

India

REDUCE (no change)

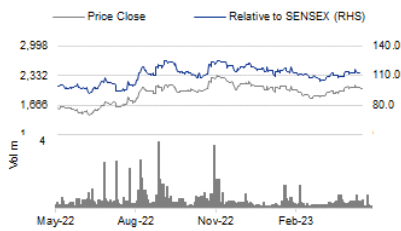
Consensus ratings*: Buy 5 Hold 9 Sell 9

Current price:	Rs2,048
Target price:	Rs1,719
Previous target:	Rs1,796
Up/downside:	-16.1%
InCred Research / Consensus:	-12.7%
Reuters:	ESCO.NS
Bloomberg:	ESCORTS IN
Market cap:	US\$3,265m
	Rs270,162m
Average daily turnover:	US\$8.0m
	Rs662.2m
Current shares o/s:	110.5m
Free float:	39.0%

*Source: Bloomberg

Key changes in this note

- Sales cut by 2-3% for FY24F-25F.
- EBITDA cut by 8-16% for FY24F-25F.
- EPS cut by 6-14% for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.2	1.6	30.1
Relative (%)	1.5	(2.4)	14.1

Major shareholders	% held
Kubota Corporation	44.8
Escorts Welfare Trust	16.3
Nanda Family	11.9

Analyst(s)



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Escorts Kubota Ltd

Industry faces challenges on demand front

- Normalized 4Q PAT rose 13% qoq to Rs2bn, above our estimate (6%) and Bloomberg consensus estimate (23%), driven by qoq lower raw material cost.
- Mid-single digit tractor industry volume outlook and El Nino risk on rainfall delaying EBITDA margin recovery led to our FY24F-25F EPS cut of 6-14%.
- Maintain REDUCE rating on the stock for its rich P/E valuation overlooking the industry's demand challenges for the next two years.

4Q profit recovery driven by lower raw material cost

4QFY23 EBITDA of Escorts Kubota rose by 24% qoq to Rs2.36bn, 6% above our estimate and 22% above Bloomberg consensus estimate. EBITDA margin rose by +240bp qoq to 10.8%, driven by a 300bp qoq drop in raw material cost. The tractor segment's EBIT margin rose by 160bp qoq to 9.9%, while the construction equipment segment's margin spiked to 8.1%, +585bp qoq. Normalized PAT rose by 13% qoq to R.2.1bn, 6% above our estimate. Dividend per share or DPS was at Rs7, marginally lower than last year.

Management conference-call highlights

Management gave guidance of domestic tractor industry volume growing in low mid-single digit in FY24F, while it should remain flat in 1QFY24F. Management feels that monsoon rains should have less of a variable impact on its tractor sales as irrigation systems are getting better in the northern and western India regions, which are its strong markets. However, the tractor segment's EBIT margin recovery to normal level will be back-ended in FY24F. Management gave strong order book guidance of Rs10bn in the railway segment, to be executed in FY24F.

FY24F-25F EBITDA cut by 8-16%

Short-term demand challenges from El Nino risk to rainfall distribution and tractor demand in FY24F and emission upgrade challenge (TREM-5) in 2HFY25F led to our volume cut of 3-6% for FY24F-25F. Gradual EBITDA margin recovery guidance by management led to our EBITDA cut of 8% for FY24F and emission upgrade cost challenge in FY25F led to a 16% cut. Higher other income from surplus funds limits EPS cut to 6-14% for FY24F-25F.

Maintain REDUCE rating because of industry growth challenges

Tractor industry's volume growth challenges from a high base, El Nino effect and emission upgrade in FY24F-25F are areas of concern. In this environment, management's eagerness to improve the company's market share will face challenges. With forward P/E and P/BV valuations near +1SD above five-year mean, we feel the export benefits from Kubota are already factored in. We maintain REDUCE rating on the stock with a marginally lower P/E-based lower target price of Rs1,719 (from Rs1,796 earlier). Key upside risk is better-than-expected synergy benefits from Kubota India's merger with the company.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	71,527	83,450	99,039	118,254	137,947
Operating EBITDA (Rsm)	9,513	7,805	10,909	12,581	16,637
Net Profit (Rsm)	7,656	6,070	9,589	10,968	14,211
Core EPS (Rs)	69.3	61.6	86.8	99.3	128.6
Core EPS Growth	(12.4%)	(10.6%)	41.0%	14.4%	29.6%
FD Core P/E (x)	29.55	37.28	23.60	20.63	15.92
DPS (Rs)	7.0	7.0	11.0	13.0	16.0
Dividend Yield	0.41%	0.41%	0.64%	0.76%	0.93%
EV/EBITDA (x)	23.51	28.39	20.23	17.48	13.11
P/FCFE (x)	(23.50)	74.83	97.56	89.76	58.47
Net Gearing	(3.3%)	(5.6%)	(6.0%)	(6.2%)	(7.1%)
P/BV (x)	2.87	2.68	2.45	2.22	1.99
ROE	11.5%	8.3%	10.8%	11.3%	13.2%
% Change In Core EPS Estimates			(6.10%)	(14.05%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Industry faces challenges on demand front

