

## India

**REDUCE** (no change)

Consensus ratings\*: Buy 7 Hold 3 Sell 9

Current price: Rs3,413  
 Target price: ▲ Rs3,098  
 Previous target: Rs3,064  
 Up/downside: -9.2%  
 InCred Research / Consensus: -6.5%

Reuters: ESCO.NS  
 Bloomberg: ESCORTS IN  
 Market cap: US\$4,473m  
 Rs381,850m  
 Average daily turnover: US\$7.0m  
 Rs593.5m  
 Current shares o/s: 111.9m  
 Free float: 33.7%

\*Source: Bloomberg

**Key changes in this note**

- Sales volume cut by 7% for FY26F but growth restored for FY27F.
- FY26F EBITDA cut by 19% while that of FY27F raised by 3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	12.9	(3.9)
Relative (%)	(2.1)	4.3	(15.2)

Major shareholders	% held
Kubota Corporation	53.5
Nanda Family	12.8
HDFC Mutual Fund	1.6

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# Escorts Kubota Ltd

## Emission-led volatility to ease for tractors

- 4QFY25 EPS growth of 12% yoy to Rs24.8 was above our/Bloomberg consensus estimates, aided by better ASP and higher other income.
- The expected delay in TREM-5 emission norms for tractors to ease volume volatility. We cut FY26F EPS by 16% but marginally increase FY27F EPS.
- Forward P/E valuation is rich at +1SD above the five-year mean level while the Kubota division merger benefits have been delayed. Maintain REDUCE rating.

**4Q EBITDA beat driven by ASP and gross margin**

4QFY25 EBITDA of Escorts Kubota was flat yoy but down 13% qoq at Rs2.9bn, beating our/Bloomberg estimates, aided by better ASP and contribution margin. The EBITDA margin at 12.1%, -60bp yoy and +63bp qoq, was in line with our estimate. The tractor segment's EBIT margin at 11.4%, up 25bp yoy and 97bp qoq, was 41bp above estimate. The construction equipment segment's margin at 9.1% saw a decline of 166bp qoq. Higher other income (+24% yoy and +21% qoq) led to a 11% beat in normalized PAT at Rs2.8bn.

**Management conference-call highlights**

Management gave guidance of mid-to-higher single-digit tractor industry growth outlook for the domestic segment, while its exports to grow by 20+% in FY26F. Management expects TREM-5 emission norms to be delayed beyond the Mar 2026 timeline, while the impact of construction equipment segment's new emission norms on sales volume to prolong in 1HFY26F. Management gave guidance of a gradual improvement in the EBITDA margin, as the higher import content in Kubota tractors is a drag due to the recent Indian rupee or INR depreciation. A new tractor plant is expected to be commissioned in FY28F.

**Delay in tractor emission implementation eases volume volatility**

Considering the delay in TREM-5 emission norms implementation, we don't expect pre-purchase benefit on domestic sales volume in FY26F, leading to a 7% volume cut in FY26F. Similarly, for FY27F, we expect normalcy in industry volume growth vs. our earlier assumption of industry volume correction to absorb emission upgrade costs. We cut EBITDA by a sharp 19% for FY26F to accommodate the railway division's sale impact but raise FY27F EBITDA by 3%. Introduce FY28F, with new plant volume benefit.

**Maintain REDUCE rating on the stock**

While the recent tractor segment monthly market share has improved from its lows, we would wait for sustenance of the same. With the Kubota merger benefit hopes on sales volume recovery and the EBITDA margin normalcy continuing to be delayed, we maintain our REDUCE rating on the stock with a marginally raised P/E-based target price of Rs3,098 (Rs3,064 earlier). The stock's valuation is still rich at +1SD above the five-year mean level. (Fig.9). The key upside risk is new product success benefits on volume and profitability.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	97,307	101,870	112,478	125,643	152,534
Operating EBITDA (Rsm)	11,330	11,778	13,692	15,729	18,549
Net Profit (Rsm)	9,480	11,100	24,654	13,607	15,845
Core EPS (Rs)	84.7	101.2	121.8	121.6	141.6
Core EPS Growth	39.4%	19.5%	20.3%	(0.1%)	16.4%
FD Core P/E (x)	40.28	34.40	15.49	28.06	24.10
DPS (Rs)	13.0	28.0	35.0	40.0	50.0
Dividend Yield	0.38%	0.82%	1.03%	1.17%	1.46%
EV/EBITDA (x)	32.97	31.47	27.22	23.80	20.32
P/FCFE (x)	52.06	204.31	199.95	133.18	128.96
Net Gearing	(8.8%)	(10.7%)	(7.3%)	(5.6%)	(3.4%)
P/BV (x)	4.06	3.68	3.07	2.86	2.65
ROE	10.6%	11.4%	11.9%	10.5%	11.4%
% Change In Core EPS Estimates			(1.64%)	(10.00%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Emission-led volatility to ease for tractors

