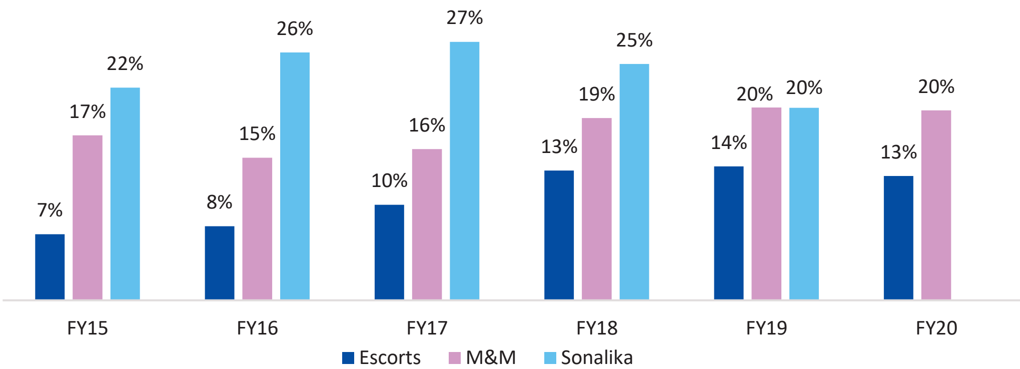

Source: Company and Edelweiss Professional Investment Research

**Competitive benchmarking indicates scope for margin improvement in the tractor business**

Though the management's focussed approached has led to significant improvement in profitability of the tractor business over the last 5-6 years, we still see scope for improvement when compared to its key competitors.

The margin difference between Escorts and its key competitors assures us that achieving an earnings before interest and tax (EBIT) margin of 14-15%, as guided by the management for the medium term, is not an impossible ask.

**Significant delta in EBIT margins of Escorts and competitors indicates scope for improvement**




Source: Company and Edelweiss Professional Investment Research

**Partnership with Kubota will help Escorts scale up**

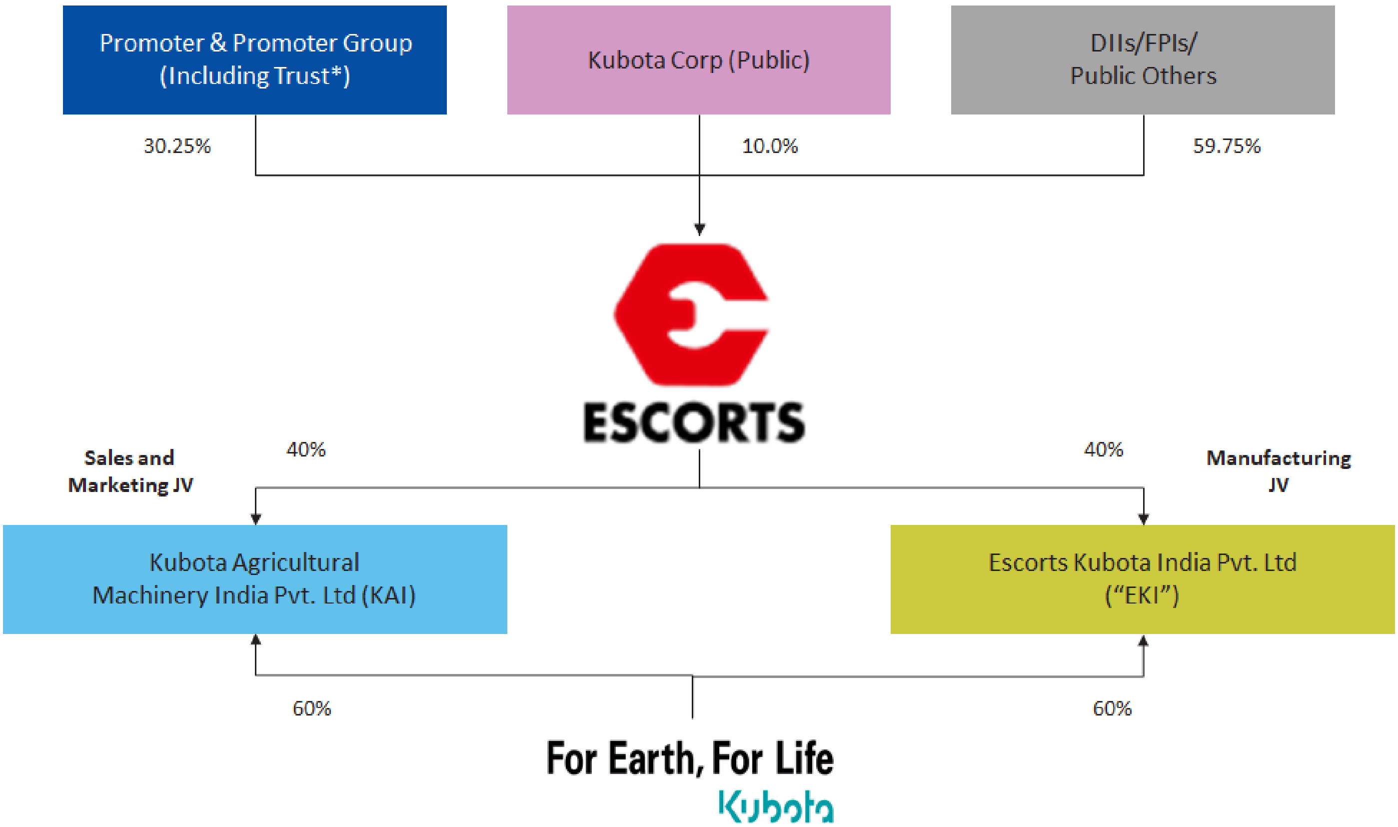
Escorts have always been a domestic players with a strong presence in higher hp tractors. This reflects in its higher market share in central and north India, which are traditionally higher hp tractor markets.

