

Escorts Kubota

Refer to important disclosures at the end of this report

Robust growth prospects ahead

- We attended Escorts' analyst meet, where the management re-iterated its robust medium-term growth prospects. FY28 revenue target is at Rs227bn as against Rs72bn in FY22, implying a 21% CAGR, driven by: 1) amalgamation with Kubota JVs, 2) ramp-up of vehicle/component exports, and 3) continuing growth in domestic businesses.
- Profitability remains a key focus area with an FY28 ROE target of 18%+ as against 12% in FY22, led by better margins and asset turnover. Management also plans to increase dividend payout and do buy-backs by utilizing up to 40% of profits.
- Led by tractor sales upcycle and opening of new revenue streams due to the support of the new joint promoter, Kubota, we expect Escorts to report robust revenue/EPS CAGRs of 23%/21% over FY22-25E. Escorts remains one of our top picks in the sector.
- We increase our FY24-25E EPS estimates slightly by 1-2%, as we factor in the positive impact of the amalgamation of Kubota JVs. We reaffirm BUY with a TP of Rs2,500/share (Rs2,450 earlier), based on 25x Dec-24E core EPS and cash at Rs359/share (0.80x book).

Key takeaways from the analyst meet

- Escorts' targets (FY28):** The company is focusing on leveraging strengths of Kubota (technology, quality, processes and strong brand in overseas markets) and Escorts (frugal manufacturing base, distribution network, and well-known brand in India) to achieve the following targets: 1) Aspiration is to increase total revenue to Rs227bn in FY28, implying a 21% CAGR. 2) Increased share of overseas business to 15-20% in FY28 vs. 7% in FY22. 3) EBITDA margin targeted at mid-teens. 4) Expansion of ROE to 18%+ in FY28 vs. 12% in FY22. 5) Expansion of ROCE (pre-tax) to 25-30% in FY28 vs. 16% in FY22.
- Agri segment's targets (FY28):** 1) The company aspires to become the second largest player in domestic tractors as a result of new products and network expansion. The company plans to expand its product portfolio by 1.5-3x across Farmtrac, Powertrac, and Kubota brands, targeting entry-level, mass, entry-level premium, and premium segments across regions. The company plans to focus on expanding its dealer network by 1.5x in the domestic market. The current network stands at ~1,400 outlets (Escorts at 1,100+ and Kubota at 300+). 2) The company aspires to become the largest player in exports, led by new products (product portfolio to be expanded by 2x), network expansion, and utilization of Kubota's global network, especially in the US, Europe, Thailand, and Brazil. 3) The company is working towards becoming the largest player in combine harvesters/rice planters in the domestic market and the third largest player in farm implements.
- Construction equipment segment's target (FY28):** The company is focusing on outpacing the domestic industry's growth, driven by new products and doubling its distribution network. New products are expected across backhoe loaders, mini excavators, pick-and-carry cranes, and compactors. In addition, the company plans to improve exports by expanding its overseas network.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	69,293	71,527	81,429	115,455	133,270
EBITDA	11,292	9,513	8,224	12,238	15,593
EBITDA Margin (%)	16.3	13.3	10.1	10.6	11.7
APAT	8,741	7,656	6,718	9,775	11,537
EPS (Rs)	86.4	58.0	60.8	87.4	103.1
EPS (% chg)	56.0	(32.9)	4.8	43.7	18.0
ROE (%)	19.8	11.6	8.4	11.4	12.3
P/E (x)	23.5	35.0	33.4	23.3	19.7
EV/EBITDA (x)	15.6	23.1	21.1	14.5	11.2
P/BV (x)	3.8	3.4	2.7	2.5	2.3

Source: Company, Emkay Research

CMP

Rs 2,033
as of (November 19, 2022)

Rating

BUY (■)

Target Price

Rs 2,500 (▲)
12 months

Upside

23.0 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(0)/1
Target Price change (%)	2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	60.8	87.4
Consensus	62.4	87.8
Mean Consensus TP (12M)	Rs 1,825	

