

SELL

TP: Rs 2,533 | ▼ 23%

ESCORTS KUBOTA

Automobiles

11 February 2025

Weakness persists despite signs of industry revival; SELL

- Q3 tractors volume rose by 25% YoY (combined volume from JV partners) aided by industry growth, realisation fell 13%
- Raw material cost escalation and realisation weakness hit margins, gross and EBITDA margins fell YoY
- We maintain our FY25/FY26/FY27 EPS estimates, retain 20x P/E multiple and revise TP to Rs 2,533 (from Rs 2,426). Maintain SELL

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Volume weakness persists: ESCORTS amalgamated Escorts Kubota India and Kubota Agricultural Machinery India with Escorts Kubota. The performance has been adjusted since FY24 to reflect the performance of the amalgamated entity. The Q3FY25 revenue from operations grew 8.5%/29.6% YoY/QoQ to Rs 29.35bn as tractor volumes grew by ~4.5%/25.2% YoY/QoQ to ~31.5k units (14% QoQ). Net realisation/vehicle in the segment was down YoY 13% (+3% QoQ) to Rs 0.9mn.

Only AM delivered growth, CE declined: Revenue from the Agriculture Machinery (AM) segment grew 9.4%/28.3% YoY/QoQ in Q3FY25. The Railway Equipment business revenue for Q3FY25 was at Rs 2bn, declining 2.2%/5.1% YoY/QoQ, while Construction Equipment (CE) volumes fell 0.9% YoY(+42.7% QoQ). Segmental EBIT margin was 10.4%/11% for the AM/CE segments, all declining YoY. Agri to Construction revenue ratio was 82:18. Railways business has been hived off.

Margin contracts on elevated cost structure: Raw material cost (inventory adjusted) increased by 9%/36% YoY/QoQ at Rs 21.5bn (increased as % of sales too). Gross margin was weak at ~27% versus 27.6% YoY (30.4% QoQ), due to the elevated cost of the JV companies. Margins were affected due to production swing, commodity inflation of 0.5% and discounts which were slightly higher on account of the festive quarter. EBITDA margin was at 11.4% in Q3FY25, declining YoY from 11.9% (improved QoQ).

Amalgamation approved by NCLT: The amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has been approved by the National Company Law Tribunal (NCLT) and was filed with the ROC on 1 September 2024.

Maintain SELL: ESCORTS's tractor realisation weakened ~13% YoY due to intense competition leading to higher discounts and unfavourable regional mix. ESCORTS has lost domestic market share. The amalgamation impact on margins due to higher cost structure will stay. We maintain our FY25E/FY26E/FY27E EPS, retain our SELL rating and raise our TP to Rs 2,533 (from Rs 2,426). Our target P/E stays at 20x – a marginal premium to the stock's LT mean.

Key changes

Target	Rating
▲	◀▶

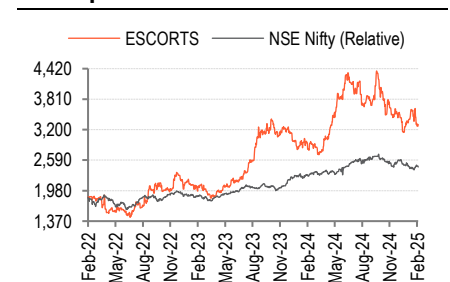
Ticker/Price	ESCORTS IN/Rs 3,303
Market cap	US\$ 5.0bn
Free float	63%
3M ADV	US\$ 7.6mn
52wk high/low	Rs 4,420/Rs 2,648
Promoter/FPI/DII	37%/22%/8%

