

We upgrade Escorts to BUY from ADD with revised TP of Rs4,700/sh at 30x Sep-26E PER (rolled over) + Rs320 cash/sh. The recently-concluded monsoons saw ~8% increase over the long period average, lifting the outlook for the upcoming crop cycles. Additionally, with the industry base turning favorable (de-grew 13% YoY in H2FY24 and is flattish in FY25YTD), we believe tractors would enter an upcycle from H2FY25. Escorts is working on multiple initiatives spanning products, channel, and capacity to address opportunities in India and export markets, with Kubota's intent to increase sourcing from India as a key mid-to-long term driver (present global component sourcing is at ~USD10-12bnpa). Our EPS estimates are broadly unchanged; we build-in 16% EPS CAGR in FY25E-27E. At CMP, the stock trades at ~26x core Sep-26E PER vs ~30x for M&M.

Escorts: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,450	87,767	127,115	144,886	166,346
EBITDA	7,804	11,688	16,779	19,849	23,372
Adj. PAT	7,041	10,372	13,652	15,893	18,484
Adj. EPS (Rs)	53.4	93.9	123.5	143.8	167.3
EBITDA margin (%)	9.4	13.3	13.2	13.7	14.1
EBITDA growth (%)	(21.6)	49.8	43.6	18.3	17.7
Adj. EPS growth (%)	(20.7)	104.0	31.6	16.4	16.3
RoE (%)	8.6	11.8	14.0	14.5	15.1
RoIC (%)	19.2	27.5	35.6	34.3	35.5
P/E (x)	72.2	41.1	31.2	26.8	23.0
EV/EBITDA (x)	62.3	33.7	23.4	19.4	16.2
P/B (x)	6.0	4.6	4.1	3.7	3.3
FCFF yield (%)	(0.5)	1.1	0.2	1.6	1.9

Source: Company, Emkay Research

Tractors likely to enter upcycle from H2 on healthy monsoons, favorable base

The recently-concluded monsoons saw ~8% higher rainfall than the long period average (LPA); apart from monsoons, increase in *Kharif* acreage has also been the highest in the past 4 years, boding well for farm incomes. These, along with increase in number of reservoirs/storage capacity and an increasingly favorable base (industry volumes declined 8% YoY in FY24 incl 13% decline in H2FY24; volumes are flat YTD till Aug) raise the prospects of a strong cyclical recovery from H2FY25 (volumes have been flattish over FY21-24; previously, the industry has grown in double digits following extended periods of consolidation). Our recent [Expert Call](#) pointed to likely double-digit growth acceleration over Dec-Mar, with positive outlook for the coming 2 crop cycles. Healthy rainfall in strong regions (North and West for Escorts; South for Kubota) along with initiatives on new products and channel development may drive improved positioning for Escorts.

Sourcing from India emerging as a big opportunity – even for Escorts-Kubota

Global tractor OEMs are increasing tractor and component sourcing from India, driven by factors like cost, supply chain resilience, and India's extensive capabilities in the <70hp category (eg: CNH Industrial targets multifold increase in component sourcing from India to USD500mn by 2027). Kubota also aims to increase the sourcing from India to 15-20% of its global procurement by 2030 vs ~9% now; as per Escorts, even 5% shift in Kubota's global sourcing to India could result in a ~USD500mn opportunity for the company.

Escorts undertaking multiple initiatives to address the exports opportunity

Escorts is attempting to strongly address the exports opportunity via multiple initiatives: i) introduction of export-specific products for Europe from Q3FY25, ii) commencement of part supplies to Kubota's global network directly from Escorts from this year (in addition to exports already taking place from JV entities), iii) channel expansion/synergies with Kubota (dealer integration underway), and iv) new greenfield plant (for tractors, engines, and implements) costing Rs45bn in phases to support growth, including for India.

