

India

November 04, 2023 - 10:34 AM

**REDUCE** (no change)

Consensus ratings*:	Buy 6	Hold 7	Sell 10
Current price:	Rs3,076		
Target price:	Rs2,019		
Previous target:	Rs2,019		
Up/downside:	-34.4%		
InCred Research / Consensus:	-25.0%		
Reuters:	ESCO.NS		
Bloomberg:	ESCORTS IN		
Market cap:	US\$4,082m		
	Rs339,942m		
Average daily turnover:	US\$13.1m		
	Rs1093.6m		
Current shares o/s:	111.8m		
Free float:	39.0%		

\*Source: Bloomberg

**Key financial forecast**

	Mar-24F	Mar-25F	Mar-26F
Net Profit (Rsm)	11,214	11,785	14,003
Core EPS (Rs)	100.30	105.41	125.25
Core EPS Growth	64.9%	5.1%	18.8%
FD Core P/E	30.67	29.19	24.56
Recurring ROE	12.6%	11.9%	12.7%
P/BV (x)	3.66	3.31	2.96
DPS (Rs)	13.00	15.00	17.00
Dividend Yield	0.42%	0.49%	0.55%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(3.7)	19.4	54.6
Relative (%)	(1.3)	22.0	46.4

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

## Caught in the midst of tractor industry blues

- 2QFY24 EBITDA rose 72% yoy, in line with our estimate. 1HFY24 EPS accounted for 46% of our FY23F estimate.
- Management guidance on 2H tractor industry growth looks optimistic to us, considering the NPA stress in select states & FY25F emission upgrade costs.
- Retain REDUCE rating as the tractor downcycle risk is on the rise while the sharp stock rally in the last three months makes P/E valuation rich at +2SD.

### Financial highlights

- Net sales in 2QFY24 stood at Rs.20.5bn, +9% yoy and -12% qoq, 5.7% below InCred estimate of Rs21.7bn and in line with Bloomberg consensus estimate of Rs.20.84bn. Tractor average selling price or ASP up by 3.2% yoy led by a price hike in 2022 of 1.7%.
- Railway segment's revenue grew by 29% yoy to Rs2.3bn led by fast execution of orders, with the order book at Rs8.7bn. Construction equipment segment's revenue grew 72% yoy and 16% qoq to Rs4.1bn on the back of volume growth of 72% yoy led by the government's thrust on infrastructure spending while ASP remained flat.
- EBITDA stood at Rs.2.6bn, +72% yoy, in line with InCred estimate of Rs2.58bn and Bloomberg consensus estimate of Rs2.69bn. The EBITDA margin was at 12.9%, +476bp yoy above InCred estimate of 11.9%, largely led by softening raw material prices.
- Other income was at Rs.950m, +23% yoy and flat qoq, 36% above InCred estimate.
- Normalized PAT stood at Rs2.35bn, +46% yoy and -17% qoq, 11% above InCred estimate of Rs2.13bn and 3% above Bloomberg consensus estimate of Rs2.29bn.

### Earnings call highlights

- Outlook: The tractor industry is likely to grow by 2% in 3QFY24F led by Diwali/Dhanteras and the company is confident of outgrowing the industry by 2-3%. 4QFY24F will see the growth in single digit due to a high base last year. In the ongoing festive season, the southern and eastern regions are seeing a decline in volume while the central and northern regions are witnessing growth. State-wise, Maharashtra remains weak and Gujarat is growing, aided by government subsidy.
- The tractor industry's exports were down by 29% yoy vs. Escort Kubota's export decline of 35% yoy due to recession fears in Europe and the delay in production, In FY24F, management expects the export volume to fall further by 10-15% yoy amid the assembly/general elections in India and sees a gradual pick-up in FY26F. The company plans to enter the US market through new products suitable to that geography. Automobile component exports to commence in FY25F.