Management conference-call highlights ►

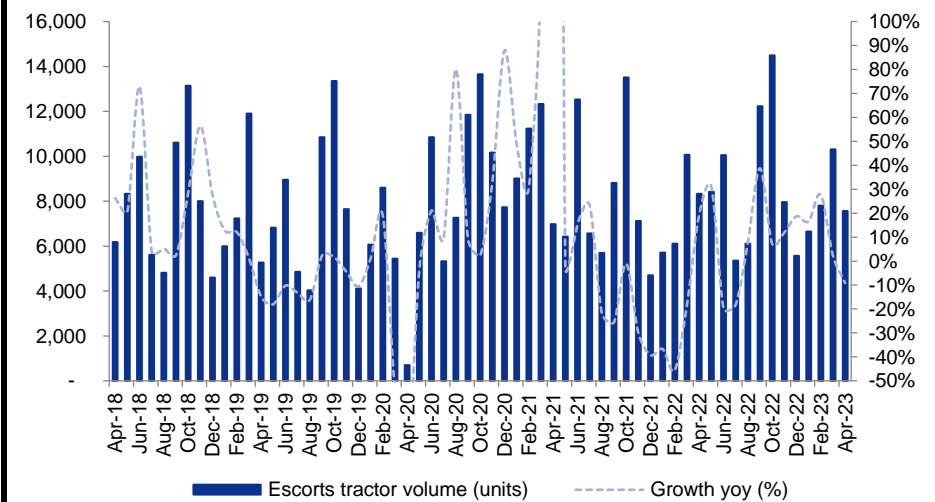
- Management expects the company to achieve normalized EBITDA margin of 14-15% by the end of FY24F.
- Tractor EBIT margin was impacted by steep inflation, adverse product mix and price rationalization in certain geographies.
- Domestic tractor industry's volume to grow in mid-single digit in FY24F, while it should remain flat in 1QFY24F as the festive season was in Mar 2023 vs. in Apr last year.
- Construction equipment demand to sustain on the back of the government's thrust on the infrastructure segment. Margins may not sustain at 4QFY23 levels but should be better than last year on softening raw material prices and a better product mix. Management indicated that product price hikes have been absorbed by the market and that FY24F should show a growth of 10-12%.
- Railway equipment order book at Rs10.5bn, and most of it should get executed in FY24. More products are in field trials, which should also bring in additional revenue in FY24F. 65% of the company's total sales comprise new products. The focus remains on product diversification and exports, and management expects the revenue to grow in double digits in FY24F.
- Tractor inventory stands reduced to four weeks of its sales volume.
- Non-agri/haulage tractors, which account for ~30% of the industry, could grow well in FY24F, considering the upcoming elections, government's push for infrastructure development, increased minimum support prices or MSPs for food grains and good water levels at reservoirs.
- Management mentioned that monsoons should have less of a variable impact as irrigation systems are getting better in the northern and western regions, which are the company's stronger markets.
- Management stated that the timeline for the merger of Kubota India with the company was pushed further by three months to Dec 2022-Jan 2023. The matter is pending with stock exchanges who have referred it to the Securities and Exchange Board of India or SEBI. The company has resolved queries initiated by SEBI. Post SEBI approval, the matter will move to the National Company Law Tribunal or NCLT.