Target Price – 12M	Sep-25
Change in TP (%)	5.6
Current Reco.	BUY
Previous Reco.	ADD
Upside/(Downside) (%)	21.9
CMP (08-Oct-24) (Rs)	3,855.4

Stock Data	Ticker
52-week High (Rs)	4,422
52-week Low (Rs)	2,647
Shares outstanding (mn)	110.5
Market-cap (Rs bn)	426
Market-cap (USD mn)	5,074
Net-debt, FY25E (Rs mn)	-34,075
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,164.3
ADTV-3M (USD mn)	13.9
Free float (%)	32.4
Nifty-50	25,013
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	67.7
FPIs/MFs (%)	6.4/10.4

Price Performance

(%)	1M	3M	12M
Absolute	4.6	(6.1)	20.7
Rel. to Nifty	4.2	(8.3)	(5.8)

1-Year share price trend (Rs)



Chirag Jain

chirag.jain@emkayglobal.com
+91 22 6624 2428

Jaimin Desai

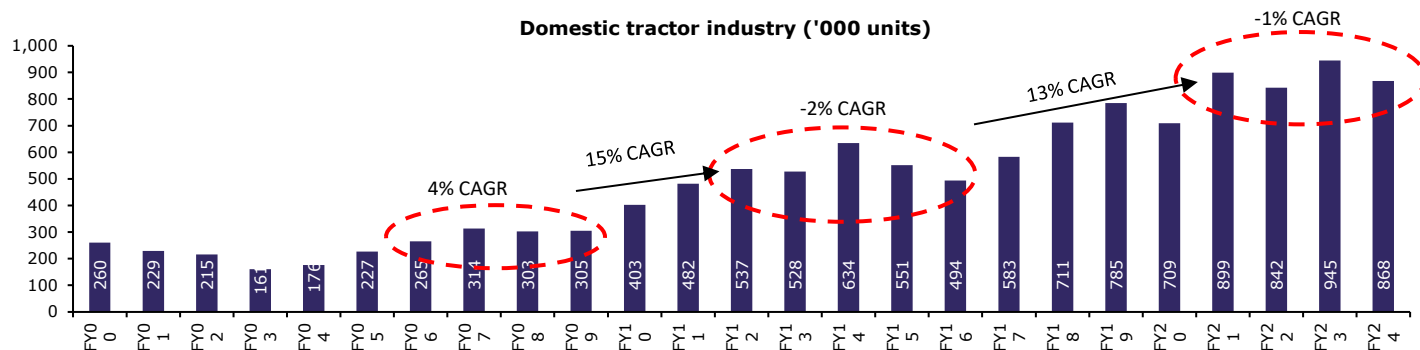
jaimin.desai@emkayglobal.com
+91 22 6612 1334

Nandan Pradhan

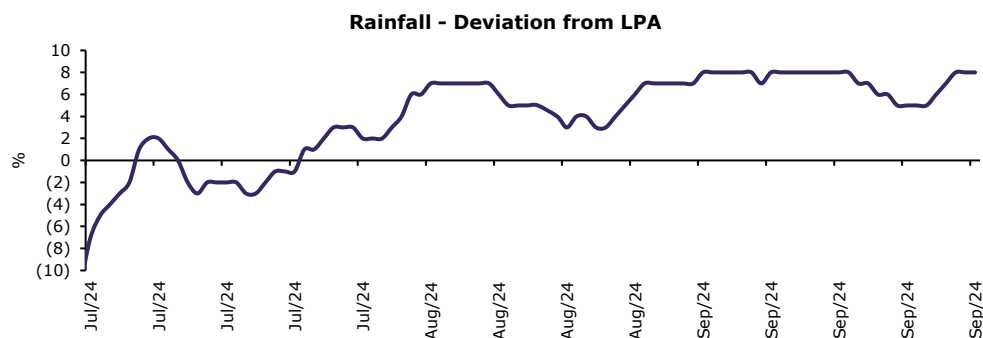
nandan.pradhan@emkayglobal.com
+91 22 6612 1238

Omkar Rane

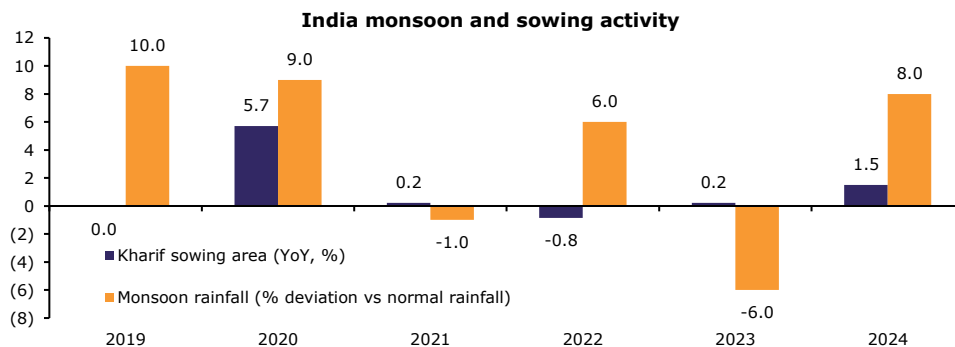
omkar.rane@emkayglobal.com
+91 22 6624 2414

