

May 10, 2023

RESULT REPORT Q4 FY23 | Sector: Automobile

Escorts Kubota Ltd

Market share receding, margins surprise though

Valuation and View – Management guides for fast normalcy in margins

Escorts Kubota (EKL) 4QFY23 results surprised positively where it exceeded our/street EBITDA/ Adj. PAT estimates by ~26%/22%. The entire beat is attributed to better than expected gross margins at 28.5% (est 26.2%, +300bp QoQ/ -140bp YoY). This led to ~24% QoQ growth in EBITDA at Rs2.35b (est/cons at Rs1.87b/Rs1.92b) with margins at 10.8% (est 8.7%, +240bp QoQ/ -270bp YoY). Tractors (71% EBIT contribution) ASP grew 1% YoY (+3.2% QoQ) at Rs628.9/unit with EBIT margins expanding ~160bp QoQ (-560bp YoY) at 9.9%. The management guided for fast normalcy in tractors EBIT margins to a normalized level of 14-15% towards end of FY24E, driven by further decline in RM expected, + product mix, recent price hikes and ongoing cost control measures. We think this would not be easy but challenging as well given low-mid single digit volume growth expected for the domestic tractor industry.

We believe, EKL is more vulnerable v/s peers as i) it derives >75% of its revenues from FES segment and ii) aggressive expansion plans by Sonalika, TAFE, John Deere, etc. to keep tight balance between market share and margins priorities. The valuations at 21x/17.4x FY24/25 do reflect anticipated market share expansion and synergies post Kubota integration. We believe, benefits arising out of Kubota JV to start reflecting meaningfully only over ~2 years. We raise FY24/25 EPS by 13.6%/5.7% to factor in sharper than expected RM decline. We maintain Neutral on the stock with TP of Rs2,001 (earlier Rs1,892). We continue to value co at 17x Mar-25 EPS. We build in revenue/EBITDA/PAT CAGR of 9%/32%/35% over FY23-25E.

Result Highlights – Better gross margins drive profitability

- Revenues declined 3.6% QoQ (+16.8% YoY) at Rs21.8b* (in-line) as Agri/railways revenues declined ~9%/~5% while construction equipment revenues grew 25.7% QoQ. Agri ASP grew 1% YoY (+3.2% QoQ) at Rs628.9k/unit.
- Gross margins came in better at 28.5%* (+300bp QoQ/ -140bp YoY) at 28.5% (est 26.2%). This led to beat on EBITDA margins at 10.8%* (+240bp QoQ/ -260bp YoY, est ~9%) with EBITDA at Rs2.35b (est Rs1.9b, -6.2% YoY/ +24% QoQ).
- Segmental EBIT margins** – Agri at 9.9% (-10bp QoQ), Railway at 14% (+90bp QoQ), CE at 8.1% (+590bp QoQ).
- Co reported exceptional expense of Rs244m towards provision for impairment in Escorts crop solutions. Led by better operating performance, Adj.PAT grew 9.3% QoQ (-1% YoY) at Rs2b (est Rs1.7b).
- FY23 performance** – Revenue/EBITAD/Adj. PAT grew 15.7%/-21.9%/-7.9%

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	21,830	21,601	21,204	1.1	2.9	Positive gross margins surprise leading to healthy beat at PAT.
EBITDA	2,358	1,878	1,927	25.6	22.4	
EBITDA margins %	10.8	8.7	9.1	210bp	170bp	
Adjusted PAT	2,038	1,698	1,712	20.0	19.0	

Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 2,049
Target Price	: Rs 2,001
Potential Return	: -2.3%

Stock data (as on May 10, 2023)

Nifty	18,315
52 Week h/l (Rs)	2,358 / 1,307
Market cap (Rs/USD mn)	271,326 / 3,319
Outstanding Shares (mn)	130
6m Avg t/o (Rs mn):	926
Div yield (%):	0.4
Bloomberg code:	ESCORTS IN
NSE code:	ESCORTS

Stock performance



	1M	3M	1Y
Absolute return	10.8%	1.1%	31.8%

Shareholding pattern (As of Mar'23)

Promoter	72.9%
FII+DII	12.8%
Others	12.7%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	2,001	1,892

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	97.1	117.7
EPS (Old)	85.5	111.3
% change	13.6%	5.7%