The deal with Kubota addresses 3 gap areas, which it has been grappling off late: 1) Export market; 2) Advanced product technology; and 3) Lower hp tractors.

**Key tie-ups between Escorts and Kubota**

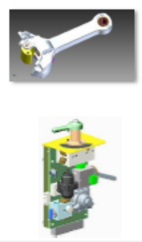
- Escorts and Kubota signed a joint venture (JV) in February 2019 for manufacturing higher hp tractors, equipped with the latest technology. Escorts hold 40% stake in the JV, and the total investment in the project is ~INR 300 crore contributed by both the partners. The plant, with a manufacturing capacity of 50,000 units, was expected to be commissioned in June 2020, but due to COVID-19, led lockdown, it is expected to start from Q3FY21.
- In March 2020, Escorts acquired Sumitomo Corporation's 40% stake in the Kubota-Sumitomo marketing JV for INR 90 crore. This deal will help expand its exports business by accessing Kubota's international network.
- Kubota invested INR 1,042 crore for 10% stake in Escorts. This tie-up strengthens the Escorts-Kubota relationship, which will help the former access the latter's latest technologies and manufacturing practices.

**Kubota tie-up can open up a new growth vector for Escorts**




Source: Edelweiss Professional Investment Research

**Existing**



**New Products**

## VI. Diversifying into new business segments to create next leg of growth

The next leg of growth for Escorts can emerge from the non-tractor business. Railways and construction equipment (CE) currently account for 23% of its topline, a modest growth from 19% in FY16. The share of these businesses in overall EBIT has grown considerably to 18% from negative contribution in FY16.

Improving profitability and growing topline of these businesses will pose a significant advantage to Escorts as it provides a cushion from the cyclicality of the tractor business.

**Railways – The next growth engine for the company**

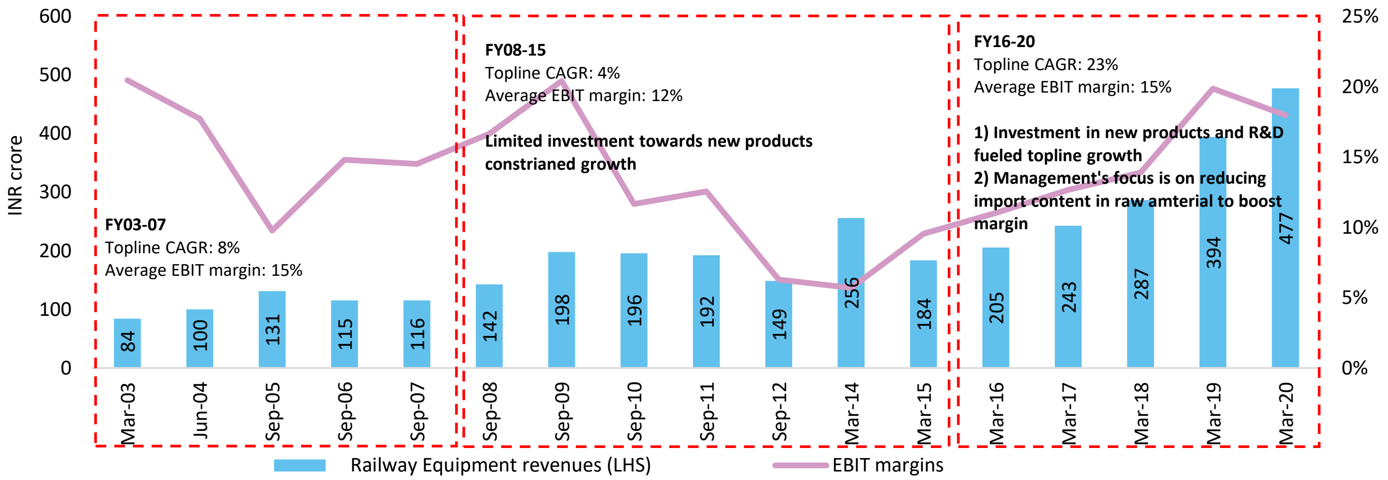
The railways have been the fastest growing business for Escorts in the last 10 years. Since FY16 this business has more than doubled, while profits has expanded by over 3x.

The management has also been aggressively adding new products such as automatic doors for metros and high speed trains, LHB Alstom coach dampers, heavy duty locomotive dampers, rubber to metal bonded products, friction products like brake pads and axle-mounted disc brake systems for LHB. Linke Hofmann Busch coaches are passenger coaches of the Indian Railways that have been developed by Germany's LHB and renamed Alstom LHB in 1998 after its takeover by Alstom.

Apart from these, the company also plans to develop higher value added air conditioning and traction modules for the railways.

Collaboration with DAKO-CZ of Czech Republic (for supply of disc braking systems for high speed passenger coaches) and Spain's Ingeteam (for railway traction systems), and focus on in-house R&D has enabled Escorts to add new product offerings that suit its India requirements.

**Railways have been the only profitable business even during tough times**




Source: Company and Edelweiss Professional Investment Research

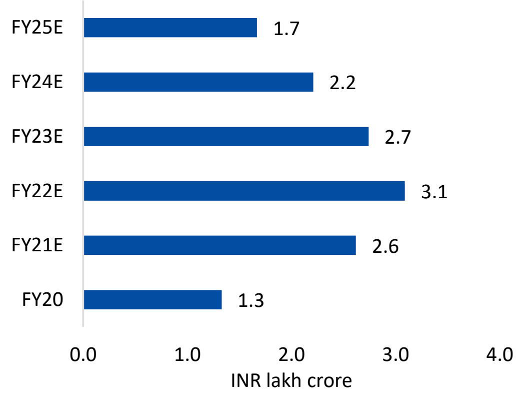
*Strong order book ensures healthy revenue visibility*

To raise its wallet share from the railways segment, Escorts has significantly increased its product offerings from traditional air brakes, couplers, brake pads and suspensions to newer components like bogey and axle mounted brake systems, heavy duty dampers, etc. The new components are import substitutes and hence present a significant growth potential for the company.