**Figure 1: Results comparison**

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy %chg	1QFY24	qoq % chg	Comments for the quarter
Revenue	20,462	18,835	8.6	23,277	(12.1)	5.7% below our estimate.
Raw material costs	13,846	13,638	1.5	16,252	(14.8)	
RM as % of revenue	67.7	72.4	(474)	69.8	(215.1)	263bp below our estimate.
EBITDA	2,633	1,527	72.4	3,269	(19.5)	In line with our estimate.
EBITDA margin (%)	12.9	8.1	476.1	14.0	(117.9)	97bp above our estimate.
Depreciation & amortization	407	365	11.5	402	1.3	
EBIT	2,226	1,162	91.6	2,868	(22.4)	
Interest expenses	24	23	3.1	27	(11.7)	
Other income	950	776	22.5	945	0.5	36% above our estimate.
Pretax profit	3,152	1,915	64.6	3,786	(16.7)	11% above our estimate.
Tax	802	310	158.4	958	(16.3)	
Tax rate (%)	25.4	16.2	924	25.3	15	
<b>Normalized Net profit</b>	<b>2,350</b>	<b>1,604</b>	<b>46.5</b>	<b>2,828</b>	<b>(16.9)</b>	11% above our estimate.
Exceptional items	-	(728)	-	-	nm	
<b>Reported net profit</b>	<b>2,350</b>	<b>877</b>	<b>168.1</b>	<b>2,828</b>	<b>(16.9)</b>	
Normalized EPS (Rs)	21.0	17.8	18.4	25.3	(16.9)	
Tractor volume (nos.)	22,019	23,703	(7.1)	26,582	(17.2)	
Tractor realization (Rs)	633,194	613,787	3.2	702,291	(9.8)	5% below our estimate.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tractor division's EBIT margin flat on qoq basis

