

11 February 2025

Escorts Kubota

Better performance expected ahead; retaining a Buy

Escorts' Q3 PBT (incl. discontinued operations) grew 7% y/y to Rs4.2bn, below ARe of Rs4.4bn mainly due to less-than-expected agri machinery margins. We are enthused about the company as we believe FY25 would bring a ramp-up in its Vision 2028 execution and a turnaround in tractors. Its merger with Kubota, strong tractor cycle, new products & platforms, and recovery in exports will be positive for the company. Key Vision 2028 strategies: new platforms for domestic/exports, component/R&D services exports, operating captive finance and ramping up plans for other segments. We expect healthy (incl. JV, Railways divestment), 14%/22% revenue/EBIT CAGRs over FY25-27. The stock trades at 31x/24x FY26e/FY27e core P/E. We retain a Buy rating, with a lower Rs3,900 TP (earlier Rs4,300), 30x FY27e core EPS and Rs603/sh cash.

PBT below estimate. Revenue (incl. discontinued operations) grew 8% y/y to Rs31.4bn, broadly in line with our estimated Rs31.3bn. PBT grew 7% y/y to Rs4.2bn, below ARe of Rs4.4bn mainly due to less-than-expected agri machinery margins. Overall, PAT grew 9% y/y to Rs3.2bn, below our estimated Rs3.4bn on lower-than-expected operating profit.

Segment-wise. Agri revenue grew 9% y/y, 28% q/q to Rs24.2bn, led by higher, 4% y/y, volumes and increased, 5% y/y, realizations. The EBIT margin contracted 160bps y/y but rose 130bps q/q to 10.4%. Construction equipment revenue grew 4% y/y to Rs5.2bn; volumes fell 1% y/y, while realizations grew 5% y/y. The EBIT margin expanded 290ps y/y, 170bps q/q, to 11%.

Valuation. We expect healthy 14%/19% revenue/PAT CAGRs over FY25-27. We cut our FY26e/27e EPS ~10-11%, mainly due to lower tractor and construction equipment volumes. We retain a Buy rating with a lower TP of Rs3,900 (earlier Rs4,300; 30x FY27e), 30x FY27e core EPS and Rs603/sh cash. **Key risks:** Slower-than-expected execution of new opportunities, lower industry volume growth and adverse commodity prices.

Key financials (YE Mar) - P	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	83,450	1,06,811	1,01,412	1,15,854	1,31,770
Net profit (Rs m)	7,041	10,816	11,098	12,587	15,642
EPS (Rs)	53.4	96.7	99.2	112.5	139.8
P/E (x)	61.9	34.2	33.3	29.4	23.6
EV / EBITDA (x)	48.7	23.5	24.1	19.8	16.0
P/BV (x)	5.2	3.9	3.1	2.9	2.7
RoE (%)	8.6	12.1	10.5	10.3	12.0
RoCE (%)	8.3	12.1	9.3	10.0	11.6
Dividend yield (%)	0.2	0.5	1.2	1.4	1.7
Net debt / equity (x)	-0.7	-0.6	-0.7	-0.7	-0.6

Source: Company, Anand Rathi Research

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Rating: Buy

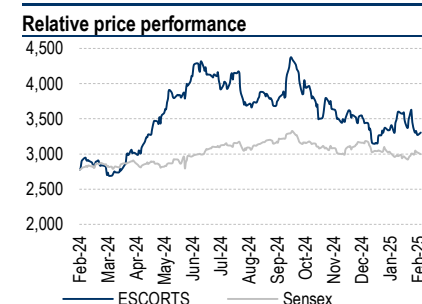
Target Price (12-mth): Rs.3,900

Share Price: Rs.3,303

Key data	ESCORTS IN / ESCO.BO
52-week high / low	Rs4422 / 2671
Sensex / Nifty	77312 / 23382
3-m average volume	\$8m
Market cap	Rs370bn / \$4224.5m
Shares outstanding	112m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	68.0	68.0	67.7
- of which, Pledged	-	-	-
Free float	32.0	32.0	32.4
- Foreign institutions	5.9	6.3	6.4
- Domestic institutions	10.2	10.2	10.4
- Public	15.9	15.4	15.6

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	-11.7	-7.6	-11.1
EBITDA	-16.3	-10.6	-11.0
EPS	-14.4	-10.6	-10.4