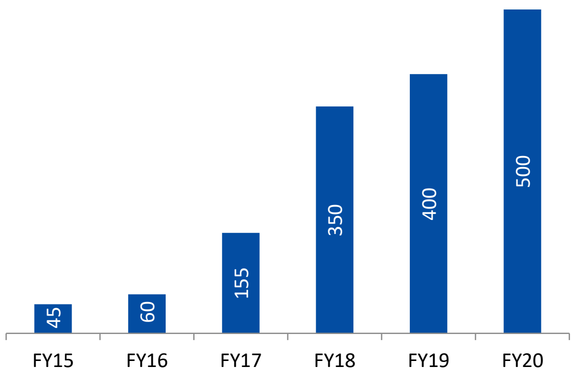
Over the last 5 years, its order book from the railways segment has increased to INR 500 crore in FY20 from ~INR 150 crore in FY16. Since the current order book is expected to get executed within 12-15 months, it presents healthy revenue visibility for the business.

The government's thrust on expanding and improving the quality of its rail network will drive growth for this business segment. We expect the railways business to grow at 17-18% CAGR over the next 3 years.

**Investments in railways expected ~INR 13.7 lakh crore**




**Order book increased over 8x since FY16**

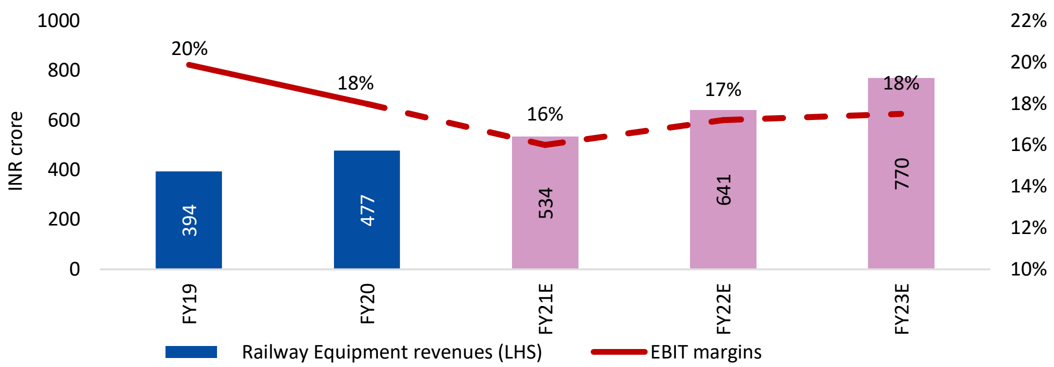



Source: Edelweiss Professional Investment Research

*Focus on increasing localisation to help scale up margins further*

As the proportion of new products in the revenue mix increases, the import content in input cost will also increase, thereby compressing margin. The management's focus is on increasing localisation levels and scaling up margins even for newer products. It is targeting a margin of around 19-20% in the near term.

**Strong order book ensure healthy topline visibility; however margin trend will be the key focus area**




Source: Company and Edelweiss Professional Investment Research

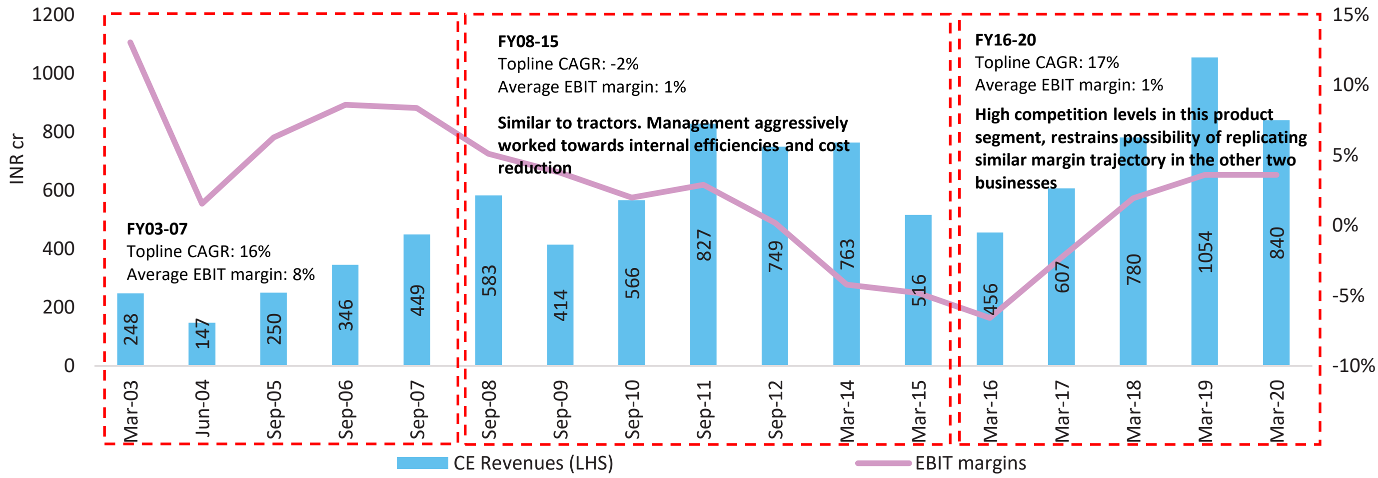
**Looks to scale up its market share in construction equipment**

Demand for construction equipment depends on cyclicality in the infrastructure space. Government investment towards infrastructure development is the major demand driver. Escorts' product offerings in this space include backhoe loaders, compactors and pick and carry cranes.

*CE business has scaled up significantly in the last 5 years*

In last 2-3 years, company has refurbished offerings across its product lines. Further in order to expand its offerings, Escort has formed a JV for distributing products of South Korean CE OEM Doosan Infracore, also company has forged manufacturing JV with Japans leading crane manufacturer Tadano. Over FY16-19, the CE business has more than doubled. However, the slowdown in economic activity and subsequent reduction in government ordering of new project led to a 20% impact in FY20.