Figure 1: Results comparison

FYE Mar (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg	Comments for the quarter
Revenue	21,830	18,696	16.8	22,637	(3.6)	84,365	71,527	17.9	In line with our estimates.
Raw Materials	15,615	13,107	19.1	16,871	(7.4)	61,502	49,328	24.7	
RM as % of revenue	71.5	70.1	142	74.5	(299.8)	72.9	69.0	393.6	77bp below our estimates.
EBITDA	2,358	2,515	(6.2)	1,903	23.9	7,841	7,220	8.6	6% above our estimates led by higher gross margin.
EBITDA margin (%)	10.8	13.5	(264.8)	8.4	239.5	9.3	13.6	(431.4)	71bp above our estimates.
Deprn & amort.	380	330	15.3	376	1.2	1,508	1,298	16.3	5% lower than our estimates.
EBIT	1,978	2,185	(9.5)	1,528	29.5	6,333	6,252	1.3	
Interest expense	28	29	(4.8)	26	4.2	105	127	(17.3)	
Other income	763	538	41.7	913	(16.4)	2,769	2,130	30.0	2% higher than our estimates.
Pretax profit	2,714	2,695	0.7	2,414	12.4	8,997	7,524	19.6	7% above our estimates.
Tax	615	673	(8.7)	550	11.8	1,979	2,563	(22.8)	
Tax rate (%)	22.7	25.0	(232)	22.8	(13)	22.0	25.1	(311.4)	
Normalised Net profit	2,099	2,022	3.8	1,864	12.6	7,017	5,634	24.5	6% above our estimates.
Exceptionals	(244)	-		-	nm	(728)	-	nm	
Reported net profit	1,855	2,022	(8.3)	1,864	(0.5)	6,289	5,634	11.6	
Normalised EPS (Rs)	19.0	20.0	(5.0)	16.9	12.6	63.5	63.4	0.2	
Tractor Volumes (nos)	24,765	21,895	13.1	28,025	(11.6)	1,04,880	94,228	11.3	
Tractor realisation (Rs)	6,28,912	6,26,056	0.5	6,09,452	3.2	6,08,583	5,85,919	3.9	

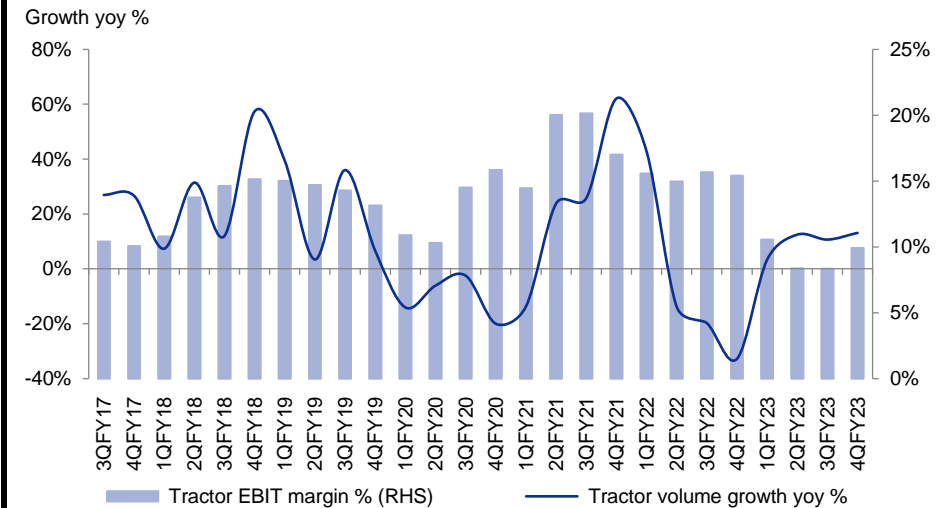
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tractor sales volume



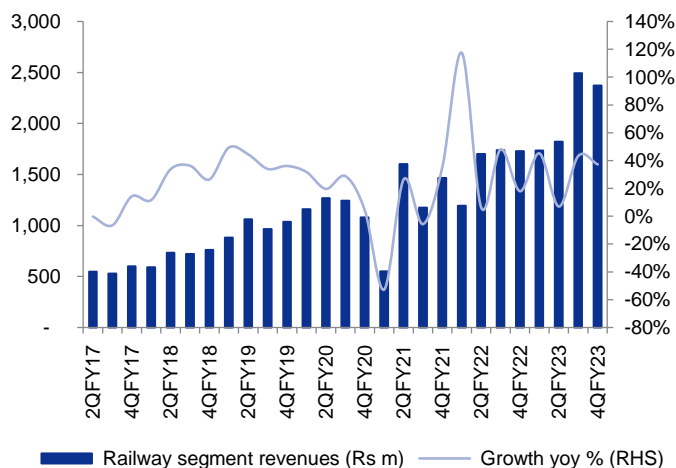
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tractor division's EBIT margin