Exhibit 1: Domestic tractor industry volumes now flattish since FY21; in the past, the industry grew well following periods of extended consolidation

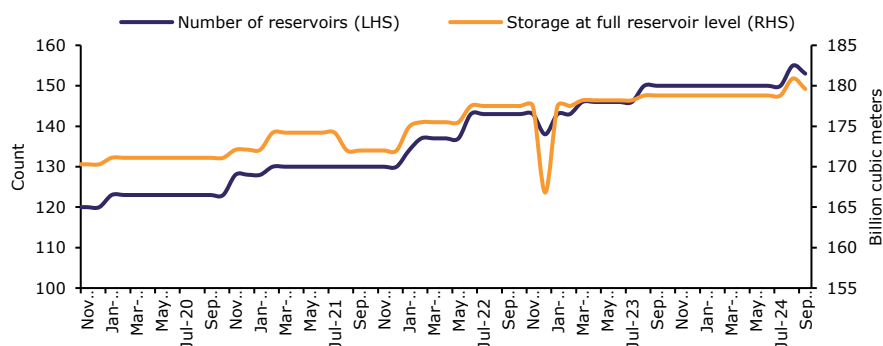
Source: Industry, Emkay Research

Exhibit 2: Cumulative rainfall till Sep-24 has been 8% ahead of long period average (LPA)

Source: CMIE, Emkay Research

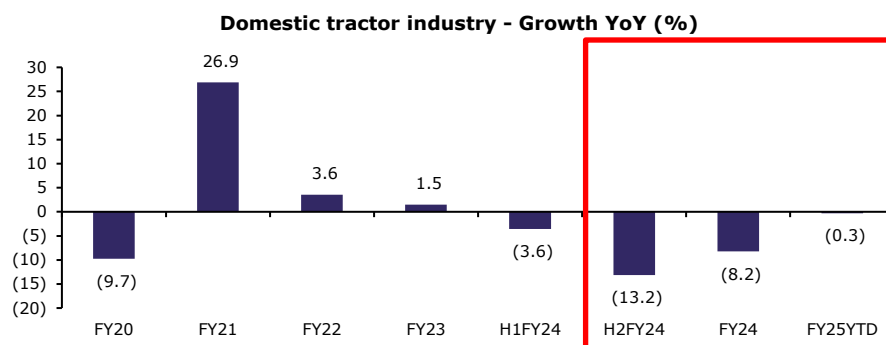
Exhibit 3: Both, the monsoons as well as improvement in sowing, have been the best since 2020

Source: CMIE, Emkay Research

Exhibit 4: Number of reservoirs and storage capacity are at the highest level in the past 5 years

Source: CMIE, Emkay Research

Exhibit 5: With 13%/8% decline in industry volumes for H2FY24/FY24, and flattish performance over Apr-Aug 2024, the base is turning favorable for tractors



Source: Tractor Manufacturers Association, Emkay Research

Global OEMs like Case New Holland are increasing sourcing from India

"India has proven to be a lot more predictable than China and the government policies have been a lot more stable – they are not disruptive in a way that rattles the whole world... India is the only plant in the CNHI globe that is delivering at or above plan, with the localized supply chain, it is more profitable too."

- Comments in 2022 by Raunak Varma, MD, CNH Industrial (India) ([link](#))

Kubota wants to double sourcing of parts from India by 2030

"Currently, overseas production accounts for around 30%. We want to raise that to at least 50%."

"We will also increase part procurement from India. By turning Escorts (now Escorts Kubota) into a group company in 2022, we were able to build a supply network there. We have a factory there, which means we can provide advice to suppliers, perform inspections, and take quality-control measures. Low cost is another benefit of Indian parts. **Currently, only about 9% of our parts are procured in India, but we want to increase that to 15% to 20% by 2030."**

- Comments in Mar-23 by Yuichi Kitao, President, Kubota ([link](#))

Off-highway giants Caterpillar and John Deere in the past few years have diversified their global supply chain

"We're working to put more resilience in our supply chain, **everything from dual-sourcing to thinking about where we source... We're working to ensure that we have multiple sources in various places**, hopefully close to where we build the end product. But again, I think this lesson over the last few years has taught us the importance of resiliency. Cost is so important, but resiliency is there as well."