**Aggressive focus on cost reduction in the last 3 years boosted margin despite higher competition**




Source: Company and Edelweiss Professional Investment Research

Stressed government financials because of the COVID-19 related lockdown will impact new order flows or investments towards infrastructure in FY21. Private investments in the construction sector are expected to remain muted because of sharp slowdown in demand. Hence, the near-term outlook for Escorts' CE business is expected to be muted for the second consecutive year.

However, the medium to long term outlook for the business is strong given the government's plans like Bharatmala, metro related projects across cities, Mumbai-Delhi and Mumbai-Nagpur express highways, coastal road projects, etc, which will fuel healthy growth for this business segment from FY22. We expect the CE business to grow by ~3-5% CAGR over the next 3 years.

**Healthy planned government investments provide comfort**

| INR (lakh crore) | FY20-25E |
|---|---|
| Road | 19.6 |
| Energy | 11.8 |
| Railways | 13.7 |
| Port | 1 |
| Airport | 1.4 |
| Urban | 16.3 |
| Irrigation | 7.7 |
| Rural | 7.7 |
| Agriculture | 0.5 |

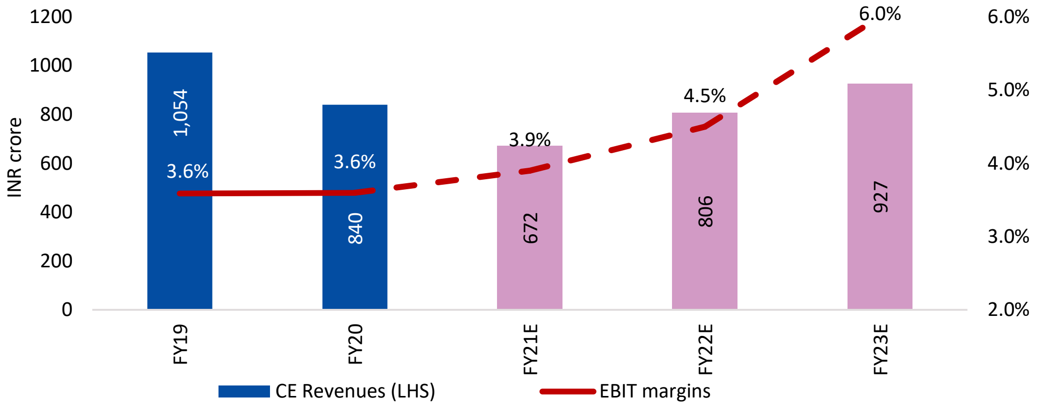
Source: Dept of Economic Affairs, Ministry of Finance

*Striving towards improving margin in the CE business*

Being a highly price competitive and crowded market in the products segments where Escorts has a presence, consistent margin improvement since FY18 speaks loads about the management's efforts towards improving internal efficiencies and reduce cost.

Although significant margin upside in this business is unlikely, visible improvement in the last 3 years assures us that the management will fulfil its goal of achieving higher single digit margin in the near term.

**Growth in topline to revive from FY22, however margin to improve by cost reduction efforts**



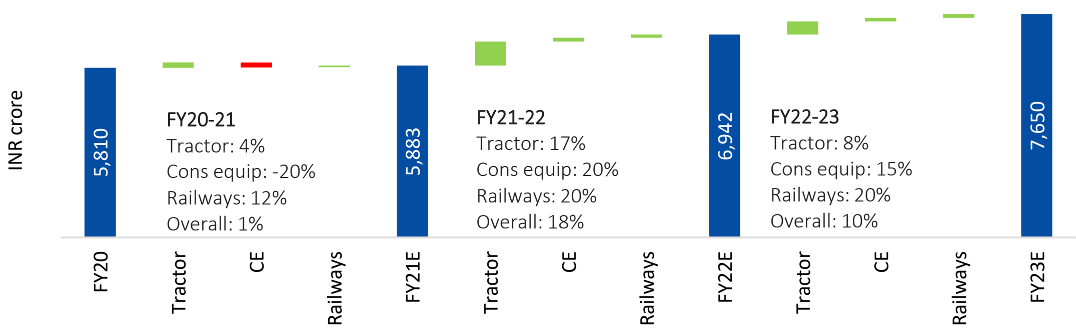

Source: Company and Edelweiss Professional Investment Research

## VII. All cylinders ready to fire – Escorts in a sweet spot

The tractor business will register marginal growth led by a strong demand revival once the lockdown is lifted. The upcycle scenario for the tractor business will fuel a healthy rise in topline over the next 2 years.

On the back of a strong order book of INR 500 crore and healthy future growth visibility, the railways business will emerge as an important growth engine for Escorts over the next 3 years. The scenario is expected to be muted for the CE business in FY21, but expected to improve from FY22 once investments in infrastructure projects return to full swing with an improvement in government finances. We expect the CE business to lend support with a healthy upside from FY22 onwards.

**Tractor business may surprise with marginal growth in FY21**




Source: Edelweiss Professional Investment Research

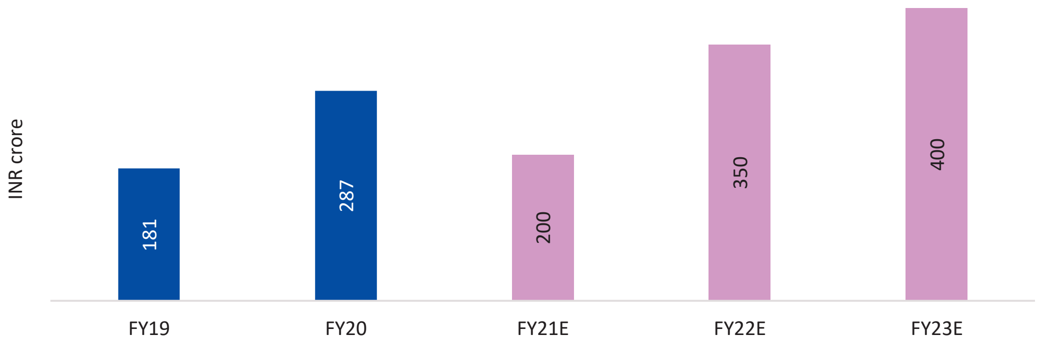
**Limited capex and healthy cash provides enough arsenal to drive growth**

Escorts plans to incur a capex of INR 200-250 crore, which has been trimmed due to COVID-19 related uncertainties. This capex will be mainly towards new product development and localisation efforts relating to new products in the railways business.