### Management conference-call highlights➤

- **Tractor industry trend and outlook:** The domestic tractor industry grew to 200,000 units in 4QFY25, up 17.3% yoy, with North and Central regions growing by ~10% and the rest of India surging 25%. Industry exports rose to 27,500 units, up 4% yoy. Management gave guidance of mid-to-high single-digit industry growth, potentially hitting 1m units in FY26F, led by a strong rabi crop harvest, higher crop prices, above-normal monsoon forecast, and adequate water levels at reservoirs.
- **Escorts Kubota volume trend:** In 4Q, the total volume stood at 26,633 tractors, up 7.6% yoy; domestic volume was up 6% yoy. Export volume grew by 37% yoy, with ~70% channeled through Kubota's global network.
- **Non-tractor revenue (agri segment):** Contributed 19% to the segment's revenue (vs. 18% in 4QFY24), driven by spare parts, engine business, and agri solutions.
- **Export business:** Targeting 20-25% growth in FY26F. Expanding to Mexico, South Africa, Tanzania, Kenya, Myanmar, Cambodia, and Thailand. The US market is a long-term goal, as Kubota is planning to leverage India as a global supply source.
- **Component exports:** Currently at Rs1bn, aiming to double in FY26F. The long-term potential is significant (US\$500m opportunity), but localization and quality vendor development are critical.
- **New products:** The Promax series has shown early promise, with Phase-2 planned for 4QFY26F. A Powertrak series targeting southern markets and a Kubota product in the 40-45HP segment may be launched in 2Q or 3QFY26F.
- **Market share:** The focus is on southern and eastern regions, where industry growth is the strongest, which will offset weakness in these regions. The company aims to at least match the industry growth rate.
- **Overall financial performance:** 4QFY25 EBITDA was up 0.7% yoy, with the EBITDA margin at 12.1%, slightly impacted by cost pressure from new product introductions and emission norm changes. During the quarter, it had an adverse Rs271m hit due to impaired investments in a Poland subsidiary and a Gujarat joint venture for small tractors.
- **Construction equipment (CE):** The CE industry (cranes, backhoe loaders, mini excavators, compactors) saw an 8% yoy volume decline, primarily due to a 13% drop in crane demand due to emission norm transition (BS3/BS4 to BS5). This also impacted the Escorts division's EBIT margin by -190bp qoq.
- **CE industry outlook:** 1HFY26F is expected to be soft due to price hikes (7-10% for BS5 compliance), but demand recovery is expected from 2HFY26F, driven by government capex on infrastructure (roads, railways, ports, urbanization). Full price recovery expected by Sep 2025F post-monsoon.
- **New products:** Launched backhoe loaders and hydra segment products meeting BS5 norms, designed for mass domestic and international markets. New crane models focus on performance, safety, and comfort. Developing modular platforms in the backhoe loader segment, with premium variants using Kubota engineering planned for FY27F.
- **Market share:** It was maintained in cranes (No. 2 player) and gained in mini excavators (No. 1 in FY25). Backhoe loaders and compactors remain weak, with a 0.2% market share loss in backhoe loaders.
- **Greenfield plant (Uttar Pradesh):** Land acquisition is in progress, with the completion expected by 2Q/3QFY26F. Construction to start in FY26F, with the plant to be operational by FY28F/29F (24-36 months post-construction).
- **Capex plan:** Planned a capex of Rs3.5-4bn for FY26F (excluding land worth Rs4-5bn), totaling ~Rs8bn.