- Comments in Jun-22 by Jim Umpleby, Chairman & CEO, Caterpillar ([link](#))

"If you think about where engineering capability is around today, it's not necessarily always in high-cost countries, some of it's actually in low-cost countries. **You can actually get a lot more bang for your buck by actually building out engineering capability in places like India, which we have done**, and there are a lot more engineers being trained and graduating every year in a country like India than there are in the U.S. and Europe combined. So, I think that's one of the other factors which comes into account."

- Comments in 2022 Investor Day by Andrew Bonfield, CFO, Caterpillar ([link](#))

"Our supply management teams are working tirelessly on mitigation actions such as multi-sourcing, additional investments in supplier tooling, and even in some cases, helping our suppliers with supplemental John Deere labor."

- Comments in 2022 by John May, Chairman and CEO, John Deere ([link](#))

Exhibit 6: Indian tractor companies on the whole are looking at exports as a major growth driver

Company	Particulars	Source
M&M	Aims to double FY23 export volumes of 18K units in 3 years, backed by launch of the <i>Oja</i> platform last year	Link
International Tractors (Sonalika)	Investing Rs10bn toward new manufacturing plant and R&D for further improving its positioning in exports	Link
John Deere	Exports form over 35% of India production; plans to further increase exports	Link
Case New Holland	In 2022, set out plans to triple the sourcing of parts and components from India to USD300mn by 2024 and further to USD500mn by 2027, as part of 'China Plus One'	Link

Source: Industry, Emkay Research

Exhibit 7: As per Escorts' mid-term plan, even a 5% shift in Kubota's component buying to India would translate into a USD500mn opportunity

Kubota Worldwide buying value of the components about \$ 8.7 billion and growing

Reasons for sourcing from India

- Securing supply volume for KBT businesses.
- Cost reduction.
- Use of strong EKL supplier network

Main exporting countries

Japan, USA and Asian countries

Target items

- In-house fabricated assembly items (Transmission, gear assemblies, etc.)
- Castings, gears and functional parts.

- Currently Kubota group is sourcing certain parts from India and growing
- Even 5% shift of total buying of components sourcing globally to India would mean about USD 500 million worth of potential exports
- Our aspiration for FY28 captures a part of this potential.