Source: NSE | Price as of 10 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	88,496	1,07,756	1,14,140
EBITDA (Rs mn)	11,667	12,107	13,632
Adj. net profit (Rs mn)	10,491	10,681	11,965
Adj. EPS (Rs)	94.9	96.7	108.3
Consensus EPS (Rs)	94.9	108.9	125.0
Adj. ROAE (%)	11.4	10.3	10.4
Adj. P/E (x)	34.8	34.2	30.5
EV/EBITDA (x)	37.5	35.0	30.3
Adj. EPS growth (%)	81.6	1.8	12.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Domestic volumes	<p>Management is looking at 14-15% growth in Q4FY25 and expects a healthy Q1FY26.</p> <p>ESCORTS overall tractor volumes grew by 4.5% YoY against industry growth of 12.7% as the major markets of ESCORTS (North and Central) grew by only 2.5%.</p> <p>Management expects domestic tractor growth for FY25 to be at 6-7%</p>	<p>ESCORTS indicated growth for FY25 will be at a mid-single digit. H1 volumes were flat and the company expects H2 to grow at double digits with growth momentum starting from Oct'24. Growth in H2FY25 is fuelled by healthy rainfall, high reservoir levels, increase in MSP for rabi crops.</p>	<p>ESCORTS is losing market share consistently compared to its larger peers (which have grown in volume) and will continue to face challenges. The company needs to step to make its presence feel in the key growth region</p>
Exports	<p>The tractor industry exported 22.1k tractors in Q3FY25 as against 21.3k/24.5k in Q3FY24/Q2FY25.</p> <p>ESCORTS' exports volume was 0.97k tractors in Q3FY25 against 1.3k/1.2k tractors in Q3FY24/Q2FY25.</p> <p>Europe continues to be a major export market.</p>	<p>The tractor industry exported 24.5k tractors in Q2FY25 as against 25.9k in Q2FY24. ESCORTS exports volume was at 1.23k tractors in Q2FY25 against 1.5k tractors in Q2FY24.</p> <p>Currently most of its exports are to Europe, which is facing recessionary pressures, with a revival expected from Q4FY25. ESCORTS will prioritise Mexican and Southeast Asian markets for which products are being developed. Further exports to the USA will depend on the commissioning of its greenfield project.</p>	<p>The formal amalgamation with Kubota will give ESCORTS a better foothold in export markets. The YoY fall in volume against the industry direction adds concern.</p>
Margins	<p>EBITDA margin was at 11.4% in Q3FY25, improving QoQ from 10.3%. However, it declined YoY from 12%.</p> <p>Margins affected due to production swing, commodity inflation of 0.5% and discounts which were slightly higher on account of festive quarter.</p>	<p>EBITDA margin was at 10.8% flat YoY, but fell QoQ. Q2FY25 represents post-merger impact due to which there is a 2% drag on the margins for 2QFY25.</p> <p>The bottomline was also impacted due to a one-time impact (Rs 0.91bn) resulting from change in long-term capital gain provision and impact of brought forward losses. Going forward there will not be any additional tax benefit. Employee expenses have increased due to increase in contractual labour for inventory buildup to cater to the festive demand.</p>	<p>Margins will be impacted due to the elevated cost structure of the JV companies amalgamated with Escorts Kubota in the near term. The hiving off of the Railway Equipment business will also impact the performance.</p>
Other segments	<p>Construction equipment volume at 1,989 machines was down 0.9% YoY, however it grew by 42.7% QoQ. ESCORTS expects a temporary impact due to price escalation from the transition to BS-5 standards.</p> <p>The Railway Equipment Division (RED) business revenue for Q3FY25 was at Rs 2bn, a decline of 2.2%/5.1% YoY/QoQ.</p> <p>Board approved sale/transfer of RED division on slump sale basis on 23 October 2024. RED business profitability is shown separately as discontinued operations.</p>	<p>Construction equipment volume at 1,394 machines was down 18.4% YoY, however marginally up QoQ by 0.9%. ESCORTS expects H2FY25 to turn around fuelled by the ESI Norms starting in Jan'25.</p> <p>The Railway Equipment business sold at 12x of profit for a consideration of Rs 16bn. ESCORTS had approached 34 bidders including overseas purchasers.</p>	<p>The performance of segments other than Tractors will improve. CE segment performance is likely to improve given the government's thrust on infrastructure. However, hiving off the Railway Equipment business at below-par valuations will have an impact in the short term.</p>
Regulations	<p>During Q3FY25, ESCORTS launched a range of five new emission standard compliant products. Products moving from BS3 to BS5 will lead to a cost increase of 10% for the customers,</p>	<p>ESI norms expected to start in Jan'25 will not have a major impact on ESC volume.</p>	<p>ESCORTS has a lower presence in the high-end tractor segment and will see limited pricing impact from new norms.</p>