Ability to improve FCF and EBITDA margin even in testing times of FY20 provides us confidence in the resilience of this business. With the tractor business expected to observe marginal growth momentum, improvement in profitability will continue, which is encouraging.

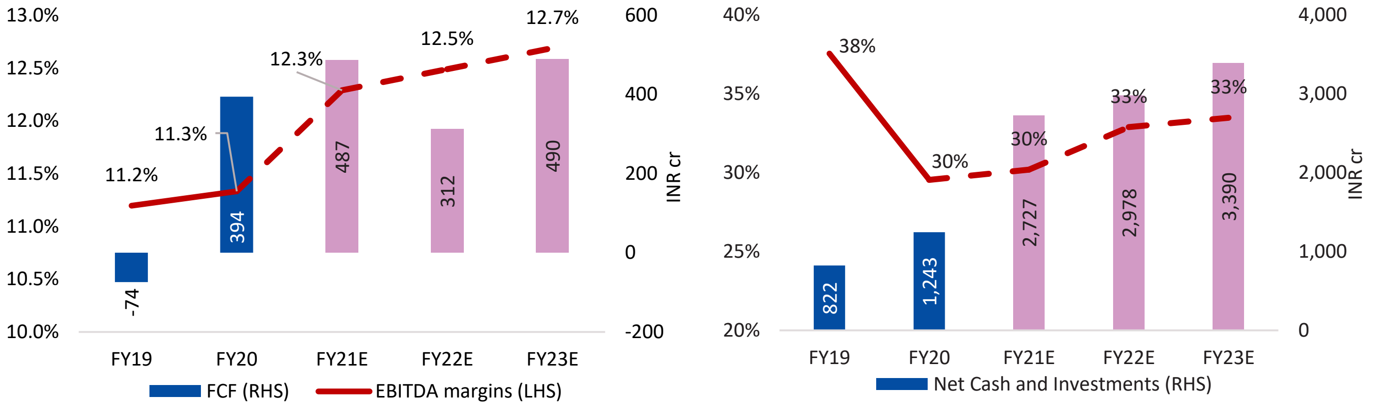
Surplus cash balance on the back of healthy profitability during the last 2-3 years, coupled with INR 1,042 crore from the Kubota deal, places Escorts in a strong position to push for growth capex/investment without RoCE deteriorating.

**Capex mainly towards new product development will help expand its market presence**




Source: Edelweiss Professional Investment Research

**Improving profitability with zero debt bolsters Balance Sheet**

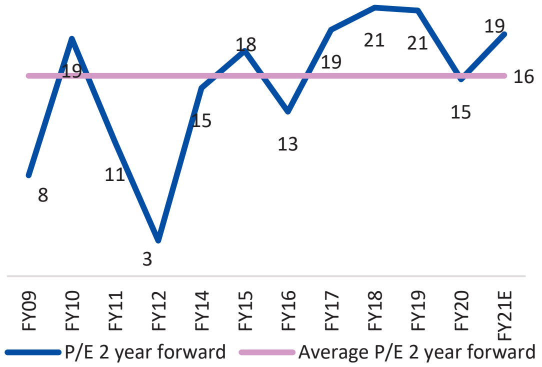


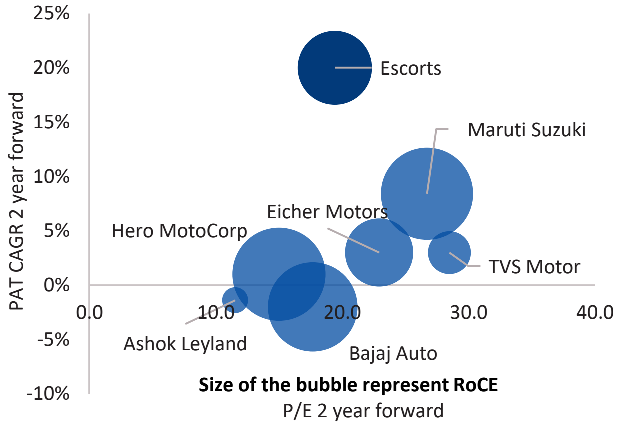

Source: Edelweiss Professional Investment Research

**Sharp rally in last 3 months had placed Escorts among league of high valued OEMs**

Since the market crash of March 23, the stock has rallied almost 89%. This rally has placed the stock in the league of high valued OEMs. The rally was driven by positive signs of growth in the rural economy as well as the Kubota deal.