Source: Bloomberg

Mumuksh Mandlesha
Research Analyst

Shagun Beria
Research Associate

Dishant Jain
Research Associate

Quick Glance – Financials and Valuations (Standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	83,450	1,06,811	1,01,412	1,15,854	1,31,770
Growth (%)	16	28	-5	14	14
Raw material	60,669.4	75,287.8	71,874.9	81,581.6	91,847.5
Employee & other expenses	14,976	18,320	17,747	20,043	22,269
EBITDA	7,804	13,203	11,790	14,230	17,653
EBITDA margins (%)	9.4	12.4	11.6	12.3	13.4
- Depreciation	1,484	2,328	2,436	2,673	2,935
Other income	2,806	3,926	4,240	4,876	5,608
Interest expenses	103	393	256	192	144
PBT	9,995	14,409	-2,661	16,241	20,183
Effective tax rates (%)	22	25	17	23	23
+ Associates / (Minorities)					
Adj. income (cont. ops)	7,041	10,816	11,098	12,587	15,642
Extraordinary items	972	-	-16,000	-	-
Net income (cont. ops)	6,070	10,816	27,098	12,587	15,642
WANS	132	112	112	112	112
FDEPS (Rs)	53	97	99	113	140
Growth (%)	-8	81	3	13	24
Reported PAT (incl. discontinued ops)	6,070	10,816	28,366	12,587	15,642

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	8,051	14,409	30,607	16,241	20,183
+ Non-cash items	-55	2,721	2,692	2,865	3,078
Operating profit before WC chg	7,996	17,129	33,298	19,106	23,261
- Incr. / (decr.) in WC	3,922	3,763	-2,645	1,081	1,092
Others including taxes	1,710	3,076	2,254	3,670	4,561
Operating cash-flow	2,364	10,291	33,690	14,355	17,608
- Capex (tangible + intangible)	2,141	6,344	5,000	8,000	12,000
Free cash-flow	222	3,947	28,690	6,355	5,608
- Dividend	757	924	2,014	4,439	5,035
+ Equity raised	206	-	-	-	-
+ Debt raised	-70	3,634	-3,114	-	-
- Financial investments	-1,465	-378	20,000	5,000	5,000
- Misc. items (CFI + CFF)	(1,034)	(195)	256	192	144
Net cash-flow	2,100	7,230	3,307	-3,276	-4,571

Source: Company, Anand Rathi Research FY24 onward incl. both JV financials. Factored divestment of Railways division from FY25

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

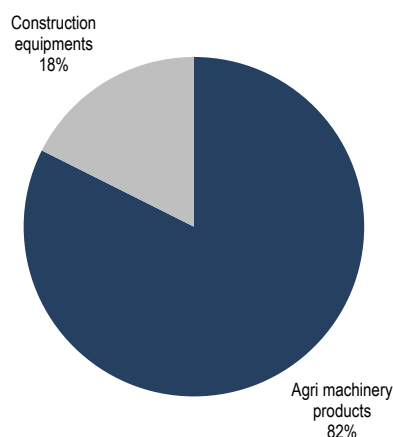
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	1,319	1,119	1,119	1,119	1,119
Net worth	84,348	94,165	1,18,092	1,25,644	1,35,029
Debt (including Pref)	-	3,634	520	520	520
Minority interest	-	-	-	-	-
DTL / (Assets)	651	987	974	957	937
Capital employed	84,999	98,785	1,19,585	1,27,121	1,36,486
Net tangible assets	18,085	21,637	25,302	30,329	38,995
Investments (strategic)	33,154	29,824	29,824	29,824	29,824
Investments (financial)	17,949	20,902	40,902	45,902	50,902
Current assets (excl. cash)	28,071	38,223	34,100	37,979	42,089
Cash	4,685	11,915	15,222	11,946	7,375
Current liabilities	18,082	25,316	26,264	29,658	33,899
Working capital	9,989	12,906	7,836	8,321	8,190
Capital deployed	84,999	98,785	1,19,585	1,27,121	1,36,486

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	61.9	34.2	33.3	29.4	23.6
EV / EBITDA (x)	48.7	23.5	24.1	19.8	16.0
EV / Sales (x)	4.6	2.9	2.8	2.4	2.1
P/B (x)	5.2	3.9	3.1	2.9	2.7
RoE (%)	8.6	12.1	10.5	10.3	12.0
RoCE (%) - after tax	8.3	12.1	9.3	10.0	11.6
RoIC (%) - after tax	18.5	28.1	23.1	26.5	27.5
DPS (Rs)	7.0	18.0	39.7	45.0	55.9
Dividend yield (%)	0.2	0.5	1.2	1.4	1.7
Dividend payout (%)	13.1	18.6	40.0	40.0	40.0
Net debt / equity (x)	-0.7	-0.6	-0.7	-0.7	-0.6
Receivables (days)	53	50	50	50	50
Inventory (days)	51	57	54	51	48
Payables (days)	54	56	55	54	53
CFO : PAT %	34	95	304	114	113