Financial Summary

Y/E Mar (Rs b)	2023	2024E	2025E
Sales	84.3	90.8	101.2
EBITDA	7.8	11.3	13.6
Adj. PAT	6.8	9.5	11.6
EPS (INR)	68.9	97.1	117.7
EPS Gr. (%)	(7.9)	40.9	21.1
BV/Sh. (INR)	833.3	921.0	1,029.1
RoE (%)	8.6	11.1	12.1
RoCE (%)	11.5	14.7	16.0
Payout (%)	14.5	9.7	8.0
P/E (x)	29.7	21.1	17.4
P/BV (x)	2.5	2.2	2.0
EV/EBITDA (x)	31.7	21.6	17.5
EV/Sales (x)	2.9	2.7	2.3

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs. mn)	Q4FY23	Q4FY22	YoY chg (%)	Q3FY23	FY23	FY22	YoY chg (%)
Net Revenues	21,830	18,696	16.8	22,637	83,450	71,804	16.2
Raw Materials	15,615	13,107	19.1	16,871	60,669	49,328	23.0
% of Net Sales	71.5%	70.1%		74.5%	72.7%	68.7%	
Personnel	1,565	1,192	31.3	1,527	5,950	5,283	12.6
% of Net Sales	7.2%	6.4%		6.7%	7.1%	7.4%	
Manufacturing & Other Exp	2,291	1,881	21.8	2,336	9,026	7,403	21.9
% of Net Sales	10.5%	10.1%		10.3%	10.8%	10.3%	
Total Expenditure	19,471	16,181	20.3	20,733	75,645	62,014	22.0
EBITDA	2,358	2,515	(6.2)	1,903	7,804	9,790	(20.3)
EBITDA Margin (%)	10.8%	13.5%		8.4%	9.4%	13.6%	
Depreciation	380	330	15.3	376	1,484	1,298	14.4
EBIT	1,978	2,185	(9.5)	1,528	6,320	8,492	(25.6)
Interest Expenses	28	29	(4.8)	26	103	127	(19.2)
Non-operating income	763	538	41.7	913	2,806	1,854	51.4
Extraordinary Expenses	244.00	-		-	971	0	
PBT	2,470	2,695	(8.4)	2,414	8,052	10,219	(21.2)
Tax-Total	615	673	(8.7)	550	1,982	2,563	(22.7)
Tax Rate (%) - Total	24.9%	25.0%		22.8%	24.6%	25.1%	
Reported PAT	1,855	2,022	(8.3)	1,864	6,071	7,656	(20.7)
Adj. PAT	2,038	2,022	0.8	1,864	6,791	7,656	(11.3)
PAT Margin	9.3%	10.8%		8.2%	8.1%	10.7%	

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

- Domestic tractor industry grew 18.7% YoY while declined 14.7 QoQ to ~210k units. Industry in strong (North & Central) regions grew by 23.2% YoY whereas in rest region grew by 14.2% YoY. EKL in strong/rest grew 16.5% YoY/ 7.6% YoY.
 - EKL's domestic MS at 10.9% in 4QFY23 v/s 10.6% 3QFY23 and 10.6% in 4QFY22.
 - Dealer network at 1200+ currently combining both Powertrac and Farmtrac.
 - Non agri market is ~15-20% of overall volumes and growth is led by infrastructure segment.
- **Outlook** - Expect 1QFY24 tractor industry to remain flat led by adverse weather conditions while ahead it can grow in mid-single digits.
 - Festive season sales in 4Q - 1H 4QFY23 was good but unseasonal rain impacted Mar'23 volumes.
 - Inventory levels was lower in 4QFY23 v/s 3QFY23 and stood at ~4-4.5 weeks. The deliveries was higher than dispatches.
 - TREM 4 - TMA have submitted recommendation to ministry. Expect delay in regulation implementation for <50HP segments. >50HP cost hikes for TEM4 is ~10-15% but currently most OEMs are having an inventory hence expect TREM4 tractors to go on sell from current quarter.
 - New products/ platform which are under developments (co developed by EKL) to be launched from FY26E.
- **Margins outlook** - not banking too much on operating leverage while expect RM benefits, favorable mix to still flow through in addition to cost control initiatives leading to normalized range of 14-15% (exit run-rate). Don't think price increase is feasible ahead.
 - Full impact of price hikes ~75bp impact on margins as well as positive RM impact as softening.
 - >40HP contribution improved +3% helped product mix being favorable.
 - Merger impact on margins would be ~1.5-2% dilutive even in FY23E (v/s similar in FY22) but expect to improve as cost synergy to payout post-merger.
- **Domestic tractor volume mix** -
 - Farmtrac/Powertrac 44/56 (v/s 42/58 QoQ and 45/55 YoY).
 - <40HP/>40HP - 34/66 (v/s 37/63 QoQ and 39/61 YoY).
- **Exports** - EKL's exports at 8,024 units in FY23 (+11.7% YoY) with Kubota channel accounted for ~40% of total export volumes (vs +30% in 3QFY23). Exports MS at 6.4% in FY23 (v/s +86bp YoY).
 - Exports declined for industry by ~3.2% to 124.6k units.
 - Expect Kubota continue to contribute ~35-40% of exports channel in FY24E.
 - Have ~800 order book for exports.
- **Localization JV is largely for engines as only 2 products manufactured currently where rest is imported.** Expect localization to improve for other products head. On the components side also, expect localized exports to improve. Expect effective date for merger is Apr'23 post approval from the SEBI.