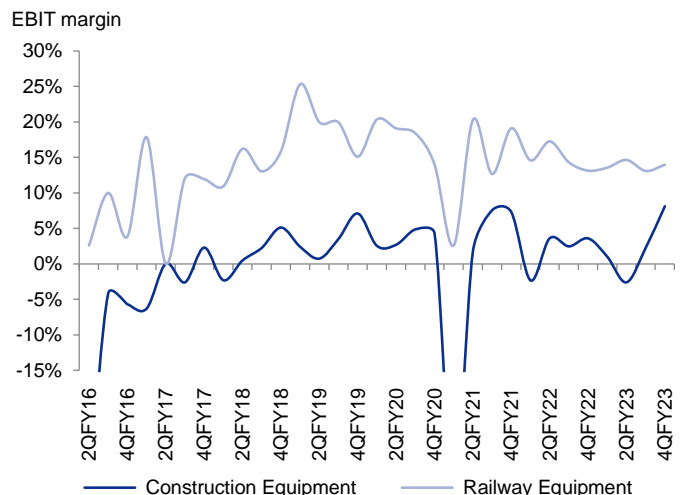
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Strong order book in the railway segment leaves its fate now to execution



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Construction equipment and railway equipment segments' margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Escorts Kubota's construction equipment segment's margins barely back in the positive territory

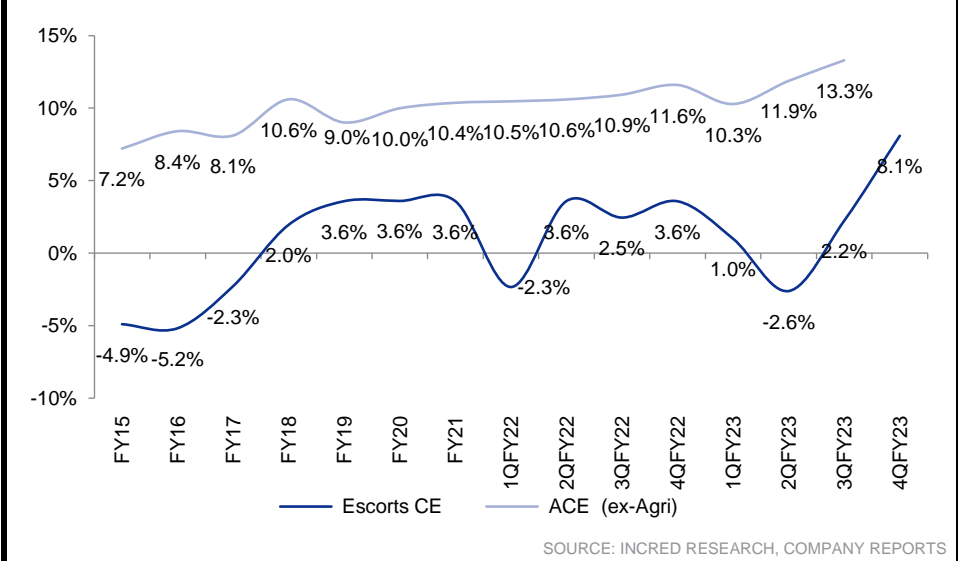


Figure 7: Standalone EBITDA margin must overcome many headwinds before it stabilizes

