

Escorts Kubota

Muted near term; Robust medium-term prospects; retaining a Buy

Slightly above our estimated Rs3.12bn, Escorts' Q1 EBITDA grew 3% y/y to Rs3.35bn due to better-than-expected agri-machinery margins (lower-than-expected input/employee cost). We expect 8%/13% revenue/EBITDA CAGRs over FY25-28 driven by a ramp-up in its non-vehicle revenue (a 17% CAGR), strong exports (35% volume CAGR) and gradually improved market share (over FY27/28). 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 introduce our FY28e, with 10/13/10% revenue/EBITDA/PAT growth. The stock trades at 27x/24x FY27e/28e core P/E. We retain a Buy with a Rs3,900 TP (earlier Rs3,900; 30x FY27e), 30x Sep'27e core EPS and Rs587/sh cash.

EBITDA slightly above estimates. Revenue declined 3% y/y to Rs24.8bn, below our estimated Rs25.8bn due to lower-than-expected agri-machinery realisations (adverse mix of less than 30HP and non-tractors). EBITDA grew 3% y/y to Rs3.35bn slightly above estimated Rs3.12bn, led by better-than-expected agri-machinery margins (lower-than-expected input/employee costs). Other income grew 52% y/y to Rs1.56bn. Overall, PAT grew 11% to Rs2.97bn, above our estimated Rs2.81bn due to better margins and more other income.

Segment-wise. Agri revenue was flat y/y at Rs21.8bn led by 1% volume growth and flat realisations. The EBIT margin contracted 90bps y/y to 12.6%. Construction equipment revenue fell 21% y/y to Rs3bn, volumes were down 24%, while realisations grew 4%. The EBIT margin contracted 450bps y/y to 5.8%.

Valuation. Our FY26e/27e EPS is lower due to weak FY26 revenues in agri and construction. We retain a Buy at an unchanged TP of Rs3,900, 30x Sep'27e core EPS and Rs587/sh cash. **Key downside risks:** Slower-than-expected execution of new opportunities, lower industry volume growth and adverse commodity prices.

Key financials (YE Mar) - P	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	97,307	1,01,870	1,03,766	1,16,082	1,27,307
Net profit (Rs m)	6,480	11,371	12,194	14,309	15,751
EPS (Rs)	57.9	101.6	109.0	127.9	140.8
P/E (x)	58.6	33.4	31.1	26.5	24.1
EV / EBITDA (x)	38.5	26.5	22.3	19.1	16.8
P/BV (x)	4.0	3.7	3.1	2.9	2.7
RoE (%)	7.3	11.5	10.7	11.2	11.5
RoCE (%)	8.2	10.3	10.4	10.8	11.1
Dividend yield (%)	0.5	0.8	1.0	1.3	1.6
Net debt / equity (x)	-0.6	-0.7	-0.7	-0.7	-0.6

Source: Company, Anand Rathi Research

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Rating: **Buy**

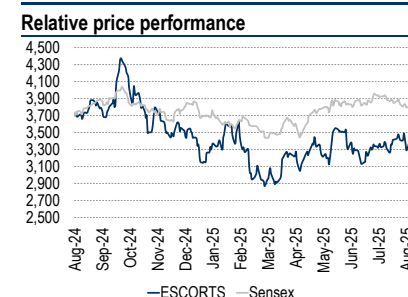
Target Price (12-mth): Rs.3,900

Share Price: Rs.3,394

Key data	ESCORTS IN / ESCO.BO
52-week high / low	Rs.4,420 / 2,776
Sensex / Nifty	81,019 / 24,723
Market cap	Rs.362bn
Shares outstanding	110m

Shareholding pattern (%)	Jun'25	Mar'25	Dec'24
Promoters	68.0	68.0	68.0
- of which, Pledged	-	-	-
Free float	32.0	32.0	32.0
- Foreign institutions	5.2	5.2	5.2
- Domestic institutions	11.4	11.3	11.3
- Public	15.3	15.4	15.4

Estimates revision (%)	FY26e	FY27e
Sales	-9.3	-11.5
EBITDA	-5.7	-11.2
EPS	-4.4	-9.4