Stock Details

Bloomberg Code	ESCORTS IN
Face Value (Rs)	10
Shares outstanding (mn)	132
52 Week H/L	2,190 / 1,307
M Cap (Rs bn/USD bn)	268 / 3.28
Daily Avg Volume (nos.)	603,391
Daily Avg Turnover (US\$ mn)	14.9

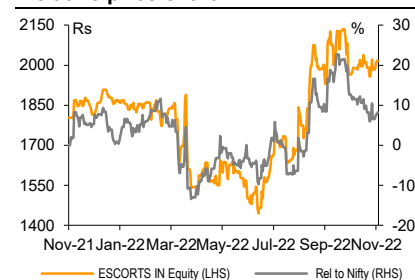
Shareholding Pattern Sep '22

Promoters	72.9%
FIIIs	4.7%
DIIIs	7.7%
Public and Others	14.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	13	25	13
Rel. to Nifty	(2)	11	11	9

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Key takeaways from the analyst meet (continued)

- **The railways segment's target (FY28):** The company aspires to grow its revenue by 3x over FY22-28, led by new products targeting multiple segments (Freight, Passenger, Metro, and Locomotives) and regions.
- **Component export target (FY28):** Kubota Corporation, Japan procures components worth \$8.7bn annually. Even a 5% shift to India can provide a \$500mn component exports opportunity. Escorts aspires to capture a part of this potential by exporting components such as transmission parts, gear assemblies, castings, gears, and functional parts to Kubota's plants in Japan, US, and other Asian countries.
- **Cumulative capex** is expected at Rs35bn-40bn over FY23-28E. Of this, Rs20bn is expected to be spent on the greenfield plant for tractors and engines.
- Tractors and engines capacity is expected to increase from ~170,000 units per annum currently to 300,000 units in FY28. The new greenfield plant's construction is likely to commence in FY24 and commissioning is expected in FY26.
- Escorts is adopting Kubota Production System (KPS) with objective of improving quality, reducing cost, and provide better customer service across segments.
- It is evaluating the plan to commence the captive finance arm. Kubota Corporation has a captive finance division across various markets.
- Royalty to Kubota would be 0.5% or higher on new products, wherever Kubota has supported in the development.

Exhibit 1: Key assumptions: Revenue CAGR at 23% over FY22-25E

Revenue (Rsmn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY22-25E
Agri Machinery Products	47,440	44,376	56,673	55,210	61,771	91,370	101,121	22
Growth (%)	19.9	(6.5)	27.7	(2.6)	11.9	47.9	10.7	
Railway Equipments	3,941	4,772	4,790	6,362	7,953	9,543	10,497	18
Growth (%)	37.5	21.1	0.4	32.8	25.0	20.0	10.0	
Construction Equipment	10,541	8,398	7,761	9,853	11,705	14,542	16,652	19
Growth (%)	35.1	(20.3)	(7.6)	27.0	18.8	24.2	14.5	
Component Exports							5,000	
Total	61,964	57,610	69,293	71,527	81,429	115,455	133,270	23
Growth (%)	24.0	(7.0)	20.3	3.2	13.8	41.8	15.4	