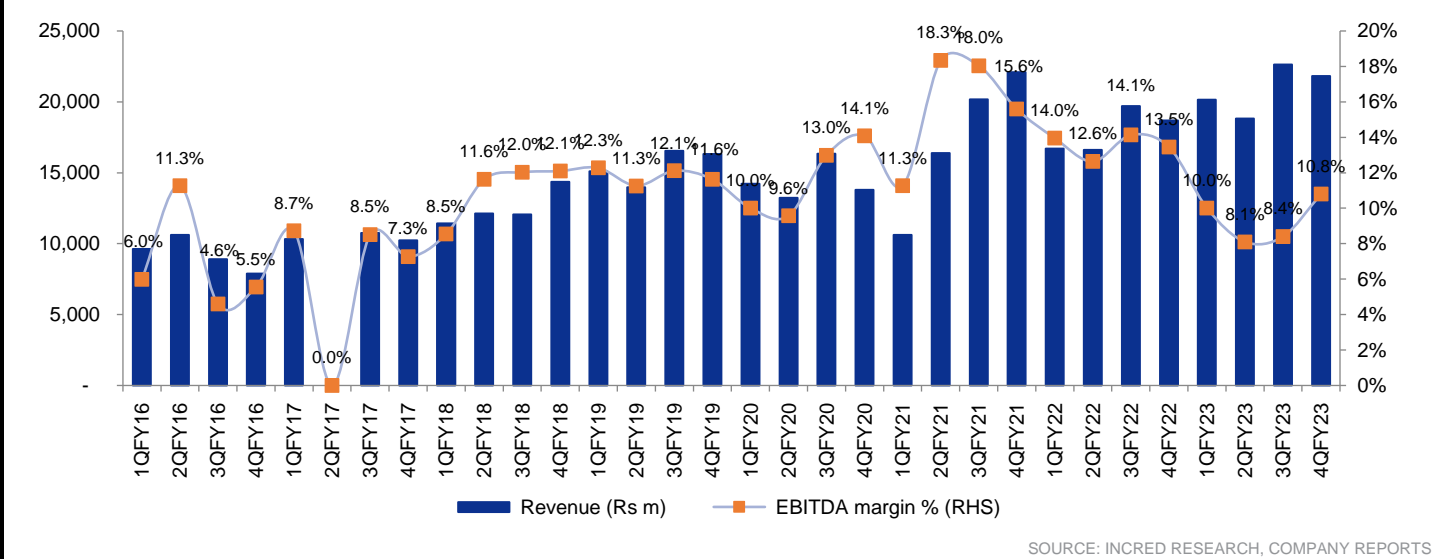


Figure 8: Railway equipment segment's orders grow further

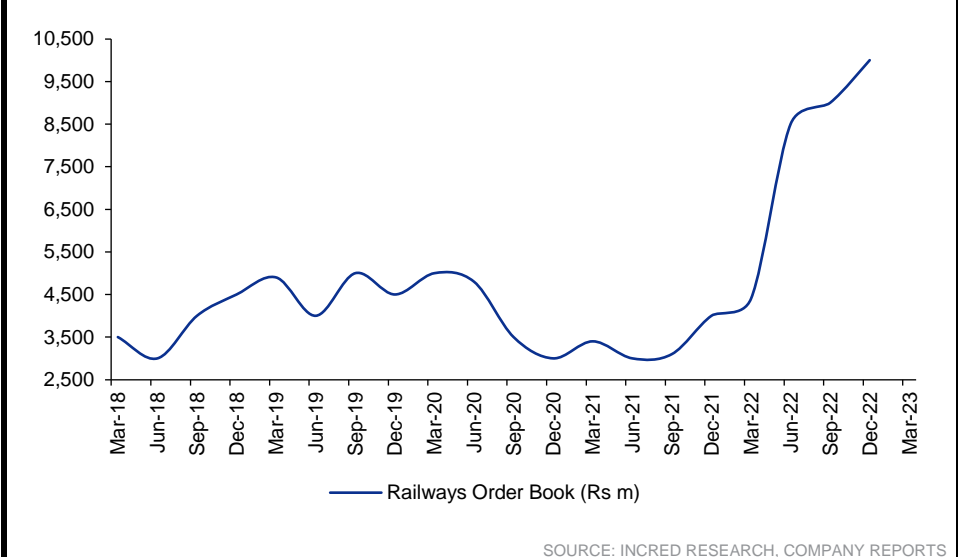
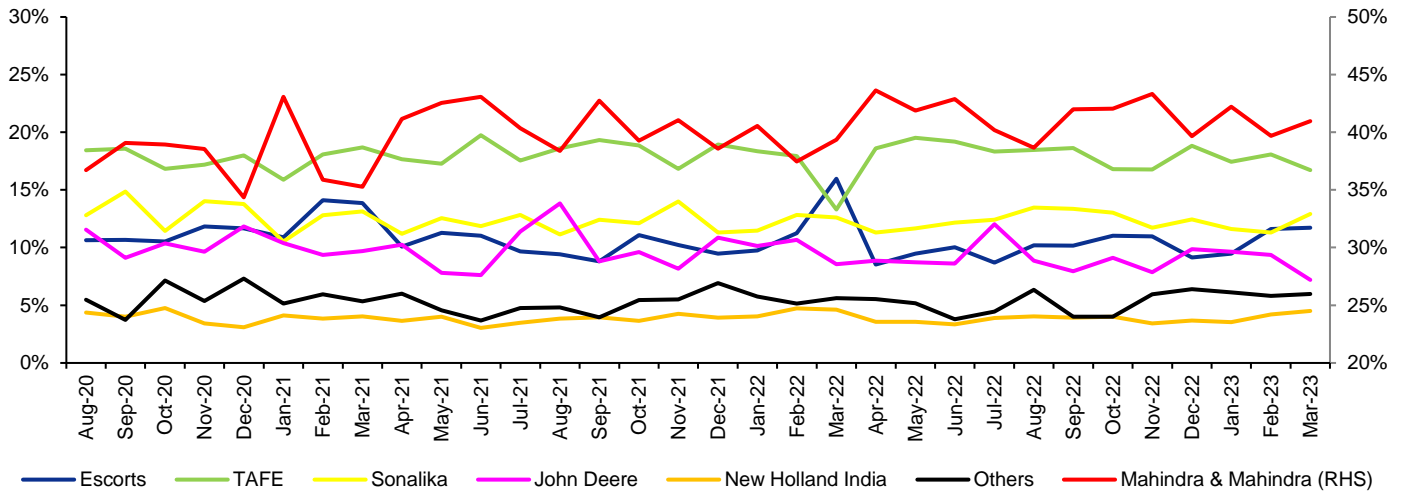