Construction equipment - Served industry volumes grew ~28.1% YoY (+23.1% QoQ) at 18k.

- Expect CE industry current growth momentum to continue through 1QFY24 and ahead led by government support. Margins may improve further led by product mix and RM softening.

Escorts Kubota Ltd (ESCORTS)

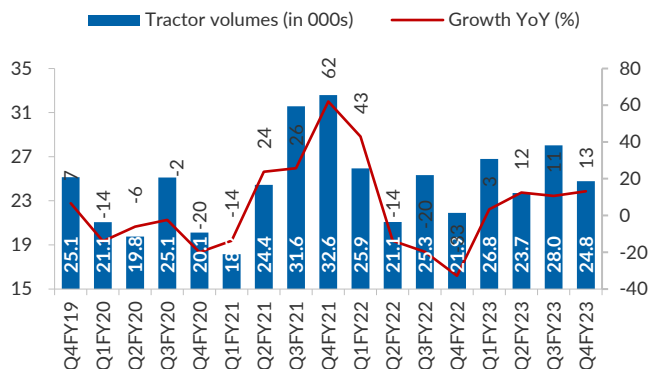
- In 4QFY23, BHL Industry up by 30.8% Y-o-Y, PnC Industry up by 27.4% Y-o-Y, Compactors Industry grew by 7.4% Y-o-Y. EKL's CE volume grew 26.4% QoQ at 1,528 units.
- Product wise market share 4QFY23/3QFY23/2QFY23/1QFY23/4Q/FY22- Cranes 40.2%/37.9%/38.8%/42.5%/40.4%/39.8%, compactors 7.2%/7.4%/5.5%/5.5%/8.6%/8.6%, BHL 1.4%/1.3%/1.2%/1.5%/1.8%/ 2.1%.
- Revenue split 4QFY23/3QFY23/2QFY23 - Crane 79.7%/77.1%/74%, compactors 5.4%/6.3%/3.6%, BHL 12%/11.4%/11%, TRADED+SPARE 3%/5.2%/11.5%.
- CE volumes momentum is good as price increases have been absorbed. Expect CE margins to be better in FY24E vs FY23.

Railways - Order book at Rs10.5b in 4QFY23 (v/s >Rs10b in 3QFY23) where most of it will be consumed in FY24E. There are 3 more products which are under trial stage which should commercialize.

- Expect double digit growth in FY24 led by product diversification and exports.
- Product split conventional/new in 4QFY23 at 31%/69% (v/s 38%/62% in 3QFY23 and 33%/67% YoY).
- Have done localization of components for brakes which are under field trials. Expect the same to contribute positively from FY25E.