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Net revenues	97,307	1,01,870	1,03,766	1,16,082	1,27,307
Growth (%)	17	5	2	12	10
Raw material	69,119.0	72,162.4	72,789.5	81,432.0	89,017.4
Employee & other expenses	19,858	17,929	17,899	19,443	21,069
EBITDA	8,330	11,778	13,077	15,206	17,221
EBITDA margins (%)	8.6	11.6	12.6	13.1	13.5
- Depreciation	2,236	2,426	2,551	2,812	3,177
Other income	3,915	4,584	5,370	6,191	6,402
Interest expenses	388	270	162	122	122
PBT	9,621	13,937	14,974	18,463	20,324
Effective tax rates (%)	33	17	23	23	23
+ Associates / (Minorities)					
Adj. income	6,480	11,371	12,194	14,309	15,751
Extraordinary items	-	271	-760	-	-
Net income	6,480	11,100	12,953	14,309	15,751
WANS	112	112	112	112	112
FDEPS (Rs)	58	102	109	128	141

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	14,409	15,282	26,770	18,463	20,324
+ Non-cash items	467	653	2,713	2,934	3,299
Operating profit before WC chg	14,875	15,935	29,483	21,397	23,623
- Incr. / (decr.) in WC	3,382	-1,499	-788	1,296	1,173
Others including taxes	3,539	5,363	3,556	4,173	4,593
Operating cash-flow	7,954	12,071	26,715	15,929	17,857
- Capex (tangible + intangible)	2,677	2,374	3,500	10,000	12,000
Free cash-flow	5,277	9,697	23,215	5,929	5,857
- Dividend	758	3,055	3,133	3,658	5,008
+ Equity raised	135	247	-	-	-
+ Debt raised	1,196	-3,938	-	-	-
- Financial investments	7,554	1,659	20,000	3,000	3,500
- Misc. items (CFI + CFF)	(8,936)	2,067	162	122	122
Net cash-flow	7,230	-775	-80	-851	-2,773

Source: Company, Anand Rathi Research; FY24 onward incl. both JV financials. Factored in divestment of Railways division from FY26;

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

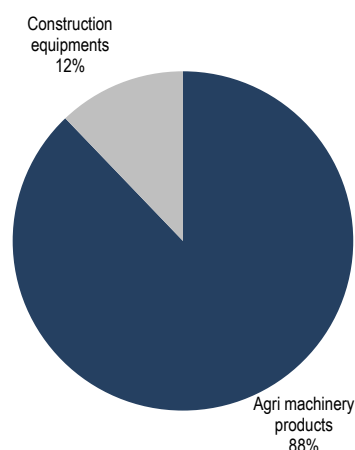
Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	1,119	1,119	1,119	1,119	1,119
Net worth	94,165	1,03,802	1,23,374	1,32,675	1,42,283
Debt (incl. Pref)	3,634	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	987	580	564	545	525
Capital employed	98,785	1,04,382	1,23,938	1,33,220	1,42,808
Net tangible assets	21,625	20,421	22,544	29,082	37,705
Investments (strategic)	29,824	33,486	33,486	33,486	33,986
Investments (financial)	20,902	22,924	42,924	45,924	48,924
Current assets (excl. cash)	38,223	40,401	37,943	41,860	45,430
Cash	11,915	11,140	11,060	10,209	7,437
Current liabilities	25,316	25,515	24,369	28,341	31,873
Working capital	12,906	14,886	13,573	13,519	13,557
Capital deployed	98,785	1,04,382	1,23,938	1,33,220	1,42,808

Fig 4 – Ratio analysis

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	58.6	33.4	31.1	26.5	24.1
EV / EBITDA (x)	38.5	26.5	22.3	19.1	16.8
EV / Sales (x)	3.3	3.1	2.8	2.5	2.3
P/B (x)	4.0	3.7	3.1	2.9	2.7
RoE (%)	7.3	11.5	10.7	11.2	11.5
RoCE (%) - after tax	8.2	10.3	10.4	10.8	11.1
RoIC (%) - after tax	17.9	24.3	26.9	28.4	26.7
DPS (Rs)	18.0	28.0	32.7	44.8	54.9
Dividend yield (%)	0.5	0.8	1.0	1.3	1.6
Dividend payout (%)	31.1	27.5	30.0	35.0	39.0
Net debt / equity (x)	-0.6	-0.7	-0.7	-0.7	-0.6
Receivables (days)	55	49	49	49	49
Inventory (days)	62	48	48	48	48
Payables (days)	61	58	52	52	52
CFO : PAT %	123	106	219	111	113