Figure 9: Tractor makers' domestic market share trend



SOURCE: TRACTOR AND MECHANIZATION ASSOCIATION (TMA), INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates

Rs m	FY24F		FY25F	
	Old	New	Old	New
Tractor Volume (nos)	1,15,089	1,11,162	1,27,165	1,20,047
% change		-3.4%		-5.6%
Net Sales	1,01,698	99,039	1,20,818	1,18,254
% change		-2.6%		-2.1%
EBITDA	11,803	10,909	15,034	12,581
% change		-7.6%		-16.3%
EBITDA margin	11.6%	11.0%	12.4%	10.6%
bp change		(51)		(145)
PAT	10,212	9,589	12,760	10,968
% change		-6.1%		-14.0%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Key assumptions

Volume Assumptions	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Tractor volume (units)	1,06,741	94,228	1,03,290	1,11,162	1,20,047	1,32,770
Growth yoy %	24.1%	-11.7%	9.6%	7.6%	8.0%	10.6%
Construction Equipment volume (units)	3,913	4,117	4,620	6,006	7,508	8,634
Growth yoy %	-3.2%	5.2%	12.2%	30.0%	25.0%	15.0%
Total Revenue (Rs m)	69,293	71,527	83,450	99,039	1,18,254	1,37,947
Growth yoy %	20.3%	3.2%	16.7%	18.7%	19.4%	16.7%
EBITDA margin %	16.3%	13.6%	9.4%	11.0%	10.6%	12.1%
Segment-wise Assumptions						
Tractor Revenue (Rs m)	56,673	55,210	63,161	70,700	81,588	93,784
EBIT margin %	18.2%	15.5%	9.3%	11.1%	10.3%	12.1%
Construction Equipment Revenue (Rs m)	7,761	9,853	11,790	16,553	21,933	26,484
EBIT margin %	3.6%	2.4%	2.9%	4.0%	4.5%	5.0%
Railway Equipment Revenue (Rs m)	4,790	6,362	8,419	11,787	14,733	17,680
EBIT margin %	16.0%	14.8%	13.8%	16.0%	16.5%	17.0%

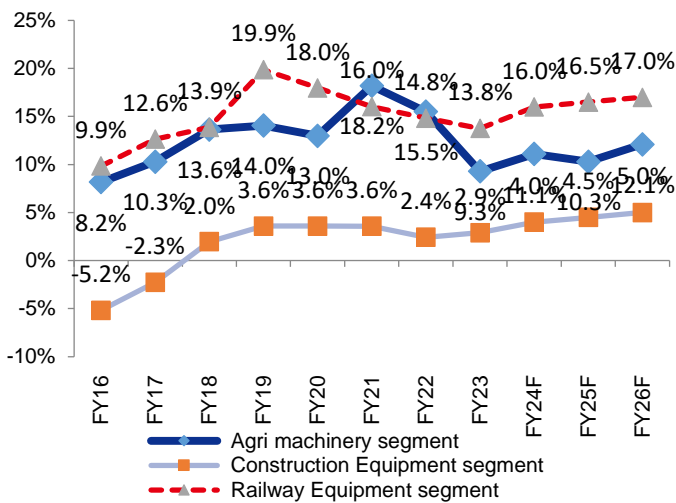
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Tractor industry's wholesale vs. retail sales trend