Source: Company, Emkay Research

Exhibit 2: Change in estimates

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volumes	100,927	100,927	0.0	7.1	109,322	135,271	23.7	34.0	118,085	145,720	23.4	7.7
Net Sales	81,429	81,429	(0.0)	13.8	94,235	115,455	22.5	41.8	105,655	133,270	26.1	15.4
EBITDA	8,224	8,224	0.0	(13.5)	12,156	12,238	0.7	48.8	14,316	15,593	8.9	27.4
Margin (%)	10.1	10.1	0 bps	(320) bps	12.9	10.6	(230) bps	50 bps	13.6	11.7	(185) bps	110 bps
APAT	6,733	6,718	(0.2)	(12.3)	9,664	9,775	1.2	45.5	11,292	11,537	2.2	18.0
Adj. EPS (Rs)	60.9	60.8	(0.2)	4.8	86.4	87.4	1.2	43.7	100.9	103.1	2.2	18.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	69,293	71,527	81,429	115,455	133,270
Expenditure	58,001	62,014	73,204	103,217	117,678
EBITDA	11,292	9,513	8,224	12,238	15,593
Depreciation	1,157	1,298	1,489	2,235	2,604
EBIT	10,135	8,216	6,735	10,003	12,989
Other Income	1,546	2,130	2,290	2,444	2,452
Interest expenses	110	127	127	229	160
PBT	11,571	10,219	8,898	12,219	15,281
Tax	2,831	2,563	2,180	2,444	3,744
Extraordinary Items	0	0	(545)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	8,741	7,656	6,173	9,775	11,537
Adjusted PAT	8,741	7,656	6,718	9,775	11,537

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,348	1,319	1,105	1,119	1,119
Reserves & surplus	52,568	77,462	80,718	88,538	97,306
Net worth	53,916	78,782	81,823	89,657	98,425
Minority Interest	0	0	0	0	0
Loan Funds	0	0	0	1,820	0
Net deferred tax liability	230	379	370	358	343
Total Liabilities	54,146	79,161	82,193	91,835	98,768
Net block	17,132	17,496	19,134	26,228	30,625
Investment	23,748	52,161	54,536	55,036	56,536
Current Assets	30,192	23,093	24,661	37,306	41,594
Cash & bank balance	13,165	2,585	1,313	1,673	1,559
Other Current Assets	2,222	3,066	3,491	4,949	5,713
Current liabilities & Provision	17,887	14,557	16,478	27,525	30,777
Net current assets	12,305	8,537	8,183	9,780	10,817
Misc. exp	317	90	90	90	90
Total Assets	54,146	79,161	82,193	91,835	98,768

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	10,026	8,089	6,608	9,775	12,829
Other Non-Cash items	0	0	0	0	0
Chg in working cap	2,610	(6,538)	(1,057)	(2,346)	(2,070)
Operating Cashflow	9,645	(1,719)	4,489	8,395	9,868
Capital expenditure	(1,166)	(1,593)	(2,500)	(10,577)	(7,000)
Free Cash Flow	8,479	(3,312)	1,989	(2,182)	2,868
Investments	(10,632)	(28,413)	(2,375)	(500)	(1,500)
Other Investing Cash Flow	451	888	0	0	0
Investing Cashflow	(9,801)	(26,987)	(2,585)	(8,633)	(6,048)
Equity Capital Raised	10,576	(29)	(214)	14	0
Loans Taken / (Repaid)	(112)	0	0	1,820	(1,820)
Dividend paid (incl tax)	(245)	(924)	(1,008)	(1,955)	(2,769)
Other Financing Cash Flow	0	19,205	(1,826)	947	814
Financing Cashflow	10,137	18,126	(3,175)	598	(3,935)
Net chg in cash	9,980	(10,581)	(1,272)	360	(115)
Opening cash position	3,185	13,165	2,585	1,313	1,673
Closing cash position	13,165	2,585	1,313	1,673	1,559

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	16.3	13.3	10.1	10.6	11.7
EBIT Margin	14.6	11.5	8.3	8.7	9.7
Effective Tax Rate	24.5	25.1	24.5	20.0	24.5
Net Margin	12.6	10.7	8.3	8.5	8.7
ROCE	19.6	11.6	8.4	10.7	12.2
ROE	19.8	11.6	8.4	11.4	12.3
RoIC	43.8	31.0	20.6	26.5	26.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	86.4	58.0	60.8	87.4	103.1
CEPS	97.9	67.9	74.3	107.4	126.4
BVPS	530.0	596.4	739.7	800.6	879.0
DPS	7.5	7.0	9.1	17.5	24.7