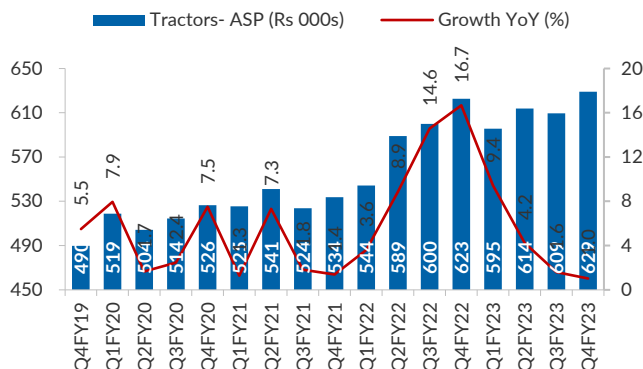
CHARTS

Exhibit 1: 4QFY23 tractor volume grew 13% YoY



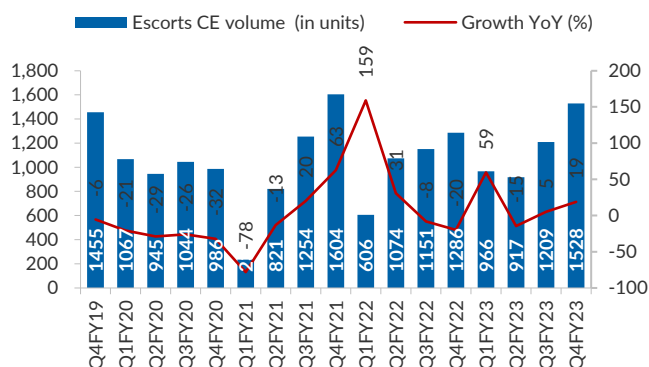
Source: Company, YES Sec

Exhibit 2: ...while ASPs grew ~1% YoY led by price hikes



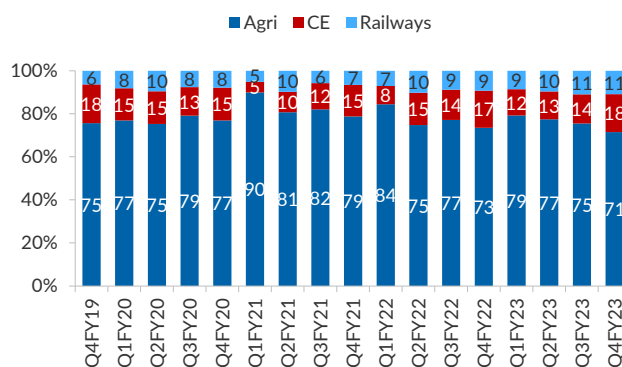
Source: Company, YES Sec

Exhibit 3: CE volumes grew 13% YoY/ +27% QoQ



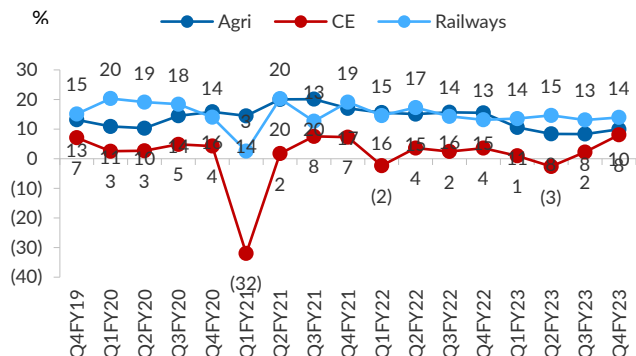
Source: Company, YES Sec

Exhibit 4: Segment wise revenue share trend



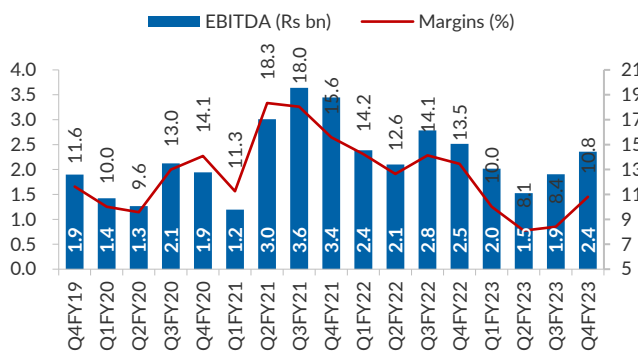
Source: Company, YES Sec

Exhibit 5: Trend in segmental margins



Source: Company, YES Sec

Exhibit 6: EBITDA margin expanded 240bp QoQ



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,226	1,348	1,319	1,319	1,319	1,319
Total Reserves	29,948	48,913	74,680	80,548	89,157	99,783
Net Worth	31,174	50,261	75,999	81,867	90,476	101,102
Minority Interest	51	(9)	(38)	(39)	(39)	(39)
Deferred Liabilities	307	233	373	646	589	519
Total Loans	192	25	-	-	-	-
Capital Employed	31,724	50,511	76,334	82,475	91,026	101,582
Gross Block	28,253	28,652	29,973	32,003	34,175	36,498
Less: Accum. Deprn.	11,026	11,388	12,389	13,890	15,345	16,547
Net Fixed Assets	17,227	17,264	17,585	18,114	18,829	19,952
Capital WIP	1,044	647	878	1,137	1,181	1,315
Total Investments	7,974	20,079	49,184	48,465	50,888	53,433
Curr. Assets, Loans&Adv.	23,678	30,792	23,431	33,135	38,130	46,932
Inventory	8,834	7,182	8,466	12,177	11,498	12,622
Account Receivables	7,319	6,576	7,926	11,797	13,190	13,858
Cash and Bank Balance	3,249	13,218	2,718	4,719	8,111	14,055
Loans and Advances	4,277	3,817	4,320	4,442	5,331	6,397
Curr. Liability & Prov.	18,211	18,271	14,743	18,375	18,003	20,049
Account Payables	16,648	16,763	13,341	16,912	16,426	18,293
Provisions	1,563	1,508	1,402	1,463	1,577	1,756
Net Current Assets	5,467	12,521	8,687	14,760	20,127	26,883
Deferred Tax assets	12	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-
Appl. of Funds	31,724	50,511	76,334	82,475	91,026	101,582

Source: Company, YES Sec

Escorts Kubota Ltd (ESCORTS)

Exhibit 8: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	58,101	70,144	72,827	84,287	90,840	101,165