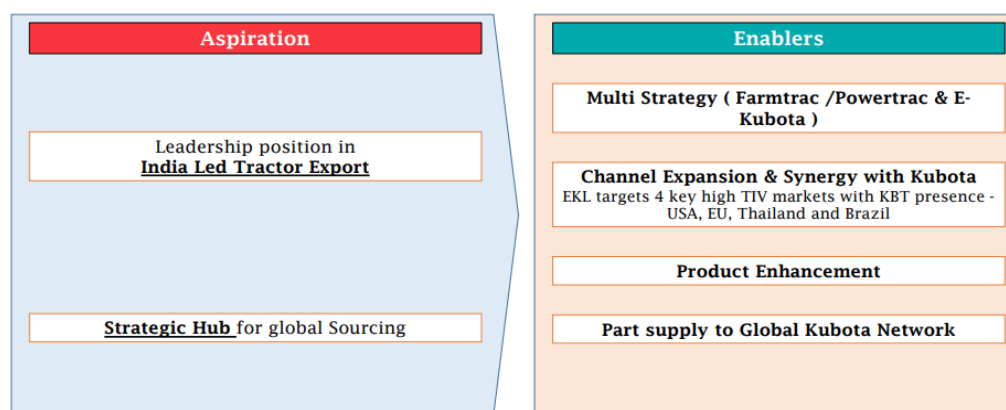
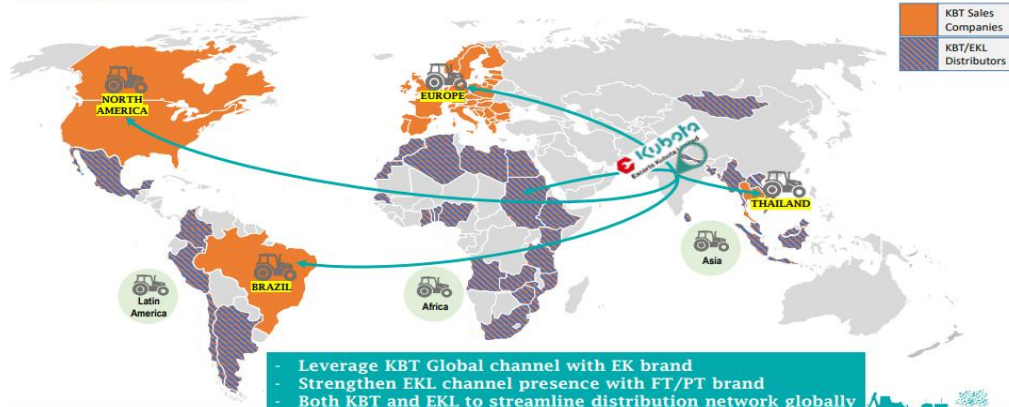
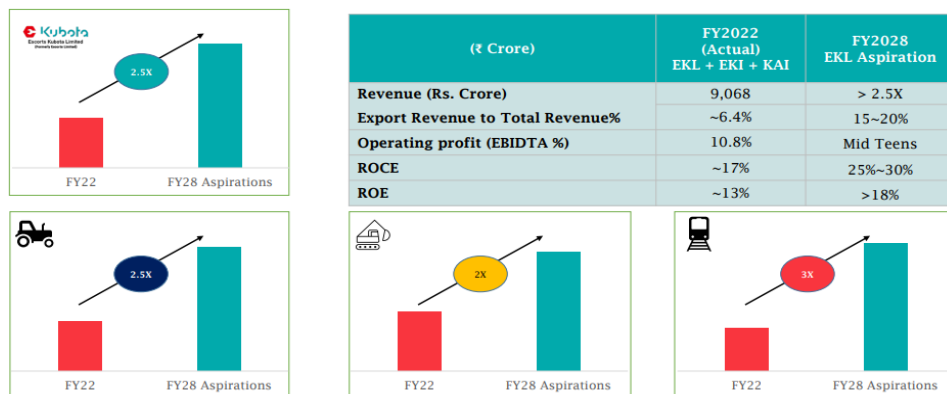
Source: Escorts Mid Term Business Plan presentation, Nov-22 ([link](#))**Exhibit 8: Escorts aims to become one of the leaders in India-led tractor exports...**Source: Escorts Mid Term Business Plan presentation, Nov-22 ([link](#))**Exhibit 9: ...which would be achieved via channel actions (targeting high-volume markets leveraging Kubota's existing global channel); the company also plans to double new product introduction across segments up to 110hp****Leverage KBT Channel**Source: Escorts Mid Term Business Plan presentation, Nov-22 ([link](#))

Exhibit 10: In its mid-term plan, Escorts had provided an aspirational target of over 2.5x growth in exports (FY22-28), with share of exports rising to 15-20%



Source: Escorts Mid Term Business Plan presentation, Nov-22 ([link](#))

Exhibit 11: Revenue model – We build in 14%/16% revenue/EPS CAGR over FY25E-FY27E