Source: Company, Anand Rathi Research

Fig 6 – Revenue, by segment (Q3 FY25)



Source: Company

Result highlights

Fig 7 – Quarterly performance (Standalone)

(Rs m)	Q3 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Y/Y (%)	Q/Q (%)	YTD FY25
Revenue	27,064	25,563	22,649	29,354	8.5	29.6	77,567
Expenditure	23,826	22,394	20,321	26,002	9.1	28.0	68,717
as % of sales	88.0	87.6	89.7	88.6			88.6
RM cost	19,617	18,092	15,766	21,444	9.3	36.0	55,302
as % of sales	72.5	70.8	69.6	73.1			71.3
Employee cost	1,742	1,729	1,861	1,983	13.8	6.5	5,573
as % of sales	6.4	6.8	8.2	6.8			7.2
Other expenditure	2,467	2,573	2,694	2,575	4.4	(4.4)	7,841
as % of sales	9.1	10.1	11.9	8.8			10.1
EBITDA	3,238	3,169	2,328	3,353	3.5	44.0	8,850
EBITDA margin (%)	12.0	12.4	10.3	11.4			11.4
Depreciation	565	590	610	612	8.4	0.5	1,812
EBIT	2,673	2,579	1,718	2,740	2.5	59.5	7,038
Other income	1,004	1,024	1,152	1,092	8.8	(5.2)	3,268
Interest	104	101	92	31	(70.6)	(66.8)	223
PBT	3,573	3,502	2,779	3,802	6.4	36.8	10,082
Total tax	876	840	-248	897	2.5	(461.6)	1,489
Net profit from continuing operations	2,698	2,662	3,027	2,905	7.7	(4.0)	8,593
Profit before tax from discontinued operations	376	501	322	438			760
Tax expense of discontinued operations	96	127	81	111			192
Net Profit (Adjusted) including discontinued ops	2,979	3,035	3,267	3,232	8.5	(1.1)	9,161
Extraordinary items Loss/(Gain)	0	0	0	0			0
Adjusted EPS (Rs)	24.4	23.8	27.1	26.0	6.3	(4.0)	76.8
Margins (%)					(bps)	(bps)	
Gross	27.5	29.2	30.4	26.9	(57)	(344)	28.7
EBIDTA	12.0	12.4	10.3	11.4	(54)	114	11.4
EBIT	9.9	10.1	7.6	9.3	(54)	175	9.1
EBT	13.2	13.7	12.3	13.0	(25)	68	13.0
PAT	10.0	10.4	13.4	9.9	(7)	(347)	11.1
Effective Tax rate	24.5	24.0	(8.9)	23.6	(90)	3,253	14.8

Source: Company. Includes JV financials

Earnings Call Takeaways

- **Tractors** underperformed in the domestic market in Q3 FY25 due to slower growth in north/central regions (+2.5%) and dealer inventory corrections (4 weeks from 35-37 days in Q2). Inventory correction was done to improve dealers' profitability (particularly Kubota and new management's restructuring efforts). Now, almost through with inventory correction. Domestic industry to grow by 6-7% in FY25, 14-15% in Q4 FY25; good growth is expected in Q1 FY26. Exports growth in recent times was mainly driven by higher volumes through Kubota's network in Europe.
- **Q3 non-tractor (agri machinery, engines, spare parts)** sales contributed 21% of revenue (vs. 19% in Q3 FY24 and 18% in Q2 FY25). The share of spare parts/engine was 8%, while the rest came from farm implements. Component exports to ramp-up from FY26 after supplier quality checks are completed.
- **Captive finance** started for selected states and dealerships. A notable ramp-up is expected by H2 FY26.
- Escorts Kubota's number of dealers was ~1,540 as of Dec'24 vs. ~1,500 as of Sep'24.
- **New products.** The PROMAXX Series (Farmtrac brand) was launched in 30-50 HP category to target markets in west and central India (Gujarat, Maharashtra, Chhattisgarh, Odisha and MP), to improve market share in white spaces. In construction equipment, new entry-level Hydra Cranes & BLX-75 Backhoe Loader (E Kubota brand) were launched.
- **Construction equipment.** The company expects flattish volume growth for FY26 due to price hikes. Certain products moved from BS3 to BS5 (~10% hike) and BS4 to BS5 (~5% hike). Initially, there was partial pass-through of higher cost; however, recovery is expected over time.
- Q3 gross margin came lower due to the inventory change impact, higher input prices and discounts (due to festivals).
- Q3 FY25 Railways PBIT was Rs440m.
- The Board approved sale of 33,000+ square yards of land adjacent to the Railway Equipment Division to Sona Comstar for Rs1.1bn. The company will relocate the spare parts division before finalizing the sale.
- The greenfield plant planned in Uttar Pradesh has been delayed due to land acquisition issues.