**Recent run up places the stock in upper quadrant of valuation**

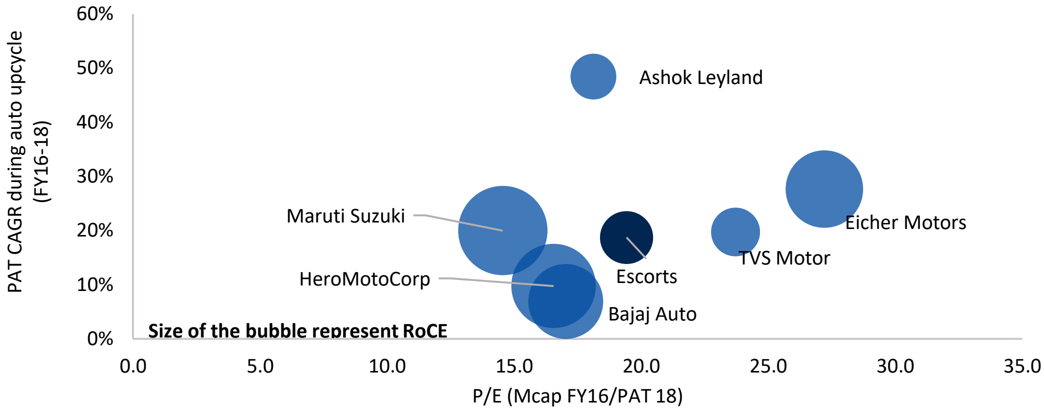



Source: Edelweiss Professional Investment Research

According to us, the appropriate method for comparing valuation among the peer set of OEMs should not be the current period as the tractor segment is in an upcycle demand trajectory, while all other vehicle segments are in sharp downcycle. To arrive at a fair comparison, we compared valuations of other OEMs during the start of their upcycle (i.e. FY16) to Escorts' current valuation.

**... however comparison of current upcycle for Escorts with previous upcycle of automobile OEMs shows valuation upside possible based on growth and improvement in financials**




*Note: For Escorts, we have considered PAT CAGR between FY20 and FY22 and P/E is calculated using current market capitalisation to FY22E PAT*

Source: Edelweiss Professional Investor Research

We estimate healthy growth in earnings led by strong performance in the tractors and railway businesses and decent showing by the construction equipment space. Improving profitability on the back of product mix and cost efficiency measures will help the company scale up its RoCE in the medium term, thus justifying Escorts' premium valuation. Currently, the stock is trading at 16/20x (adjusting to treasury share/without treasury shares) FY22E EPS. We recommend a 'BUY' on the stock with a target price of INR 1,332, valuing the company at 20x/24x (adjusting to treasury share/without treasury shares) on FY22E EPS estimates.

## Board of Directors

| Name | Designation | Details |
|---|---|---|
| **Mr. Nikhil Nanda,** | *Chairman & Managing Director* | • Alumnus of Wharton Business School, Philadelphia<br>• Responsible for driving Escorts' growth initiatives to strategically position it in the global arena |
| **Ms. Nitasha Nanda** | *Whole time Director* | • An entrepreneur & experienced business leader, She manages the Escorts Securities Ltd.<br>• She is on the board of directors of Seitz technologies, RNIS, Raksha TPA, Rimari India and Sun and Moon travels. |
| **Dr. Sutanu Behuria,** | *Independent Director* | • A PHD in Economics from Southern Methodist University, Dallas, He is an IAS officer from 1976 batch.<br>• He has served as secretary in the Dept. Of Fertilisers, National Disaster Management Authority and Dept. of Heavy Industry. |
| **Mr. Hardeep Singh,** | *Director* | • Chairman -Monitoring committee on minimum support price (Planning Commission) & Food security Task force (CII)<br>• He was the former executive chairman of Cargill South Asia and Amalgamated Plantations Pvt. Ltd |
| **Mr. P.H. Ravikumar,** | *Independent Director* | • Founder MD & CEO of NCDEX<br>• He has worked with leading banks like ICICI Bank and Bank of India |
| **Mrs. Vibha Paul Rishi,** | *Independent Director* | • An Alumnus of FMS Delhi, She has been an Executive Director of Brand and Human Capital of Max India Limited<br>• She has also worked with leading Industry names like Future Group and PepsiCo in various leadership roles |
| **Mr. Sunil Kant Munjal,** | *Independent Director* | • Mr. Munjal is one of the founder promoters of the Hero Group, India's premier automotive manufacturing group that has evolved from being the world's largest bicycle-maker to the largest two-wheeler maker.<br>• He is the Chairman of Hero Enterprise, with interests in insurance distribution, steel-making, real estate and corporate training. |
| **Ms. Ms. Tanya Dubash,** | *Independent Director* | • Ms. Dubash serves as the Executive Director and Chief Brand Officer of Godrej Industries Ltd., and is responsible for the Godrej Group's brand and communications function, including guiding the Godrej Masterbrand.<br>• Also a Director on the Board of Godrej Industries Limited, Godrej Consumer Products Limited and Godrej Agrovet Limited.<br>• She also serves on the boards of Britannia, AIESEC and India@75. |

## Management team

| Name | Designation | Details |
|---|---|---|
| **Mr. Shailendra Agrawal** | *Executive Director* | • 35 years of experience in creating product & technology roadmap and driving business transformation through Business Process Re-engineering |
| **Mr. Shenu Agarwal** | *CEO, Escorts Agri Machinery* | • 26 years of experience in domestic and international sales and marketing, R&D and product development, strategy and project management |
| **Mr. Ajay Mandahr** | *CEO, Escorts Construction Equipment* | • 26 years of experience in operations, sales & marketing, new product development |
| **Mr. Dipankar Ghosh** | *CEO, Railway Equipment Division* | • 24 years of experience in product development, manufacturing operations and technology transfers |
| **Mr. Bharat Madan** | *Group Chief Financial Officer & Corporate head* | • 28 years plus of experience in financial accounting, audit, cash and capital management, forecasting and risk management, tax planning, financial modelling and analysis |