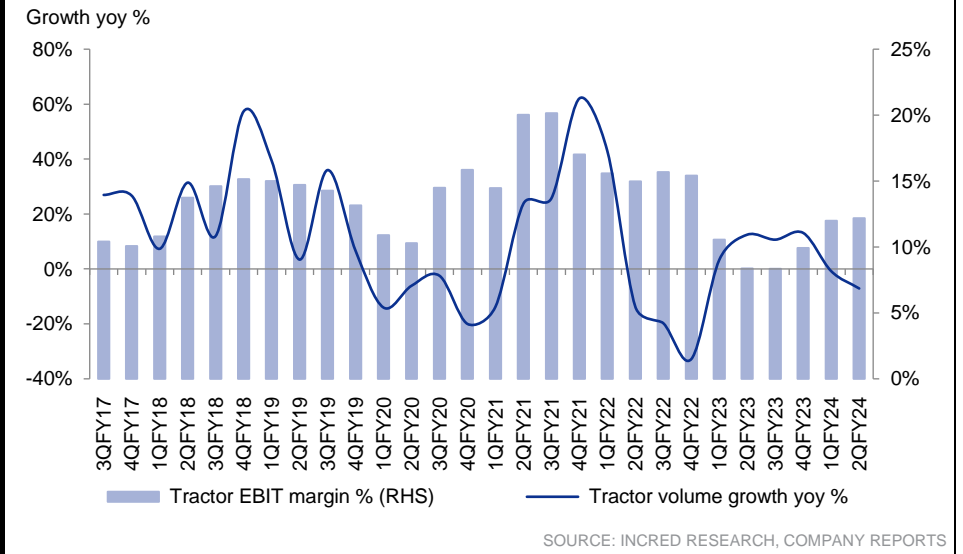


Figure 3: Railway sales down qoq from their peak

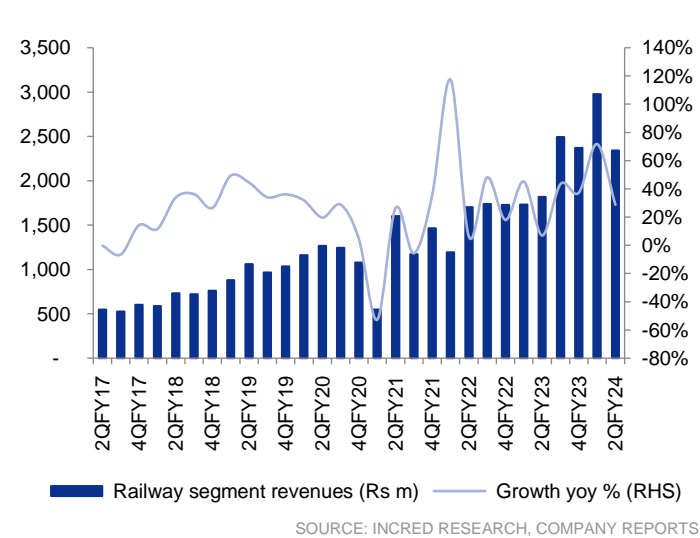


Figure 4: Segment-wise EBIT margin trend

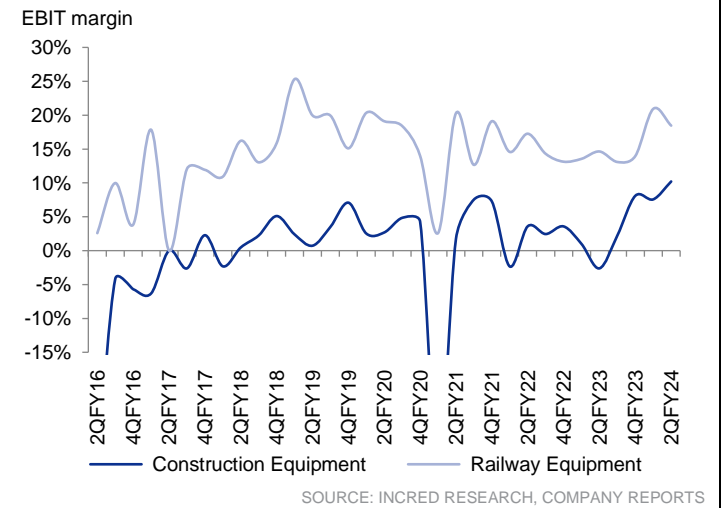
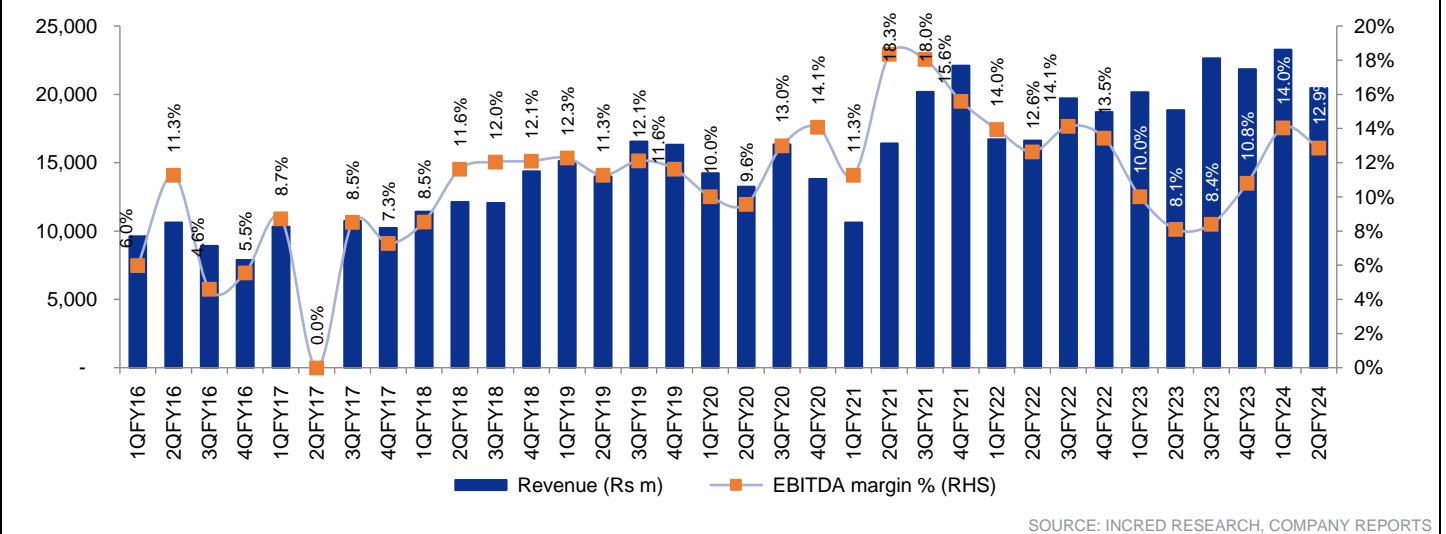


Figure 5: EBITDA margin trend



**Profit & Loss**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>83,450</b>	<b>100,608</b>	<b>117,829</b>	<b>135,708</b>
<b>Gross Profit</b>	<b>22,781</b>	<b>30,484</b>	<b>34,170</b>	<b>40,034</b>
<b>Operating EBITDA</b>	<b>7,805</b>	<b>13,266</b>	<b>13,977</b>	<b>16,781</b>
Depreciation And Amortisation	(1,484)	(1,780)	(2,011)	(2,223)
<b>Operating EBIT</b>	<b>6,321</b>	<b>11,486</b>	<b>11,966</b>	<b>14,558</b>
Financial Income/(Expense)	(103)	(140)	(100)	(75)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	2,806	3,030	3,243	3,470
<b>Profit Before Tax (pre-EI)</b>	<b>9,024</b>	<b>14,377</b>	<b>15,109</b>	<b>17,953</b>
Exceptional Items	(972)			
<b>Pre-tax Profit</b>	<b>8,052</b>	<b>14,377</b>	<b>15,109</b>	<b>17,953</b>
Taxation	(1,982)	(3,163)	(3,324)	(3,950)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>6,070</b>	<b>11,214</b>	<b>11,785</b>	<b>14,003</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>6,070</b>	<b>11,214</b>	<b>11,785</b>	<b>14,003</b>
Recurring Net Profit	6,802	11,214	11,785	14,003
<b>Fully Diluted Recurring Net Profit</b>	<b>6,802</b>	<b>11,214</b>	<b>11,785</b>	<b>14,003</b>