Source: Company, Anand Rathi Research

Fig 6 – Revenue, by segment (Q1 FY26)



Source: Company

Result highlights

Fig 7 – Quarterly performance

(Rs m)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Y/Y (%)	Q/Q (%)
Revenue	25,563	22,649	29,354	24,303	24,834	(2.9)	2.2
Expenditure	22,394	20,321	26,002	21,374	21,584	(3.6)	1.0
as % of sales	87.6	89.7	88.6	87.9	86.9		
RM cost	18,092	15,766	21,444	16,860	17,167	(5.1)	1.8
as % of sales	70.8	69.6	73.1	69.4	69.1		
Employee cost	1,729	1,861	1,983	1,985	1,834	6.1	(7.6)
as % of sales	6.8	8.2	6.8	8.2	7.4		
Other expenditure	2,573	2,694	2,575	2,529	2,582	0.4	2.1
as % of sales	10.1	11.9	8.8	10.4	10.4		
EBITDA	3,169	2,328	3,353	2,929	3,250	2.6	11.0
EBITDA margin (%)	12.4	10.3	11.4	12.1	13.1		
Depreciation	590	610	612	615	591	0.2	(3.8)
EBIT	2,579	1,718	2,740	2,314	2,659	3.1	14.9
Other income	1,024	1,152	1,092	1,316	1,556	52.0	18.2
Interest	101	92	31	47	36	(64.0)	(22.6)
PBT	3,502	2,779	3,802	3,584	4,179	19.3	16.6
Total tax	840	(248)	897	806	1,212	44.3	50.5
Adj. PAT	2,662	3,027	2,905	2,778	2,966	11.4	6.8
Extraordinary items Loss/(Gain)	0	0	0	271	(760)		
Reported PAT	2,662	3,027	2,905	2,507	3,726	40.0	48.6
Adj. EPS (Rs)	23.8	27.1	26.0	24.8	26.5	11.4	6.8

Margins (%)							
Gross	29.2	30.4	26.9	30.6	30.9	165	25
EBIDTA	12.4	10.3	11.4	12.1	13.1	69	104
EBIT	10.1	7.6	9.3	9.5	10.7	62	118
PAT	13.7	12.3	13.0	14.7	16.8	313	208
Effective tax rates	10.4	13.4	9.9	11.4	11.9	153	51

Source: Company Includes JV financials

Fig 8 – Change in estimates; Cut in core EPS lower due to higher non-interest income

(Rs m)	Old		Revised		Change (%)	
	FY26e	FY27e	FY26e	FY27e	FY26	FY27
Revenue	114,399	131,163	103,766	116,082	-9.3	-11.5
EBITDA	13,862	17,116	13,077	15,206	-5.7	-11.2
%	12.1	13.0	12.6	13.1		
Adj. PAT	12,756	15,789	12,194	14,309	-4.4	-9.4
EPS (Rs)	114.0	141.1	109.0	127.9	-4.4	-9.4
Core EPS (Rs)	86.9	110.0	89.9	104.1	3.5	-5.4

Source: Anand Rath Research

Fig 9 – Q1 FY26 Actual vs Estimates

Rs m	Actual	Estimates	Var %	Consensus	Var %
Revenues	24,834	25,755	(3.6)	25,829	(3.9)
EBITDA	3,250	3,121	4.1	3,180	2.2
EBITDA margins (%)	13.1	12.1	97 bps	12.3	77 bps
Adj. net income	2,966	2,813	5.4	2,906	2.1
FDEPS (Rs)	26.5	25.1	5.4	26.0	2.1