Parameter	Q3FY25	Q2FY25	Our view
	whereas products moving from BS4 to BS5 will lead to a 5-6% cost increase.		
Capex	Capacity utilisation of Tractors was at 60% and construction equipment at 95%. Greenfield project delay from the Uttar Pradesh Government due to pending land acquisition from farmers.	Volume sales of 125k-130k units and can cater to demand of up to 175k units. However, ESCORTS is setting up a greenfield project and has submitted an expression of interest to the Uttar Pradesh Government for capacity expansion to cater to future demand.	The ongoing capex is likely to be commissioned by FY27/28. Any meaningful reflection on the volume is visible only post the availability of extra capacity.
Merger	Management expects a marginal improvement in margins next year over current year and continues to work on cost reduction measures.	Q2FY25 also includes the merger with Escorts Kubota India and Kubota Agriculture Machinery, due to which there is a 2% drag in the margins for FY25 as these are operating at break-even level.	In the medium-term margins are likely to be under pressure. Clarity, particularly on the exports business, is likely to emerge in the next three to four years following a complete branding revamp.
Other Information	Board approved sale of land at Faridabad for a consideration of Rs 1.10 bn to Sona Comstar. Channel inventory levels now at four weeks worth of dealer stocks.	ESCORTS repaid debt of ~Rs 3.5bn upon the merger. ESCORTS dealers have inventory levels of 35-37 days. Surplus cash management: Rs 0.35bn of debt repaid for JVs, greenfield project outflow of about Rs 45bn over four years, infusion of Rs 7bn in the finance arm. Other general capex and dividend increased to 40% of retained earnings.	Channel inventory now at a reasonable level but discounting structure hits performance.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Consolidated)

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E
Volume	32,556	25,999	25.2	25,995	25.2	32,556
Avg. Realisation per Vehicle	9,05,523	10,49,121	(13.7)	8,76,034	3.4	8,58,513
Net Revenues	29,480	27,276	8.1	22,773	29.5	27,950
Total Income (A)	29,480	27,276	8.1	22,773	29.5	27,950
Operating Expenses						
Raw materials consumed	21,527	19,756	9.0	15,848	35.8	19,699
Employee Expenses	2,032	1,772	14.7	1,902	6.8	2,026
Other Expenses	2,594	2,494	4.0	2,723	(4.7)	2,795
Total Expenditure (B)	26,153	24,022	8.9	20,473	27.7	24,520
EBITDA (A-B)	3,327	3,254	2.2	2,299	44.7	3,430
Other Income	1,099	1,005	9.3	1,161	(5.4)	991
Depreciation	615	566	8.7	611	0.8	711
EBIT	3,811	3,693	3.2	2,850	33.7	3,710
Finance Costs	35	112	(68.3)	98	(63.8)	17
PBT after excep items	4,098	3,861	6.1	2,991	37.0	3,693
Tax expense	892	876	1.8	(252)		942
Reported PAT	3,206	2,985	7.4	3,243	(7.4)	2,751
Adjusted PAT	2,884	2,706	6.6	3,004	(4.0)	2,751
EPS (Rs)	26.1	24.5	6.6	27.2	(4.0)	24.9
Key Ratios (%)			(bps)		(bps)	
Gross Margin	27.0	27.6	(59)	30.4	(343)	26.8
EBITDA Margin	11.3	11.9	(64)	10.1	119	15.5
EBIT Margin	12.9	13.5	(61)	12.5	41	13.1
PBT Margin	12.8	13.1	(32)	12.1	72	12.9
Tax Rate	25.8	26.5	(69)	(10.0)	3587	24.5
Adj PAT Margin	9.8	9.9	(14)	13.2	(341)	9.7