Change (%)	(7.2)	20.7	3.8	15.7	7.8	11
Total Expenditure	51,477	58,877	62,872	76,512	79,576	87,609
% of Sales	88.6	83.9	86.3	90.8	87.6	86.6
EBITDA	6,624	11,268	9,954	7,775	11,264	13,556
Margin (%)	11.4	16.1	13.7	9.2	12.4	13.4
Depreciation	1,072	1,183	1,321	1,501	1,456	1,201
EBIT	5,552	10,085	8,634	6,275	9,808	12,355
Int. and Finance Charges	172	133	150	133	126	120
Other Income	976	1,604	1,738	2,809	2,894	2,980
PBT bef. EO Exp.	6,356	11,555	10,222	8,951	12,576	15,215
EO Items	(92)	-	-	(531)	-	-
PBT after EO Exp.	6,263	11,555	10,222	8,421	12,576	15,215
Current Tax	1,535	2,832	2,572	1,979	3,016	3,649
Deferred Tax	-	-	-	-	(58)	(70)
Tax Rate (%)	24.5	24.5	25.2	23.5	23.5	23.5
Less: Mionrity Interest	11	7	294	75	75	75
Reported PAT	4,717	8,716	7,356	6,367	9,543	11,561
Adjusted PAT	4,787	8,716	7,356	6,772	9,543	11,561
Change (%)	1.2	82.1	(15.6)	(7.9)	40.9	21.1
Margin (%)	8.2	12.4	10.1	8.0	10.5	11.4

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,253	11,548	9,928	8,346	12,565	15,204
Depreciation	1,072	1,183	1,321	1,501	1,456	1,201
Interest & Finance Charges	300	699	790	1,513	126	120
Direct Taxes Paid	(1,748)	(2,527)	(2,547)	(1,864)	(3,016)	(3,649)
(Inc)/Dec in WC	3,272	2,722	(6,526)	(4,102)	(1,976)	(812)
CF from Operations	9,148	13,625	2,966	5,393	9,156	12,065
Others	(1,177)	(2,338)	(2,644)	(3,154)	-	0
CF from Operating incl EO	7,971	11,287	323	2,239	9,156	12,065
(inc)/dec in FA	(1,902)	(1,182)	(1,759)	(2,132)	(2,216)	(2,458)
Free Cash Flow	6,070	10,105	(1,436)	107	6,940	9,607
(Pur)/Sale of Investments	(2,699)	(10,568)	(28,434)	6,702	-	0
Others	388	(10,160)	11,625	(5,187)	(2,423)	(2,544)
CF from Investments	(4,212)	(21,910)	(18,567)	(618)	(4,639)	(5,002)
Issue of Shares	-	10,576	19,021	206	-	0
Inc/(Dec) in Debt	(82)	(60)	(78)	(71)	-	0
Interest Paid	(100)	(76)	(98)	(91)	(126)	(120)
Dividend Paid	(260)	(245)	(737)	(757)	(924)	(924)
Others	(2,563)	(161)	(8)	-	(75)	(75)
CF from Fin. Activity	(3,005)	10,033	18,099	(712)	(1,124)	(1,118)
Inc/Dec of Cash	754	(590)	(145)	909	3,392	5,944