Source: Company, Bloomberg, Anand Rath Research

Earnings Call Takeaways

Tractors

- Maintains **FY26 tractor industry volume guidance of mid-to-high single digits** and expects positive or flat growth in H2 FY26 (owing to the high base). Expects disparity in growth between regions to narrow with high base in H2.
- Expects **export volumes to grow 25-30%** in FY26 (~500-600 units/per month) driven by Europe and the next 3-4 years with potential to go to 20,000-30,000 tractors a year. Product launches for specific markets would support higher volumes ahead.
- **New products.** Promaxx is available in 70% of the market and is driving market-share gains for the farmtrac brand in most states. The Kubota brand recently launched its MU series in 41-50HP, is powered by the advanced/efficient KQ4P engine, and incorporates balancer-shaft technology for comfort/smooth performance. Plans to launch the Wetland series in powertrac brand in coming quarters to drive share gains in southern markets. **Expects full benefit of launches in FY27.**
- Dealer inventory at 4-5 weeks.
- **The Kubota brand** has not done well recently due to delay in product introductions (last product launched was three years back). Now it has launched upgraded products and new products (the MU series), which will help grow volumes.
- **Farm implements.** Government reforms are required for large OEM players to participate. Expects reforms to take place in the medium to long term. Harvesters and Transplants are being imported from Kubota Thailand/Japan/China and rotovators are being sourced through third party arrangements. FY26 revenue ~Rs6bn and seeing good demand in the south and east.
- **Q1 FY26.** Non-tractor sales at 18% of agri-machinery revenue (19% in Q1 FY25 and Q4 FY25; spares at ~10%). Export share at 52% through the Kubota channel. Last year sold ~20,000 engines equally to power generators and construction equipment OEMs; this year it has slowed due to emission norms. **Component exports expected at Rs2.5bn in FY26** and working to develop a vendor base and manufacturing in-house (better margins).
- **Trem 5 emission** norms decision expected to be announced this month; chances are that 25-50HP may be exempt.
- **Q1 margin** improvement y/y led by softening material cost. Expects some commodity inflation of less than 1% in Q2. **Agri EBIT margin guidance of 12-12.5% in FY26.** The Kubota brand is similar to past levels.
- **Greenfield plant.** Land acquisition by the UP government is expected to be complete next month or so. Expects land acquisitions to be complete by FY26; then plant construction can start.

Construction equipment

- Market is facing challenges due to less construction activity and slow sale of new emission-norm products. Last date for liquidating old inventory is end-Jun'25; hence, **expects demand to improve from H2 FY26.** Channel inventory at 20-25 days.

- **New products.** Recently launched the Hydra 12 pick-n-carry crane.
- **Q1 margins** impacted by emission norm transition and higher input costs. **Expects to maintain FY26 EBIT margins similar to last year.**

Others

- **Q1 Other income** was higher on the rise in surplus cash and MtM gains.
- **FY26 overall capex** is Rs3.5bn-Rs4bn, excl. investments for the greenfield plant land. Land acquisition would be an additional Rs5bn.

Valuations

We expect 8%/13% revenue/ EBITDA CAGRs over FY25-28e driven by a ramp-up in its non-vehicle revenue (a 17% CAGR), strong exports (a 35% volume CAGR) and gradually better market share (over FY27/28).

FY26/27, a year of execution with merger of JVs. 1) Launches products developed for domestic/export. 2) Exports of components and R&D services (inaugurated a large warehouse of 58,000 sq.ft.). 3) Operating captive finance to support domestic market share, with an 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 the tractor industry began with 7% growth in FY25. Mid- to high single-digit growth expected in FY26, led by a good harvest, higher crop realisations, sufficient water in reservoirs and an above-normal monsoon prediction.

New opportunities to add growth. Further, opportunities such as domestic market-share gains, exports, components, R&D, implements and engines would drive growth above the normal 8-10%.

Success export story of Sonalika Yanmar. Yanmar became a large shareholder (~30%) in Sonalika in 2016. Yanmar is a Japanese company with a diverse portfolio, incl. agricultural machinery (tractors, farm equipment), engines and construction equipment. It is a large global player (revenue: ~\$7bn) in compact tractors. Yanmar's key markets are Japan, the US and China.

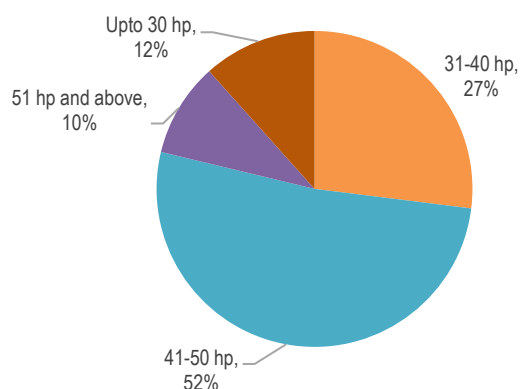
After the Yanmar's stake acquisition, **Sonalika's exports of tractors recorded a 17% CAGR to 33,606 units over FY16-24 (the largest exporter from India)**, led by new product expansion in partnership with Yanmar and by leveraging its (Yanmar's) global network. **Around a third of export volumes are to Yanmar's global network.** India being the largest tractor market provides a strong case for global opportunities due to high scale and the low-cost supply chain. Kubota is the largest compact tractor player globally (revenue: \$20bn) and >2x the size of Yanmar, which provides a huge play for Escorts Kubota in tractor exports through Kubota's global network.