Source: Company, BOBCAPS Research | Note: Includes impact of amalgamation with the JV partners

Valuation methodology

ESCORTS's tractor realisation weakened ~13% YoY due to intense competition leading to higher discounts and unfavourable regional mix. ESCORTS has also lost domestic market share to MM in the quarter. The amalgamation impact on margins due to higher cost structure will stay. The margin impact will be ~1-2% in the medium term. Further, we believe the hiving-off impact of the remunerative Railway Equipment division will impact the FY26/FY27 earnings trajectory. The combined impact is reflected in our earnings revisions for FY25/FY26/FY27. The full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months.

We maintain our FY25E/FY26E/FY27E EPS baking in a Revenue/EBITDA/PAT CAGR of 15%/12%/11% for ESCORTS over FY24-FY27E. We retain our SELL rating and revise our TP to Rs 2,533 (from Rs 2,426). Our target P/E stays at 20x – a marginal premium to the stock's LT mean.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,07,756	1,14,140	1,33,584	1,07,756	1,14,140	1,33,584	0.0	0.0	0.0
EBITDA	12,107	13,632	16,555	12,107	13,632	16,555	0.0	0.0	0.0
Adj PAT	10,681	11,965	14,266	10,681	11,965	14,266	0.0	0.0	0.0
Adj EPS (Rs)	97	108	129	97	108	129	0.0	0.0	0.0

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24A	FY25E	FY26E	FY27E
Volumes (nos)	1,00,075	1,12,627	1,22,764	1,33,813
Blended Realisation (Rs)	6,41,776	6,61,029	6,89,123	7,20,133
EBITDA (Rs mn)	11,667	12,107	13,632	16,555
EBITDA margin (%)	13.3	13.9	13.5	13.5
Adj. PAT (Rs mn)	10,491	10,681	11,965	14,266
EPS (Rs)	94.0	97.0	108.0	129.0

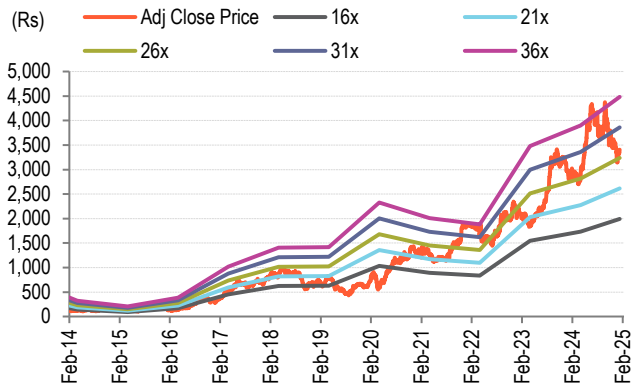
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Escorts Kubota	ESCORTS IN	SELL	2,533	108.3	129.1	11.0	11.7
VST Tillers Tractors	VSTT IN	SELL	3,420	136.1	158.5	12.0	12.6
Mahindra & Mahindra	MM IN	BUY	3,689	127.1	142.5	22.3	20.8