Source- Company, Yes Sec

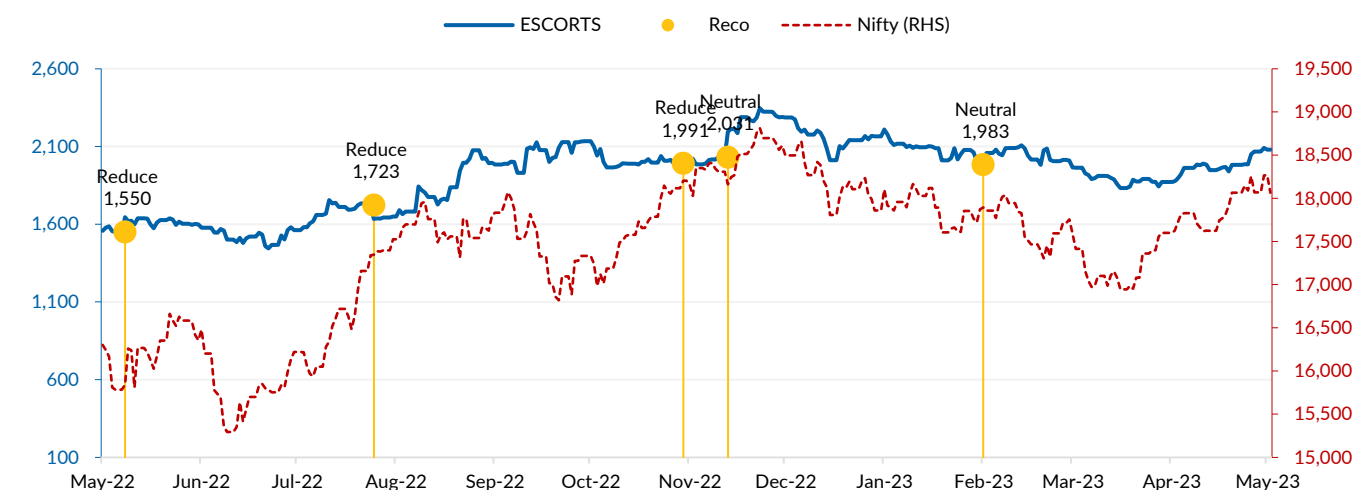
Escorts Kubota Ltd (ESCORTS)

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)						
EPS	53.9	86.2	74.9	68.9	97.1	117.7
Cash EPS	65.9	97.9	88.3	84.2	112.0	129.9
BV/Share	350.7	497.0	773.6	833.3	921.0	1,029.1
DPS	2.5	7.5	7.0	7.0	7.0	7.0
Payout (%)	7.5	11.6	12.6	14.5	9.7	8.0
Valuation (x)						
P/E	38.0	23.8	27.4	29.7	21.1	17.4
Cash P/E	31.1	20.9	23.2	24.3	18.3	15.8
P/BV	5.8	4.1	2.6	2.5	2.2	2.0
EV/Sales	3.1	3.4	3.4	2.9	2.7	2.3
EV/EBITDA	27.0	21.1	25.0	31.7	21.6	17.5
Dividend Yield (%)	0.1	0.4	0.3	0.3	0.3	0.3
FCF per share	49.5	74.9	(10.9)	0.8	52.6	72.8
Return Ratios (%)						
RoE	16.5	21.4	11.7	8.6	11.1	12.1
RoCE	21.5	28.6	16.4	11.5	14.7	16.0
RoIC	20.1	42.3	32.2	18.6	25.4	29.7
Working Capital Ratios						
Asset Turnover (x)	1.8	1.4	1.0	1.0	1.0	1.0
Inventory (Days)	83.9	56.4	62.1	72.6	66.0	66
Debtor (Days)	46.0	34.2	39.7	51.1	53.0	50
Creditor (Days)	104.6	87.2	66.9	73.2	66.0	66
Working Cap. Turnover (Days)	13.9	(3.6)	29.9	43.5	48.3	46
Leverage Ratio (x)						
Current Ratio	1.3	1.7	1.6	1.8	2.1	2.3
Interest Cover Ratio	32.2	75.6	57.7	47.3	77.8	103.2
Debt/Equity	0.0	0.0	-	-	-	-

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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