Revenue Model (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tractor volumes (units)	96,404	86,018	106,742	94,228	103,290	114,396	120,582	133,812	150,489
Growth (%)	19.9	(10.8)	24.1	(11.7)	9.6	10.8	5.4	11.0	12.5
Construction equipment		4,042	3,913	4,117	4,620	6,964	7,655	8,416	9,094
YoY (%)			(3.2)	5.2	12.2	50.7	9.9	9.9	8.1
Segmental revenues									
Tractors	47,440	44,376	56,673	56,293	63,161	61,101	94,282	106,229	121,805
Growth (%)	19.9	(6.5)	27.7	(0.7)	12.2	(3.3)	54.3	12.7	14.7
Escorts	47,440	44,376	56,673	56,293	63,161	61,101	64,160	74,140	87,620
Kubota JVs				24,446	29,415	28,276	30,123	32,090	34,185
Railway revenues	3,941	4,772	4,790	6,362	8,419	9,504	10,645	12,241	14,077
Growth (%)	37.5	21.1	0.4	32.8	32.3	12.9	12.0	15.0	15.0
Construction equipment	10,541	8,398	7,761	9,868	11,790	17,097	20,188	22,416	24,463
Growth (%)	35.1	(20.3)	(7.6)	27.1	19.5	45.0	18.1	11.0	9.1
Escorts	10,541	8,398	7,761	9,868	11,790	17,097	18,994	21,103	23,019
Kubota JVs							1,194	1,313	1,444
Component exports							2,000	4,000	6,000
Growth (%)								100.0	50.0
Segmental EBIT margins (%)									
Tractors	14.0	13.0	18.2	15.3	9.3	12.7	10.2	11.7	12.2
Escorts	14.0	13.0	18.2	15.3	9.3	12.7	14.0	15.0	15.0
Kubota JVs							2.0	4.0	5.0
Railways	19.9	18.0	16.0	14.8	13.8	18.9	19.5	20.0	20.0
Construction equipment	3.6	3.6	3.6	2.4	2.9	9.3	9.5	9.6	10.2
Escorts	3.6	3.6	3.6	2.4	2.9	9.3	10.0	10.0	10.5
Kubota JVs							2.0	4.0	5.0
Component exports							-	-	6.0
Total revenues	61,964	57,610	69,293	71,969	83,450	87,767	127,115	144,886	166,346
Growth (%)	24.0	(7.0)	20.3	3.9	16.0	5.2	44.8	14.0	14.8
EBITDA	7,333	6,758	11,292	9,955	7,804	11,688	16,779	19,849	23,372
EBITDA margin (%)	11.8	11.7	16.3	13.8	9.4	13.3	13.2	13.7	14.1
EBITDA growth (%)	31.6	(7.8)	67.1	(11.8)	(21.6)	49.8	43.6	18.3	17.7
EBITDA/unit (Rs)	76,064	78,567	105,791	105,651	75,556	102,170	139,151	148,338	155,304
EBIT	6,721	5,816	10,335	9,902	7,508	11,809	16,727	19,553	23,105
EBIT margin (%)	10.8	10.1	14.9	13.8	9.0	13.5	13.2	13.5	13.9
PBT	7,103	6,481	11,571	10,219	9,023	13,898	18,325	21,333	24,482
PAT	4,728	4,924	8,741	7,656	7,041	10,372	13,652	15,893	18,484
Growth (%)	37.1	4.2	77.5	(12.4)	(8.0)	47.3	31.6	16.4	16.3
EPS (Rs)	39	40	65	58	53	94	124	144	167

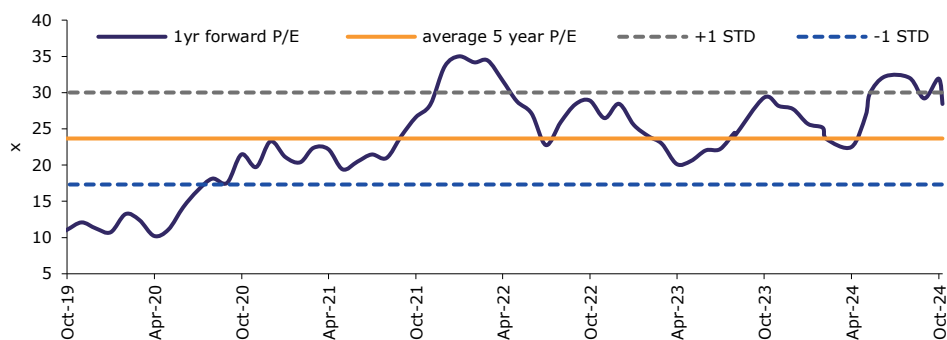
Source: Company, Emkay Research; Note: We have assumed consolidation of Kubota entities from FY25E; historical financials are likely to get restated as consolidation would be effective Apr-23 onwards.

Emkay Research is also available on www.emkayglobal.com and Bloomberg EMKAY<GO>. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.