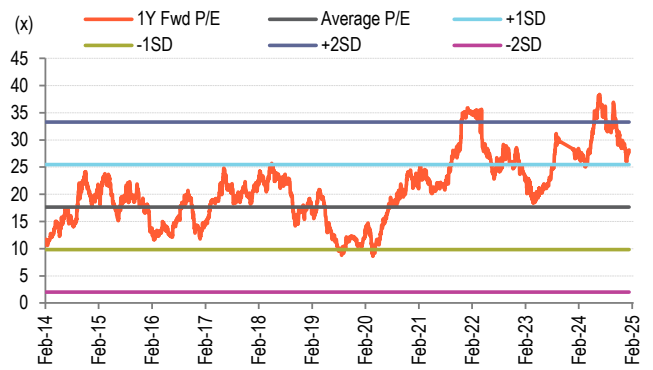
Source: BOBCAPS Research

Fig 6 – P/E band: We value ESCORTS at 20x FY27E P/E based on core business earnings



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – P/E 1Y fwd: The correction in the stock is to align with its earnings and is justified



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected revival in export volumes,
- faster-than-anticipated margin revival owing to earnings-accretive price hikes, and
- quicker easing of commodity prices than anticipated.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	84,287	88,496	1,07,756	1,14,140	1,33,584
EBITDA	7,775	11,667	12,107	13,632	16,555
Depreciation	1,399	1,669	1,799	1,923	2,060
EBIT	9,084	13,984	14,392	15,913	18,836
Net interest inc./(exp.)	(133)	(137)	(150)	(170)	(187)
Other inc./(exp.)	2,809	3,986	4,084	4,204	4,342
Exceptional items	(531)	0	0	0	0
EBT	8,346	14,010	14,242	15,743	18,649
Income taxes	1,979	3,519	3,560	3,778	4,382
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,367	10,491	10,681	11,965	14,266
Adjustments	531	0	0	0	0
Adjusted net profit	6,897	10,491	10,681	11,965	14,266

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	13,427	12,746	12,756	6,919	7,224
Other current liabilities	3,485	5,409	14,323	21,449	25,929
Provisions	1,466	1,599	1,758	1,934	2,128
Debt funds	0	42	45	47	49
Other liabilities	0	0	0	0	0
Equity capital	1,319	1,105	1,105	1,105	1,105
Reserves & surplus	80,509	90,619	1,02,251	1,13,553	1,27,156
Shareholders' fund	81,829	91,724	1,03,356	1,14,658	1,28,261
Total liab. and equities	1,00,206	1,11,520	1,32,239	1,45,007	1,63,592
Cash and cash eq.	4,719	11,790	18,936	20,119	23,717
Accounts receivables	11,797	11,732	13,875	13,603	15,371
Inventories	12,177	12,181	12,990	14,072	16,103
Other current assets	5,291	4,528	4,981	5,479	6,027
Investments	47,667	52,199	62,229	72,229	82,229
Net fixed assets	18,621	18,308	18,609	19,086	19,626
CWIP	694	1,163	1,000	800	900
Intangible assets	734	754	754	754	754
Deferred tax assets, net	(1,492)	(1,135)	(1,135)	(1,135)	(1,135)
Other assets	0	0	0	0	0
Total assets	1,00,206	1,11,520	1,32,239	1,45,007	1,63,592

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	863	10,236	13,925	9,670	12,430
Capital expenditures	(2,260)	(1,846)	(1,937)	(2,200)	(2,700)
Change in investments	692	(4,532)	(10,030)	(10,000)	(10,000)
Other investing cash flows	2,809	3,986	4,084	4,204	4,342
Cash flow from investing	1,240	(2,393)	(7,883)	(7,996)	(8,358)
Equities issued/Others	242	(1,824)	1,610	0	0
Debt raised/repaid	0	42	3	2	2
Interest expenses	(133)	(137)	(150)	(170)	(187)
Dividends paid	(763)	(763)	(663)	(663)	(663)
Other financing cash flows	185	1,637	0	0	0
Cash flow from financing	(469)	(1,046)	800	(831)	(848)
Chg in cash & cash eq.	1,635	6,797	6,842	843	3,223
Closing cash & cash eq.	4,719	11,790	18,936	20,119	23,717