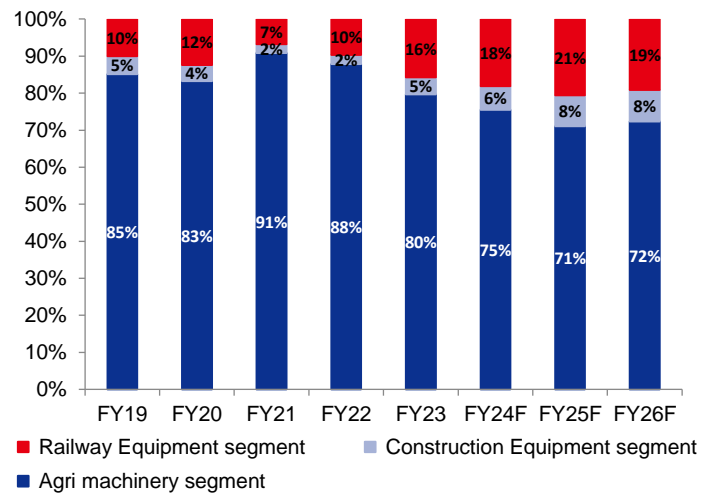
SOURCE: TRACTOR MANUFACTURER ASSOCIATION, VAHAN, INCRED RESEARCH

Figure 13: EBIT margin trend by segment



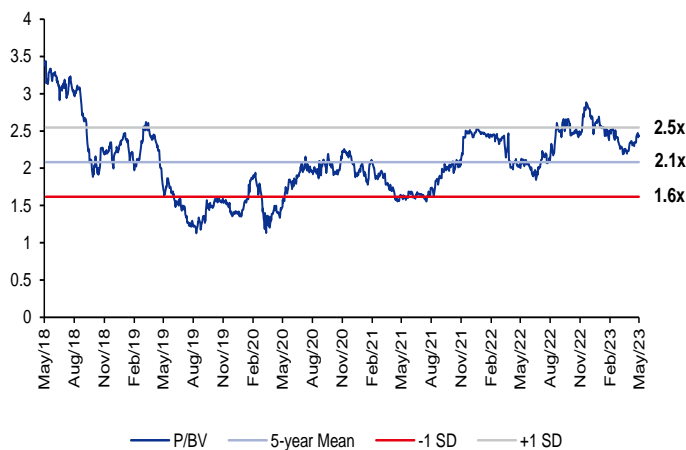
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Railway & construction equipment segments' contribution to improve



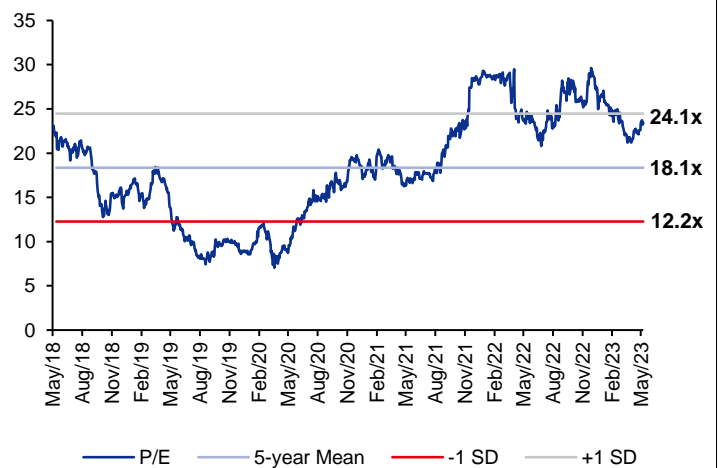
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: One-year forward P/BV



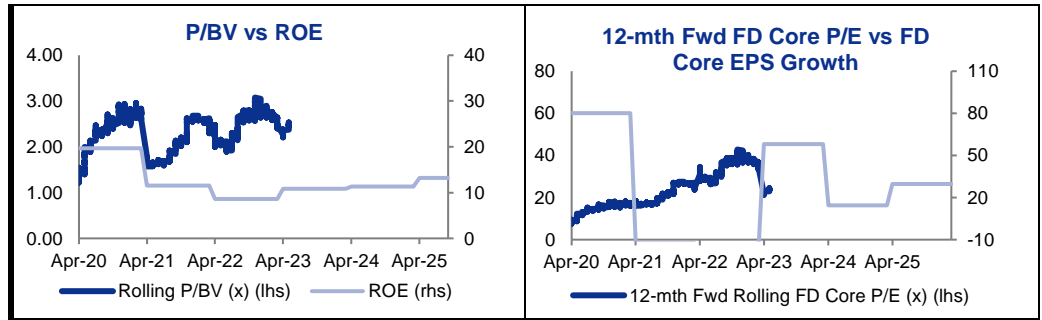
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: One-year forward P/E