Exhibit 12: Change in estimates – We cut volume estimates on the current slowness in exports with revenues benefiting from higher ASPs at Kubota; EPS estimates are broadly unchanged

(Rs mn)	FY25E				FY26E				FY27E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Volumes	125,837	120,582	(4.2)	25.8	139,749	133,812	(4.2)	11.0	156,247	150,489	(3.7)	12.5
Net Sales	122,475	127,115	3.8	44.8	143,130	144,886	1.2	14.0	165,883	166,346	0.3	14.8
EBITDA	16,534	16,779	1.5	43.6	20,038	19,849	(0.9)	18.3	23,555	23,372	(0.8)	17.7
Margin (%)	13.5	13.2	(30) bps	(12) bps	14.0	13.7	(30) bps	50 bps	14.2	14.1	(15) bps	35 bps
APAT	13,481	13,652	1.3	31.6	15,969	15,893	(0.5)	16.4	18,561	18,484	(0.4)	16.3

Source: Emkay Research

Exhibit 13: Escorts trades at ~28x FY26E PER


Source: Bloomberg, Emkay Research

Escorts: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,450	87,767	127,115	144,886	166,346
Revenue growth (%)	16.0	5.2	44.8	14.0	14.8
EBITDA	7,804	11,688	16,779	19,849	23,372
EBITDA growth (%)	(21.6)	49.8	43.6	18.3	17.7
Depreciation & Amortization	1,484	1,664	1,749	1,925	2,221
EBIT	6,320	10,023	15,031	17,925	21,151
EBIT growth (%)	(27.0)	58.6	50.0	19.3	18.0
Other operating income	0	0	0	0	0
Other income	2,806	3,983	3,403	3,511	3,429
Financial expense	103	108	108	103	98
PBT	9,023	13,898	18,325	21,333	24,482
Extraordinary items	(972)	0	0	0	0
Taxes	1,982	3,527	4,673	5,440	5,998
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,070	10,372	13,652	15,893	18,484
PAT growth (%)	(20.7)	70.9	31.6	16.4	16.3
Adjusted PAT	7,041	10,372	13,652	15,893	18,484
Diluted EPS (Rs)	53.4	93.9	123.5	143.8	167.3
Diluted EPS growth (%)	(20.7)	104.0	31.6	16.4	16.3
DPS (Rs)	7.0	18.0	24.7	28.8	41.8
Dividend payout (%)	15.2	19.2	20.0	20.0	25.0
EBITDA margin (%)	9.4	13.3	13.2	13.7	14.1
EBIT margin (%)	7.6	11.4	11.8	12.4	12.7
Effective tax rate (%)	22.0	25.4	25.5	25.5	24.5
NOPLAT (pre-IndAS)	4,932	7,480	11,198	13,354	15,969
Shares outstanding (mn)	131.9	110.5	110.5	110.5	110.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	9,023	13,898	18,325	21,333	24,482
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,864)	(2,340)	(4,691)	(5,461)	(6,023)
Change in NWC	(3,447)	1,026	(4,843)	(2,201)	(3,112)
Operating cash flow	(442)	6,399	7,297	12,266	14,330
Capital expenditure	(2,110)	(2,093)	(6,577)	(6,000)	(7,000)
Acquisition of business	(26,840)	684	(500)	(500)	(500)
Interest & dividend income	114	0	0	0	0
Investing cash flow	3,242	1,362	(4,674)	(6,989)	(11,071)
Equity raised/(repaid)	0	(214)	0	0	0
Debt raised/(repaid)	0	0	2,925	(1,000)	(1,000)
Payment of lease liabilities	(70)	0	0	0	0
Interest paid	(103)	(108)	(108)	(103)	(98)
Dividend paid (incl tax)	(924)	(1,989)	(2,730)	(3,179)	(4,621)
Others	326	1,512	741	448	1,442
Financing cash flow	(700)	(800)	828	(3,833)	(4,276)
Net chg in Cash	2,100	6,962	3,452	1,444	(1,017)
OCF	(442)	6,399	7,297	12,266	14,330
Adj. OCF (w/o NWC chg.)	3,005	5,373	12,141	14,467	17,442
FCFF	(2,552)	4,306	721	6,266	7,330
FCFE	(2,541)	4,198	612	6,163	7,232
OCF/EBITDA (%)	(5.7)	54.8	43.5	61.8	61.3
FCFE/PAT (%)	(41.9)	40.5	4.5	38.8	39.1
FCFF/NOPLAT (%)	(51.7)	57.6	6.4	46.9	45.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,319	1,105	1,105	1,105	1,105
Reserves & Surplus	83,029	91,033	101,954	114,669	128,532
Net worth	84,348	92,138	103,059	115,774	129,637
Minority interests	0	0	0	0	0
Deferred tax liability (net)	651	1,151	1,133	1,112	1,087
Total debt	0	0	2,925	1,925	925
Total liabilities & equity	84,999	93,289	107,118	118,811	131,649
Net tangible fixed assets	17,299	17,349	23,092	26,567	31,846
Net intangible assets	284	284	284	284	284
Net ROU assets	502	502	502	502	502
Capital WIP	1,137	1,515	600	1,200	700
Goodwill	0	0	0	0	0
Investments [JV/Associates]	33,154	32,471	32,971	33,471	33,971
Cash & equivalents	22,634	32,549	37,000	42,444	48,427
Current assets (ex-cash)	27,896	28,004	40,558	46,229	51,708
Current Liab. & Prov.	18,082	19,560	28,066	32,062	35,965
NWC (ex-cash)	9,814	8,444	12,493	14,167	15,743
Total assets	84,999	93,289	107,118	118,811	131,649
Net debt	(22,634)	(32,549)	(34,075)	(40,519)	(47,501)
Capital employed	84,824	93,113	106,942	118,635	131,474
Invested capital	27,899	26,579	36,371	41,521	48,376
BVPS (Rs)	638.0	832.2	931.1	1,046.1	1,171.6
Net Debt/Equity (x)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(2.9)	(2.8)	(2.0)	(2.0)	(2.0)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	8.3	11.8	13.8	14.2	14.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	72.2	41.1	31.2	26.8	23.0
P/CE(x)	59.7	35.4	27.7	23.9	20.6
P/B (x)	6.0	4.6	4.1	3.7	3.3
EV/Sales (x)	5.8	4.5	3.1	2.7	2.3
EV/EBITDA (x)	62.3	33.7	23.4	19.4	16.2
EV/EBIT(x)	76.9	39.3	26.1	21.5	17.9
EV/IC (x)	17.4	14.8	10.8	9.3	7.8
FCFF yield (%)	(0.5)	1.1	0.2	1.6	1.9
FCFE yield (%)	(0.5)	1.0	0.1	1.4	1.7
Dividend yield (%)	0.2	0.5	0.6	0.7	1.1
DuPont-RoE split					
Net profit margin (%)	8.4	11.8	10.7	11.0	11.1
Total asset turnover (x)	1.0	1.0	1.3	1.3	1.3
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	8.6	11.8	14.0	14.5	15.1
DuPont-RoIC					
NOPLAT margin (%)	5.9	8.5	8.8	9.2	9.6
IC turnover (x)	3.0	3.3	3.5	3.5	3.4
RoIC (%)	19.2	27.5	35.6	34.3	35.5
Operating metrics					
Core NWC days	42.9	35.1	35.9	35.7	34.5
Total NWC days	42.9	35.1	35.9	35.7	34.5
Fixed asset turnover	2.7	2.7	3.4	3.3	3.3
Opex-to-revenue (%)	17.9	17.9	16.6	16.1	16.0

