

**CHOLA SECURITIES****Escorts (Buy)**

CMP: ₹740.5

Target: ₹889

In 2QFY18, Escorts reported healthy revenue growth of 23.3 per cent y-o-y to ₹1,211.7 crore (including one time dealer discount worth ₹26 crore towards compensation of GST-related loss) led by robust volume growth in both construction equipment and tractors. Construction volume grew by 34.1 per cent y-o-y to 972 units while tractors volume was up by 31.5 per cent y-o-y to 20,358 units (Domestic: 19,817 units, Exports: 541 units).

**Valuation:** We expect revenue to grow at CAGR of 13 per cent over FY17-19 led by increased focus on farm mechanisation, good monsoon and increasing market share in other regions. Margin is likely to improve from current level on the back of turnaround in construction business. At CMP, the stock trades at 16.2X FY19E, we maintain the stock a 'buy' rating with revised target price of ₹889, assigning the PE of 19X FY19E.

**Risks:** Slow pace in infrastructure spending, delay in agriculture subsidies by the government.

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