Fig 10 - Yanmar played a key role in global expansion of Sonalika's volumes

Sonalika	FY16	FY24	CAGR (%)
Domestic tractors MS (%)	11.9	13.2	
Export tractors volumes (units)	9,482	33,606	17
Exports revenues (Rs bn)	6.5	29.5	21
-- Supplied to global Yanmar (Rs bn)		11.1	

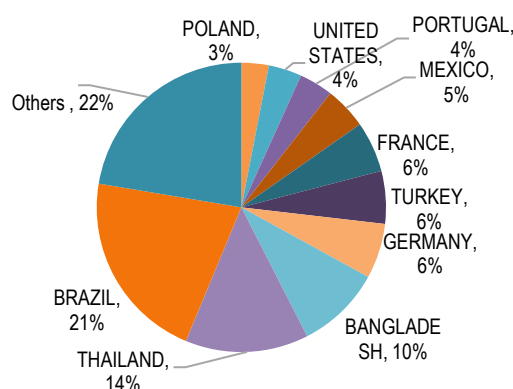
Source: Industry, ACE equity, AR research

Fig 11 - Sonalika's tractor export HP mix (%)



Source: AR research

Fig 12 - Major Sonalika export markets (FY25) – Top 10



Source: AR research

John Deere India exports notable spares/services to the Group. John Deere now exports Rs9bn of spares/components and a notable services (IT/R&D of Rs26bn to global group companies. We expect Escorts Kubota to use its India base to export spares and services. John Deere and New Holland are seeing strong export volumes, leveraging their global networks.

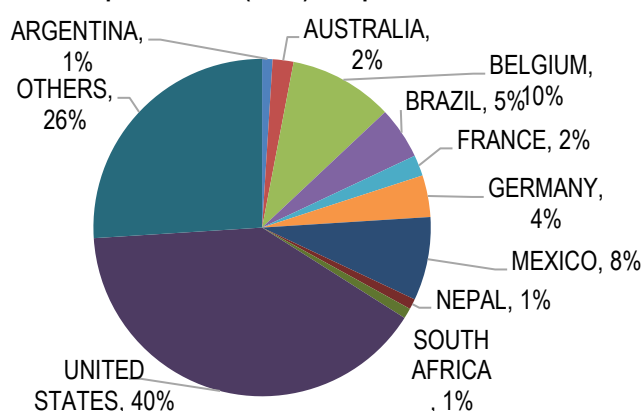
Fig 13 - John Deere's substantial exports of spares/services

John Deere	FY14	FY23	CAGR (%)
Export tractor volumes (units)	13,425	20,109	5
Export revenue (Rs bn)	28.6	75.0	11
Export spares (Rs bn)		9.0	
Export services (Rs bn)	7.1	26.3	16

New Holland	CY16	CY22	
Export tractor volumes (units)	9,563	16,622	10
Export revenue (Rs bn)	11.1	20.3	11

Source: Industry, ACE equity, AR research

Fig 14 - Major John Deere export markets (FY25) – Top 10



Source: AR research

Kubota's global dominance in compact tractors

Strength in compact tractors. Kubota enjoys a strong market share in compact tractors of <50HP globally. India's tractor market is mainly concentrated in <50HP (~90% of the market). We expect Kubota's strong product portfolio in

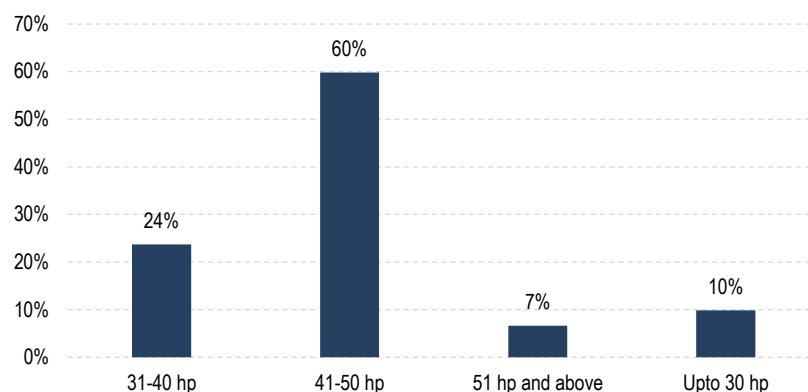
compact tractors to aid market share for Escorts Kubota in India as well. A similar case was seen with Sonalika gaining share in the domestic market.