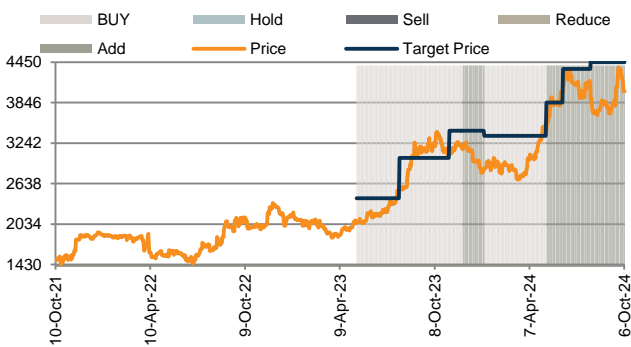
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Aug-24	3,905	4,450	Add	Chirag Jain
10-Jun-24	4,052	4,350	Add	Chirag Jain
09-May-24	3,445	3,850	Add	Chirag Jain
08-Feb-24	2,933	3,350	Buy	Chirag Jain
11-Jan-24	2,863	3,350	Buy	Chirag Jain
30-Nov-23	3,150	3,430	Add	Chirag Jain
05-Nov-23	3,076	3,430	Buy	Chirag Jain
01-Aug-23	2,564	3,020	Buy	Chirag Jain
11-May-23	2,070	2,420	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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