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,685	5,886	6,115	5,329
Total Debtors	12,076	12,404	13,881	14,872
Inventories	11,590	12,955	12,913	14,129
Total Other Current Assets	4,405	4,745	5,095	5,445
<b>Total Current Assets</b>	<b>32,756</b>	<b>35,989</b>	<b>38,003</b>	<b>39,774</b>
Fixed Assets	20,725	23,195	26,184	27,461
Total Investments	50,306	55,806	62,306	72,306
Intangible Assets				
Total Other Non-Current Assets				
<b>Total Non-current Assets</b>	<b>71,030</b>	<b>79,001</b>	<b>88,490</b>	<b>99,766</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	12,329	13,782	14,527	14,872
Other Current Liabilities	4,300	4,800	5,300	5,800
<b>Total Current Liabilities</b>	<b>16,628</b>	<b>18,581</b>	<b>19,826</b>	<b>20,672</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
<b>Total Non-current Liabilities</b>	<b>2,105</b>	<b>2,501</b>	<b>2,651</b>	<b>2,751</b>
Total Provisions	2,105	2,501	2,651	2,751
<b>Total Liabilities</b>	<b>18,733</b>	<b>21,083</b>	<b>22,478</b>	<b>23,423</b>
Shareholders Equity	84,348	93,907	104,015	116,118
Minority Interests				
<b>Total Equity</b>	<b>84,348</b>	<b>93,907</b>	<b>104,015</b>	<b>116,118</b>

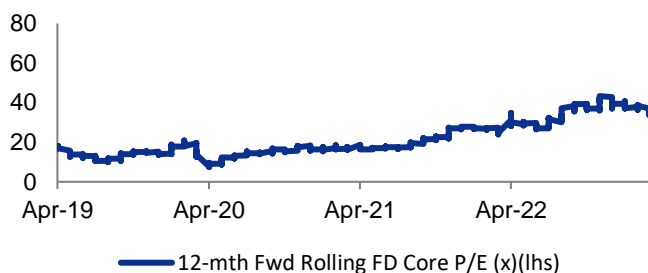
**Cash Flow**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	7,805	13,266	13,977	16,781
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(3,803)	(239)	(690)	(1,861)
(Incr)/Decr in Total Provisions	(392)	596	350	300
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(972)			
Net Interest (Paid)/Received	2,703	2,890	3,143	3,395
Tax Paid	(1,982)	(3,163)	(3,324)	(3,950)
<b>Cashflow From Operations</b>	<b>3,360</b>	<b>13,350</b>	<b>13,456</b>	<b>14,665</b>
Capex	(2,304)	(4,955)	(5,000)	(3,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	1,968	(5,741)	(6,550)	(10,050)
<b>Cash Flow From Investing</b>	<b>(336)</b>	<b>(10,696)</b>	<b>(11,550)</b>	<b>(13,550)</b>
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(924)	(1,453)	(1,677)	(1,901)
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>(924)</b>	<b>(1,453)</b>	<b>(1,677)</b>	<b>(1,901)</b>
Total Cash Generated	2,100	1,201	229	(786)
<b>Free Cashflow To Equity</b>	<b>3,024</b>	<b>2,655</b>	<b>1,906</b>	<b>1,115</b>
<b>Free Cashflow To Firm</b>	<b>3,127</b>	<b>2,795</b>	<b>2,006</b>	<b>1,190</b>

**Key Ratios**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	16.7%	20.6%	17.1%	15.2%
Operating EBITDA Growth	(18.0%)	70.0%	5.4%	20.1%
Operating EBITDA Margin	9.4%	13.2%	11.9%	12.4%
Net Cash Per Share (Rs)	41.90	52.65	54.69	47.67
BVPS (Rs)	754.46	839.96	930.37	1,038.62
Gross Interest Cover	61.37	82.05	119.66	194.11
Effective Tax Rate	24.6%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	13.1%	13.0%	14.2%	13.6%
Accounts Receivables Days	44.51	44.40	40.71	38.67
Inventory Days	59.04	63.88	56.43	51.58
Accounts Payables Days	63.49	67.95	61.76	56.08
ROIC (%)	18.5%	27.9%	26.9%	29.7%
ROCE (%)	7.7%	12.8%	12.0%	13.1%
Return On Average Assets	7.2%	10.4%	9.8%	10.6%

**12-mth Fwd Rolling FD Core P/E (x)**



**Key Drivers**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	4.4%	8.5%	6.8%	3.9%
Unit sales grth (% , main prod./serv.)	9.6%	6.2%	7.9%	9.1%
ASP (% chg, 2ndary prod./serv.)	6.6%	5.0%	6.0%	5.0%
Unit sales grth (% ,2ndary prod./serv.)	12.2%	30.0%	20.0%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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