# Financials

**Income statement** (INR crore)

| Year to March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Income from operations | 5,059 | 6,265 | 5,810 | 5,883 | 6,942 |
| Direct costs | 3,435 | 4,322 | 3,841 | 3,860 | 4,548 |
| Employee costs | 449 | 485 | 521 | 500 | 625 |
| Other expenses | 1,082 | 1,241 | 1,311 | 1,300 | 1,527 |
| Total operating expenses | 4,517 | 5,564 | 5,152 | 5,160 | 6,075 |
| EBITDA | 542 | 701 | 658 | 723 | 867 |
| Depreciation and amortisation | 73 | 87 | 107 | 123 | 133 |
| EBIT | 469 | 614 | 551 | 599 | 733 |
| Interest expenses | 29 | 20 | 17 | 2 | 2 |
| Other income | 65 | 112 | 98 | 153 | 176 |
| Profit before tax | 505 | 706 | 632 | 751 | 908 |
| Provision for tax | 162 | 238 | 154 | 188 | 227 |
| Core profit | 343 | 468 | 478 | 563 | 681 |
| Extraordinary items | -2 | 6 | -9 | 0 | 0 |
| Profit after tax | 340 | 474 | 469 | 563 | 681 |
| Minority Interest | 0 | 1 | -1 | 0 | 0 |
| Share from associates | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 341 | 475 | 468 | 563 | 681 |
| Equity shares outstanding (cr) | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| EPS (INR) basic | 28.0 | 38.3 | 38.9 | 45.9 | 55.5 |
| Diluted shares (cr) | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| EPS (INR) fully diluted | 28.0 | 38.3 | 38.9 | 45.9 | 55.5 |
| EPS adjusted for treasury shares | 38.3 | 53.4 | 52.6 | 63.3 | 76.6 |
| Dividend per share | 0.0 | 0.0 | 2.5 | 3.7 | 5.0 |
| Dividend payout (%) | 0.0 | 0.0 | 6.5 | 8.0 | 9.0 |

**Common size metrics- as % of net revenues** (INR crore)

| Year to March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Operating expenses | 89.3 | 88.8 | 88.7 | 87.7 | 87.5 |
| Depreciation | 1.4 | 1.4 | 1.8 | 2.1 | 1.9 |
| Interest expenditure | 0.6 | 0.3 | 0.3 | 0.0 | 0.0 |
| EBITDA margins (incl OI) | 10.7 | 11.2 | 11.3 | 12.3 | 12.5 |
| Net profit margins | 6.7 | 7.6 | 8.1 | 9.6 | 9.8 |

**Growth metrics (%)**

| Year to March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Revenues growth % | 22.0 | 23.8 | (7.3) | 1.3 | 18.0 |
| EBITDA | 114.8 | 29.3 | (6.1) | 9.8 | 19.9 |
| PBT | 147.6 | 39.8 | (10.6) | 18.8 | 20.9 |
| Net profit | 170.3 | 36.7 | 2.1 | 17.8 | 20.9 |
| EPS | 160.3 | 36.8 | 1.6 | 18.0 | 20.9 |

| Balance sheet | | | | | (INR crore) |
|---|---|---|---|---|---|
| **As on 31st March** | **FY18** | **FY19** | **FY20** | **FY21E** | **FY22E** |
| Equity share capital | 123 | 123 | 123 | 123 | 123 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 |
| Reserves & surplus | 2,093 | 2,547 | 2,995 | 4,555 | 5,174 |
| Shareholders funds | 2,215 | 2,669 | 3,117 | 4,677 | 5,297 |
| Secured loans | 50 | 4 | 19 | 0 | 0 |
| Unsecured loans | 1 | 54 | 17 | 0 | 0 |
| Borrowings | 51 | 58 | 19 | 10 | 10 |
| Minority interest | -0 | 6 | 5 | 0 | 0 |
| **Sources of funds** | **2,266** | **2,733** | **3,142** | **4,688** | **5,307** |
| Gross block | 2,497 | 2,598 | 2,761 | 3,085 | 3,335 |
| Depreciation | 910 | 974 | 1,081 | 1,205 | 1,338 |
| Net block | 1,588 | 1,624 | 1,679 | 1,881 | 1,997 |
| Capital work in progress | 66 | 80 | 125 | 0 | 100 |
| Total fixed assets | 1,654 | 1,704 | 1,804 | 1,881 | 2,097 |
| Unrealised profit | 0 | 0 | 0 | 0 | 0 |
| Investments | 549 | 637 | 937 | 1,979 | 2,279 |
| Inventories | 566 | 857 | 883 | 709 | 894 |
| Sundry debtors | 592 | 931 | 732 | 838 | 951 |
| Cash and equivalents | 317 | 243 | 325 | 757 | 708 |
| Loans and advances | 170 | 279 | 285 | 218 | 270 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Total current assets | 1,645 | 2,311 | 2,225 | 2,522 | 2,823 |
| Sundry creditors and others | 1,412 | 1,799 | 1,699 | 1,569 | 1,767 |
| Provisions | 151 | 120 | 126 | 126 | 126 |
| Total CL & provisions | 1,563 | 1,919 | 1,824 | 1,695 | 1,892 |
| Net current assets | 82 | 392 | 400 | 828 | 931 |
| Net Deferred tax | -19 | 0 | 0 | 0 | 0 |
| Misc expenditure | 0 | 0 | 0 | 0 | 0 |
| **Uses of funds** | **2,266** | **2,733** | **3,142** | **4,688** | **5,307** |
| Book value per share (INR) | 181 | 218 | 254 | 382 | 432 |

| Cash flow statement | | | | | (INR crore) |
|---|---|---|---|---|---|
| **Year to March** | **FY18** | **FY19** | **FY20** | **FY21E** | **FY22E** |
| Net profit | 345 | 463 | 487 | 563 | 681 |
| Add: Depreciation | 73 | 87 | 107 | 123 | 133 |
| Add: Misc expenses written off | 0 | 0 | 0 | 0 | 0 |
| Add: Deferred tax | 70 | -19 | 0 | 0 | 0 |
| Add: Others | 0 | 1 | -1 | 0 | 0 |
| Gross cash flow | 489 | 532 | 593 | 686 | 814 |
| Less: Changes in W. C. | -88 | 469 | -8 | -0 | 152 |
| Operating cash flow | 577 | 63 | 601 | 687 | 662 |
| Less: Capex | 111 | 138 | 207 | 200 | 350 |
| **Free cash flow** | **466** | **-74** | **394** | **487** | **312** |