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	23.5	35.0	33.4	23.3	19.7
P/CEPS	20.8	30.0	27.4	18.9	16.1
P/BV	3.8	3.4	2.7	2.5	2.3
EV / Sales	2.5	3.1	2.1	1.5	1.3
EV / EBITDA	15.6	23.1	21.1	14.5	11.2
Dividend Yield (%)	0.4	0.3	0.4	0.9	1.2

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.6)	(0.6)	(0.6)	(0.6)	(0.5)
Net Debt/EBITDA	(2.6)	(5.1)	(6.2)	(4.1)	(3.4)
Working Cap Cycle (days)	(4.5)	30.4	30.8	25.6	25.4

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	20.3	3.2	13.8	41.8	15.4
EBITDA	67.1	(15.8)	(13.5)	48.8	27.4
EBIT	77.4	(18.9)	(18.0)	48.5	29.8
PAT	80.0	(12.4)	(19.4)	58.3	18.0

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	16,788	19,575	18,696	20,149	18,835
EBITDA	2,267	2,646	2,515	2,016	1,527
EBITDA Margin (%)	13.5	13.5	13.5	10.0	8.1
PAT	1,767	2,015	2,022	1,475	1,421
EPS (Rs)	17.5	19.9	20.0	14.6	14.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Feb-22	Mar-22	Jun-22	Sep-22
Promoters	30.3	28.1	28.1	72.9	72.9
FII	20.1	15.5	3.6	4.2	4.7
DII	8.6	8.3	0.4	6.2	7.7
Public and Others	41.1	48.1	67.9	16.7	14.7

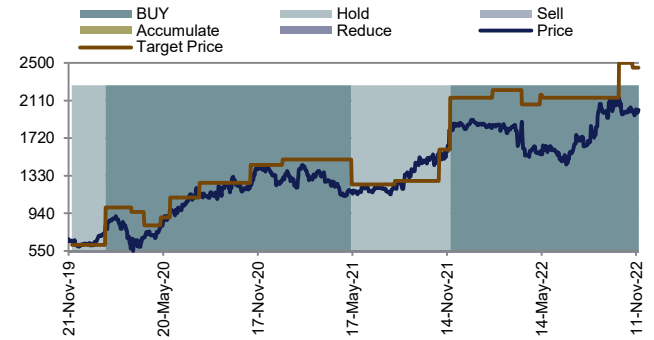
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
4-Nov-22	1,991	2,450	12m	Buy	Raghunandhan NL
9-Oct-22	2,134	2,500	12m	Buy	Raghunandhan NL
2-Aug-22	1,633	2,140	12m	Buy	Raghunandhan NL
10-Jul-22	1,562	2,140	12m	Buy	Raghunandhan NL
15-May-22	1,550	2,140	12m	Buy	Raghunandhan NL
11-May-22	1,586	2,170	12m	Buy	Raghunandhan NL
6-Apr-22	1,889	2,070	12m	Buy	Raghunandhan NL
24-Feb-22	1,795	2,220	12m	Buy	Raghunandhan NL
9-Feb-22	1,856	2,220	12m	Buy	Raghunandhan NL
20-Nov-21	1,803	2,140	12m	Buy	Raghunandhan NL
30-Oct-21	1,569	1,600	12m	Hold	Raghunandhan NL
6-Aug-21	1,200	1,275	12m	Hold	Raghunandhan NL
2-Jul-21	1,203	1,240	12m	Hold	Raghunandhan NL
18-Jun-21	1,170	1,240	12m	Hold	Raghunandhan NL
1-Jun-21	1,163	1,240	12m	Hold	Raghunandhan NL
30-May-21	1,162	1,240	12m	Hold	Raghunandhan NL
15-May-21	1,164	1,240	12m	Hold	Raghunandhan NL
3-Jan-21	1,288	1,500	12m	Buy	Raghunandhan NL
3-Nov-20	1,235	1,442	12m	Buy	Raghunandhan NL
11-Oct-20	1,222	1,256	12m	Buy	Raghunandhan NL
28-Aug-20	1,141	1,256	12m	Buy	Raghunandhan NL
28-Jul-20	1,158	1,256	12m	Buy	Raghunandhan NL
29-Jun-20	1,033	1,103	12m	Buy	Raghunandhan NL
2-Jun-20	960	1,103	12m	Buy	Raghunandhan NL
15-May-20	824	898	12m	Buy	Raghunandhan NL
4-May-20	683	815	12m	Buy	Raghunandhan NL
13-Apr-20	690	815	12m	Buy	Raghunandhan NL
20-Mar-20	675	954	12m	Buy	Raghunandhan NL
27-Feb-20	818	1,000	12m	Buy	Raghunandhan NL
30-Jan-20	818	1,000	12m	Buy	Raghunandhan NL
27-Dec-19	623	613	12m	Hold	Raghunandhan NL
27-Nov-19	648	613	12m	Hold	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	4.84	4.84	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.02	NA	2	0.49	0
Ashok Leyland	0.19	0.21	8%	1	4.28	0
Atul Auto	0.00	0.03	NA	3	0.55	0
Bajaj Auto	0.44	0.25	-45%	-20	5.09	0
Bharat Forge	0.20	0.11	-42%	-8	2.36	0
Eicher Motors	0.44	0.44	0%	0	9.17	0
Escorts	0.00	0.02	NA	2	0.46	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.33	0.35	7%	2	7.27	0
Mahindra & Mahindra	1.11	1.13	2%	2	23.42	0
Maruti Suzuki India	1.10	1.12	2%	2	23.16	0
Minda Industries*	0.00	0.02	NA	2	0.48	0
Motherson Sumi Wiring India	0.00	0.02	NA	2	0.47	0
Samvardhana Motherson International	0.00	0.02	NA	2	0.49	0
Suprajit Engineering	0.00	0.02	NA	2	0.48	0
Tata Motors	0.69	0.70	2%	1	14.47	0
Tata Motors DVR*	0.09	0.10	7%	1	2.08	0
TVS Motor	0.23	0.26	9%	2	5.27	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Nov-21	17-May-22	17-Aug-22	18-Oct-22	17-Nov-22
EAP - Auto & Auto Ancillaries	100.0	145.7	131.0	159.9	153.3	155.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	144.4	130.7	159.5	152.5	155.2