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	71,527	83,450	99,039	118,254	137,947
Gross Profit	22,199	22,781	28,226	32,756	40,005
Operating EBITDA	9,513	7,805	10,909	12,581	16,637
Depreciation And Amortisation	(1,298)	(1,484)	(1,602)	(1,810)	(2,001)
Operating EBIT	8,216	6,321	9,307	10,772	14,636
Financial Income/(Expense)	(127)	(103)	(100)	(75)	(50)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,130	2,806	3,087	3,364	3,634
Profit Before Tax (pre-EI)	10,219	9,024	12,294	14,061	18,220
Exceptional Items		(972)			
Pre-tax Profit	10,219	8,052	12,294	14,061	18,220
Taxation	(2,563)	(1,982)	(2,705)	(3,093)	(4,008)
Exceptional Income - post-tax					
Profit After Tax	7,656	6,070	9,589	10,968	14,211
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,656	6,070	9,589	10,968	14,211
Recurring Net Profit	7,656	6,802	9,589	10,968	14,211
Fully Diluted Recurring Net Profit	7,656	6,802	9,589	10,968	14,211

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,513	7,805	10,909	12,581	16,637
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,678)	(3,803)	1,026	(57)	(593)
(Incr)/Decr in Total Provisions	(620)	(392)	596	350	300
Other Non-Cash (Income)/Expense					
Other Operating Cashflow		(972)			
Net Interest (Paid)/Received	2,003	2,703	2,987	3,289	3,584
Tax Paid	(2,420)	(1,982)	(2,705)	(3,093)	(4,008)
Cashflow From Operations	2,799	3,360	12,813	13,071	15,920
Capex	(2,023)	(2,304)	(4,955)	(5,000)	(3,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(10,404)	1,968	(5,540)	(5,550)	(8,550)
Cash Flow From Investing	(12,427)	(336)	(10,494)	(10,550)	(12,050)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	18,162				
Shares Repurchased					
Dividends Paid	(924)	(924)	(1,451)	(1,715)	(2,111)
Preferred Dividends					
Other Financing Cashflow		(972)			
Cash Flow From Financing	17,239	(1,895)	(1,451)	(1,715)	(2,111)
Total Cash Generated	7,611	1,128	868	806	1,759
Free Cashflow To Equity	(9,628)	3,024	2,319	2,521	3,870
Free Cashflow To Firm	(9,501)	3,127	2,419	2,596	3,920

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,585	4,685	5,553	6,358	8,117
Total Debtors	8,276	12,076	13,024	14,579	16,629
Inventories	8,036	11,590	12,753	14,579	16,251
Total Other Current Assets	4,287	4,405	4,745	5,095	5,445
Total Current Assets	23,183	32,756	36,074	40,611	46,442
Fixed Assets	19,200	20,725	23,373	26,563	28,062
Total Investments	51,335	50,306	55,806	61,306	69,806
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	70,534	71,030	79,179	87,869	97,868
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	8,777	12,329	15,466	18,791	21,920
Other Current Liabilities	4,388	4,300	4,800	5,300	5,800
Total Current Liabilities	13,165	16,628	20,266	24,091	27,720
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	1,771	2,105	2,501	2,651	2,751
Total Liabilities	14,936	18,733	22,767	26,742	30,471
Shareholders Equity	78,782	84,348	92,486	101,738	113,838
Minority Interests					
Total Equity	78,782	84,348	92,486	101,738	113,838

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	3.2%	16.7%	18.7%	19.4%	16.7%
Operating EBITDA Growth	(15.8%)	(17.6%)	39.8%	15.3%	32.2%
Operating EBITDA Margin	13.3%	9.4%	11.0%	10.6%	12.1%
Net Cash Per Share (Rs)	23.39	42.39	50.25	57.54	73.45
BVPS (Rs)	712.96	763.33	836.98	920.71	1,030.21
Gross Interest Cover	64.69	61.37	93.07	143.62	292.72
Effective Tax Rate	25.1%	24.6%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	12.1%	13.1%	15.1%	15.6%	14.9%
Accounts Receivables Days	38.93	44.51	46.25	42.60	41.29
Inventory Days	54.68	59.04	62.74	58.34	57.45
Accounts Payables Days	76.39	63.49	71.63	73.12	75.86
ROIC (%)	31.7%	18.5%	22.6%	25.0%	31.1%
ROCE (%)	12.3%	7.7%	10.4%	11.0%	13.5%
Return On Average Assets	9.4%	7.2%	8.8%	9.0%	10.4%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	10.4%	4.4%	4.0%	6.9%	3.9%
Unit sales grth (% , main prod./serv.)	(11.7%)	9.6%	7.6%	8.0%	10.6%
ASP (% chg, 2ndary prod./serv.)	20.7%	6.6%	8.0%	6.0%	5.0%
Unit sales grth (% ,2ndary prod/serv)	5.2%	12.2%	30.0%	25.0%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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