### Ratios

| Year to March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| ROAE (%) | 17.9 | 19.2 | 16.5 | 14.4 | 13.7 |
| ROACE (%) adj to cash and invt | 33.5 | 37.5 | 29.5 | 31.3 | 34.4 |
| Debtors (days) | 43 | 54 | 46 | 44 | 47 |
| Current ratio | 1.0 | 1.2 | 1.3 | 1.5 | 1.5 |
| Debt/Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inventory (days) | 41 | 50 | 55 | 52 | 47 |
| Payable (days) | 78 | 73 | 81 | 76 | 75 |
| Cash conversion cycle (days) | 5 | 32 | 20 | 20 | 19 |
| Debt/EBITDA | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Adjusted debt/Equity | (0.1) | (0.1) | (0.1) | (0.2) | (0.1) |

### Valuation parameters

| Year to March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|
| Diluted EPS (INR) | 28.0 | 38.3 | 38.9 | 45.9 | 55.5 |
| Y-o-Y growth (%) | 160.3 | 36.8 | 1.6 | 18.0 | 20.9 |
| CEPS (INR) | 34.0 | 45.4 | 47.7 | 56.0 | 66.4 |
| Diluted P/E (x) | 27.9 | 20.0 | 20.3 | 19.2 | 15.9 |
| Price/BV(x) | 6.1 | 5.1 | 4.3 | 2.9 | 2.5 |
| EV/Sales (x) | 2.6 | 2.1 | 2.3 | 2.2 | 1.8 |
| EV/EBITDA (x) | 24.4 | 19.0 | 20.0 | 17.6 | 14.7 |
| Diluted shares O/S | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| Basic EPS | 38.3 | 53.4 | 52.6 | 63.3 | 76.6 |
| Basic PE (x) | 27.9 | 20.0 | 20.3 | 19.2 | 15.9 |
| Dividend yield (%) | 0.2 | 0.2 | 0.2 | 0.3 | 0.5 |

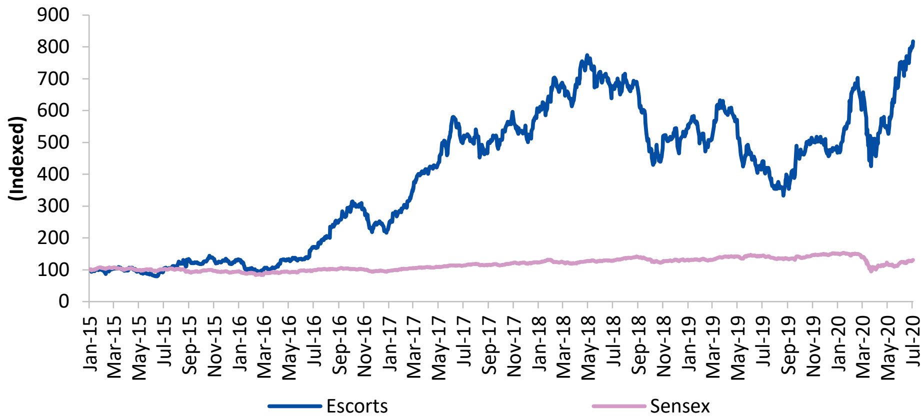
**Edelweiss Broking Limited**, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W)
Board: (91-22) 4272 2200

**Vinay Khattar**
Head Research
vinay.khattar@edelweissfin.com

VINAY KHATTAR

Digitally signed by VINAY KHATTAR
DN: c=IN, o=Personal, postalCode=400072, st=MAHARASHTRA, serialNumber=cd5737057831c416d2a5f7064cb693183887e7ff342c50bd877e00c00e2e82a1, cn=VINAY KHATTAR
Date: 2020.07.06 22:43:42 +05'30'

| Rating | Expected to |
|---|---|
| **BUY** | appreciate more than 15% over a 12-month period |
| **HOLD** | appreciate between 5% and 15% over a 12-month period |
| **REDUCE** | return below 5% over a 12-month period |



# Disclaimer

Edelweiss Broking Limited (“EBL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

Broking services offered by Edelweiss Broking Limited under SEBI Registration No.: INZ000005231; Name of the Compliance Officer: Mr. Brijmohan Bohra, Email ID: complianceofficer.ebl@edelweissfin.com Corporate Office: Edelweiss House, Off CST Road, Kalina, Mumbai - 400098; Tel. 18001023335/022-42722200/022-40094279

This Report has been prepared by Edelweiss Broking Limited in the capacity of a Research Analyst having SEBI Registration No.INH000000172 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject EBL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. EBL reserves the right to make modifications and alterations to this statement as may be required from time to time. EBL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. EBL is committed to providing independent and transparent recommendation to its clients. Neither EBL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of EBL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of EBL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

EBL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the EBL to present the data. In no event shall EBL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the EBL through this report.
We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

EBL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. EBL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with EBL.

EBL or its associates may have received compensation from the subject company in the past 12 months. EBL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. EBL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or EBL’s associates may have financial interest in the subject company. EBL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.
Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No
EBL has financial interest in the subject companies: No

EBL’s Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.
Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

EBL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No
Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.
A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:
The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

# Disclaimer

Additional Disclaimer for U.S. Persons

Edelweiss is not a registered broker – dealer under the U.S. Securities Exchange Act of 1934, as amended (the“1934 act”) and under applicable state laws in the United States. In addition Edelweiss is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Edelweiss, including the products and services described herein are not available to or intended for U.S. persons.

This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules.

Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Additional Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Additional Disclaimer for Canadian Persons

Edelweiss is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by Edelweiss, including the products and services described herein, are not available to or intended for Canadian persons.

This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services.

Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)

Edelweiss Broking Limited ("EBL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by Edelweiss Broking Limited ("Edelweiss") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No.INH000000172.