Valuations

We are upbeat regarding the company as we believe FY25 would bring a ramp-up in its Vision 2028 execution and a turnaround in tractors. The company's merger with Kubota, strong tractor cycle, new products and platforms, and exports recovery would be positive.

FY25, a year of execution with merger of JVs. 1) Launches of products developed for domestic/exports. 2) Exports of components and R&D services (inaugurated a large warehouse of 58,000 sq.ft.). 3) Operating captive finance to support the domestic market share with earmarked capital of Rs7bn. 4) Ramping up plans for other key segments—construction equipment, implements, engines and spare parts—where the company has huge aspirations.

Turnaround in tractor industry. Turnaround in tractors began with a double-digit festival period growth. Double-digit growth is expected in H2 and over 7% growth in FY25.

New opportunities to add >5% growth. Further, opportunities such as domestic market-share gains, exports, components, R&D, implements and engines would drive >5% growth over the normal 8-10%. We expect healthy (incl. JV, Railways divestment), 14%/22% revenue/EBIT CAGRs over FY25-27.

Valuation. We recommend a Buy with a TP of Rs3,900, 30x FY27e core EPS and Rs603/sh cash (0.8x book).

Fig 8 - Key assumptions

(Rs m)	FY24	FY25e	FY26e	FY27e	CAGR % FY25-27e
Agri machinery products (incl. implements)	78,974	83,800	94,946	1,07,085	13
Y/Y change, %		6	13	13	
Construction equipment	18,182	17,460	19,056	21,983	12
Y/Y change, %		-4	9	15	
Railway equipment	9,504				
Y/Y change, %					
Component exports			1,500	2,250	
Y/Y change, %				50	
R&D service exports			200	300	
Y/Y change, %				50	
Unallocated	152	152	152	152	
Revenue	1,06,811	1,01,412	1,15,854	1,31,770	7
Y/Y change, %		-5	14	14	

Note: Includes JV financials. Source: Anand Rath Research

Fig 9 – Change in estimates

(Rs m)	Old			Revised			Change (%)		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Revenue	1,14,786	1,25,371	1,48,259	1,01,412	1,15,854	1,31,770	-11.7	-7.6	-11.1
EBITDA	14,089	15,926	19,830	11,790	14,230	17,653	-16.3	-10.6	-11.0
% of revenue	12.3	12.7	13.4	11.6	12.3	13.4			
Adj. PAT	12,962	14,079	17,456	11,098	12,587	15,642	-14.4	-10.6	-10.4
EPS (Rs)	115.9	125.8	156.0	99.2	112.5	139.8	-14.4	-10.6	-10.4

Source: Anand Rath Research

Downside risks

- Slower-than-expected execution of new opportunities.
- Lower industry volume growth.
- Adverse commodity prices.

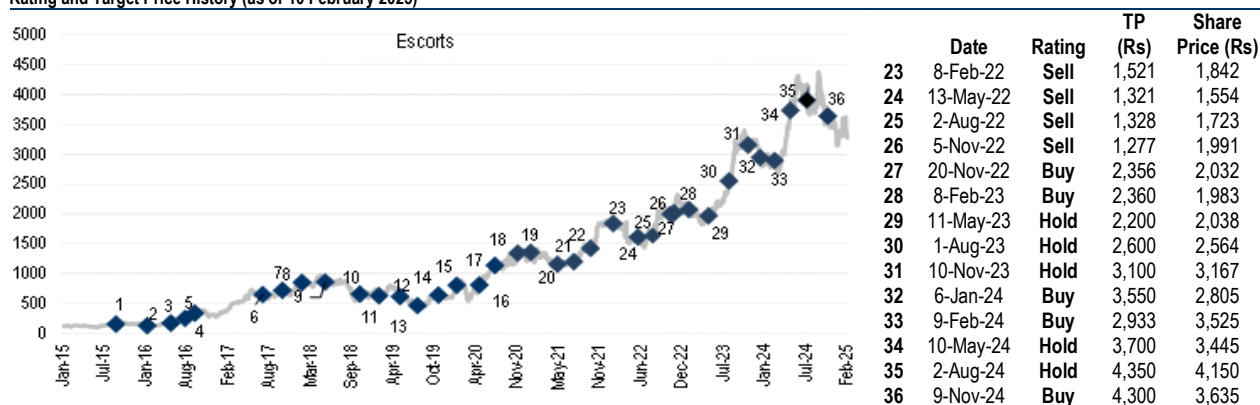
Appendix

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.