Fig 15 - Kubota's dominance in compact tractor segment globally

Country	Major tractor segment	Kubota market share (%)
USA	<45 HP	40
Thailand	20-40HP	70
Japan	36-45 HP	No. 1

Source: AR research

Fig 16 – India's tractor market concentrated in <50HP



Source: AR research

Kubota's success story in North America with its compact diesel tractors

As Kubota was approached by the American company, Ford, for the OEM supply of small tractors in 1967, it decided to enter the north American market with its own brand. Demand for petrol engines there was overwhelming, but Kubota completed a multi-cylinder, lightweight, compact engine that overcame problems with diesel engines; so it decided to limit export of these diesel products.

It created a new market for compact tractors using diesel engines. Until then, gasoline-powered equipment had been mainstream but this new development enabled Kubota to acquire a large share of the gardening-equipment market.

Fig 17 – Ultra-compact 4-wheel drive tractor Bulltra B6000 (right) and its vertical 2-cylinder diesel engine (left)



Source: AR research

Valuation. We recommend a Buy with a TP of Rs3,900, 30x Sep'27e core EPS and Rs586/sh cash (0.8x book). The stock trades at 27x/24x FY26e/27e core P/E.

Fig 18 - Key assumptions

Key assumptions (Rs m)	FY24	FY25	FY26e	FY27e	FY28e	CAGR % FY25-28e
Tractor Revenues	65,548	67,578	68,269	74,978	79,833	6
Y/Y change, %		3	1	10	6	
Non-Tractor Revenues	13,426	16,894	18,584	22,301	26,761	17
Y/Y change, %		26	10	20	20	
Construction Equipment Revenues	18,182	17,301	16,816	18,707	20,617	6
Y/Y change, %		(5)	(3)	11	10	
Unallocated	152	96	96	96	96	0
Y/Y change, %		(37)	0	0	0	
Revenue	97,307	101,870	103,766	116,082	127,307	8
Y/Y change, %		5	2	12	10	

Source: Anand Rath Research

Downside risks

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

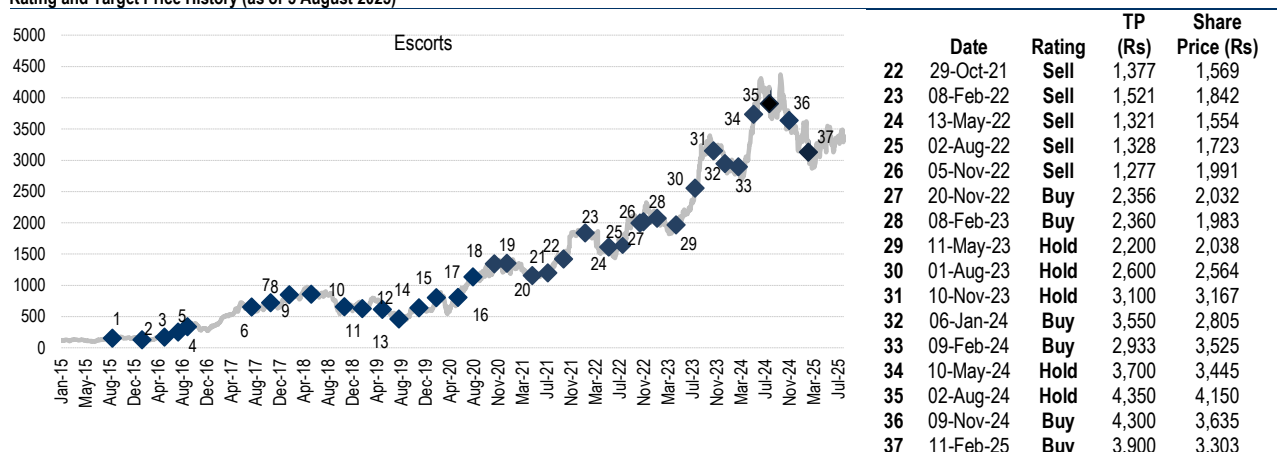
Appendix

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Rating and Target Price History (as of 5 August 2025)



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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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