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	52.3	94.9	96.7	108.3	129.1
Adjusted EPS	52.3	94.9	96.7	108.3	129.1
Dividend per share	5.8	6.9	6.0	6.0	6.0
Book value per share	620.5	830.5	935.7	1,038.0	1,161.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.1	4.9	3.9	3.6	3.1
EV/EBITDA	55.0	37.5	35.0	30.3	24.9
Adjusted P/E	63.2	34.8	34.2	30.5	25.6
P/BV	5.3	4.0	3.5	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	82.6	74.9	75.0	76.0	76.5
Interest burden (PBT/EBIT)	91.9	100.2	99.0	98.9	99.0
EBIT margin (EBIT/Revenue)	10.8	15.8	13.4	13.9	14.1
Asset turnover (Rev./Avg TA)	106.8	102.0	110.4	104.7	109.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	8.7	12.1	10.9	11.0	11.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.4	5.0	21.8	5.9	17.0
EBITDA	(18.3)	50.1	3.8	12.6	21.4
Adjusted EPS	(6.4)	81.6	1.8	12.0	19.2
Profitability & Return ratios (%)					
EBITDA margin	9.2	13.2	11.2	11.9	12.4
EBIT margin	10.8	15.8	13.4	13.9	14.1
Adjusted profit margin	8.2	11.9	9.9	10.5	10.7
Adjusted ROAE	8.4	11.4	10.3	10.4	11.1
ROCE	8.8	12.1	11.1	11.1	11.9
Working capital days (days)					
Receivables	43	49	43	44	40
Inventory	45	50	43	43	41
Payables	69	78	65	47	29
Ratios (x)					
Gross asset turnover	0.4	0.4	0.3	0.3	0.3
Current ratio	1.8	2.0	1.8	1.8	1.7
Net interest coverage ratio	(68.5)	(101.9)	(95.9)	(93.6)	(100.7)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

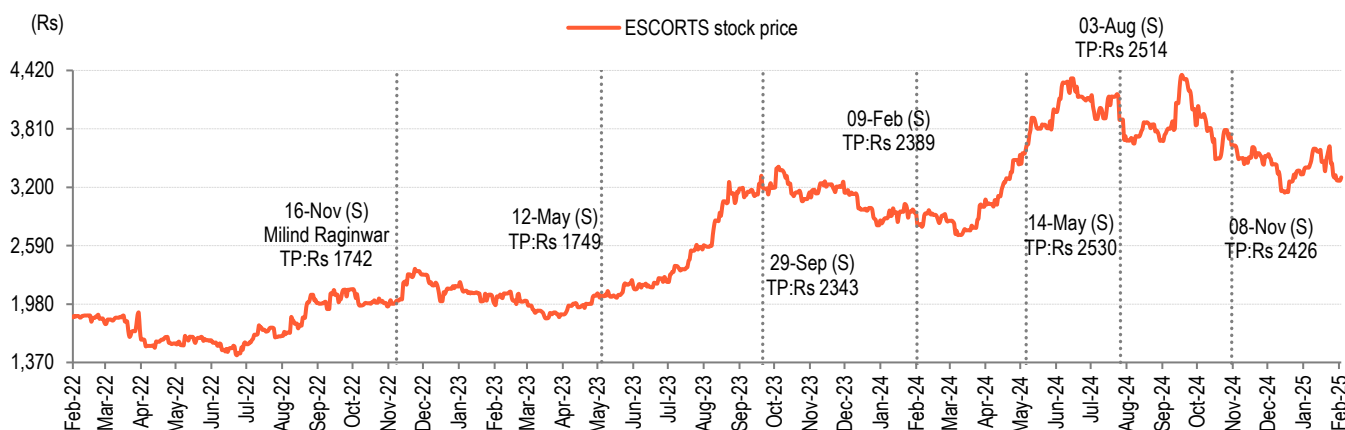
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ESCORTS KUBOTA (ESCORTS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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