*Performance measurement base date 1st April 2019

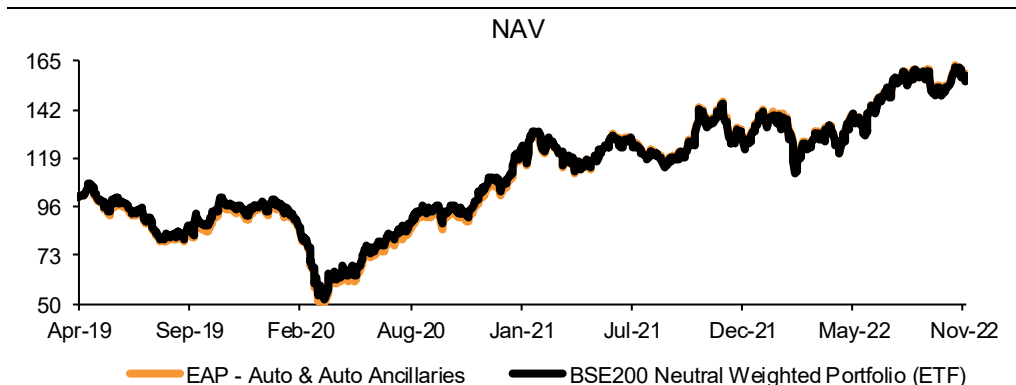
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	1.7%	-2.5%	19.1%	7.0%
BSE200 Neutral Weighted Portfolio (ETF)	1.8%	-2.6%	18.8%	7.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 19 Nov 2022 19:28:21 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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