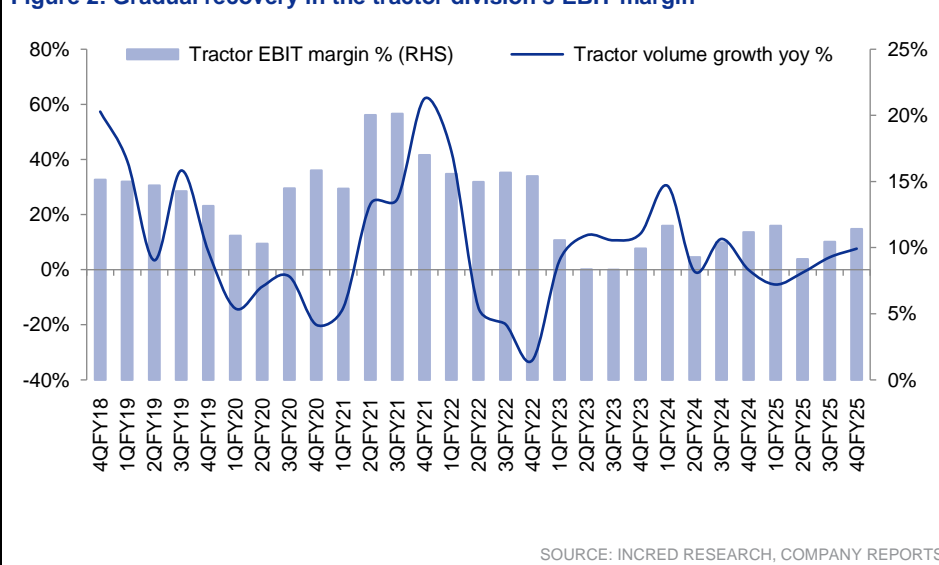
- **Captive finance arm (EKFL):** Operating in select districts of Uttar Pradesh, Madhya Pradesh, and Bihar. Currently, testing systems and expanding the dealer network. Did equity investment of Rs600m out of Rs2bn committed; total planned is Rs7bn by FY26F. Book size, targeting Rs1bn by FY26F. The long-term goal is 30-35% penetration, like its peers, to boost market share (impact expected in two-to-three years).
- **Railway equipment (discontinued operations):** The division's sale is progressing, with a revised closing date of 1 Jun 2025, pending approvals. Post-closure, Rs14-15bn in net cash is expected, by Sep/Oct 2025F.

**Figure 1: Quarterly results comparison**

Y/E Mar (Rs m)	4QFY25	4QFY24	yoy % chg	3QFY25	qoq % chg	FY25	FY24	yoy % chg	Comments for the quarter
Revenue	24,303	22,896	6.1	29,354	(17.2)	1,01,773	97,307	4.6	4% above our estimate.
Raw materials costs	16,860	15,768	6.9	21,444	(21.4)	72,162	69,119	4.4	
RM costs as a % of revenue	69.4	68.9	51	73.1	(367.8)	70.9	71.0	(12.7)	143bp below our estimate.
EBITDA	2,929	2,910	0.7	3,353	(12.6)	11,682	11,330	3.1	5% above our estimate.
EBITDA margin (%)	12.1	12.7	(65.6)	11.4	63.0	11.5	11.6	(16.5)	7bp above our estimate.
Depreciation & amortization	615	592	3.9	612	0.3	2,426	2,236	8.5	28% above our estimate.
EBIT	2,314	2,318	(0.2)	2,740	(15.5)	9,256	9,094	1.8	
Interest expenses	47	111	(57.8)	31	54.1	270	388	(30.3)	
Other income	1,316	1,060	24.2	1,091	20.6	4,584	3,915	17.1	-
Pre-tax profit	3,584	3,266	9.7	3,801	(5.7)	13,570	12,621	7.5	7% above our estimate.
Tax	806	782	3.0	897	(10.2)	2,295	3,141	(26.9)	
Tax rate (%)	22.5	23.9	(145)	23.6	(112)	16.9	24.9	(797.6)	
<b>Normalized net profit</b>	<b>2,778</b>	<b>2,485</b>	<b>11.8</b>	<b>2,904</b>	<b>(4.3)</b>	<b>11,275</b>	<b>9,480</b>	<b>18.9</b>	<b>11% above our estimate.</b>
Exceptional items	(271)	-		327	nm	(271)	-	nm	
<b>Reported net profit</b>	<b>2,507</b>	<b>2,485</b>	<b>0.9</b>	<b>3,231</b>	<b>(22.4)</b>	<b>11,004</b>	<b>9,480</b>	<b>16.1</b>	
Normalized EPS (Rs)	24.8	22.2	11.8	29.0	(14.3)	100.8	84.7	18.9	
Tractor volume (nos)	26,633	24,747	7.6	32,556	(18.2)	1,39,952	1,28,396	9.0	
Tractor realization (Rs)	7,41,479	5,61,947	31.9	7,42,290	(0.1)	6,33,531	6,15,078	3.0	5% above our estimate.

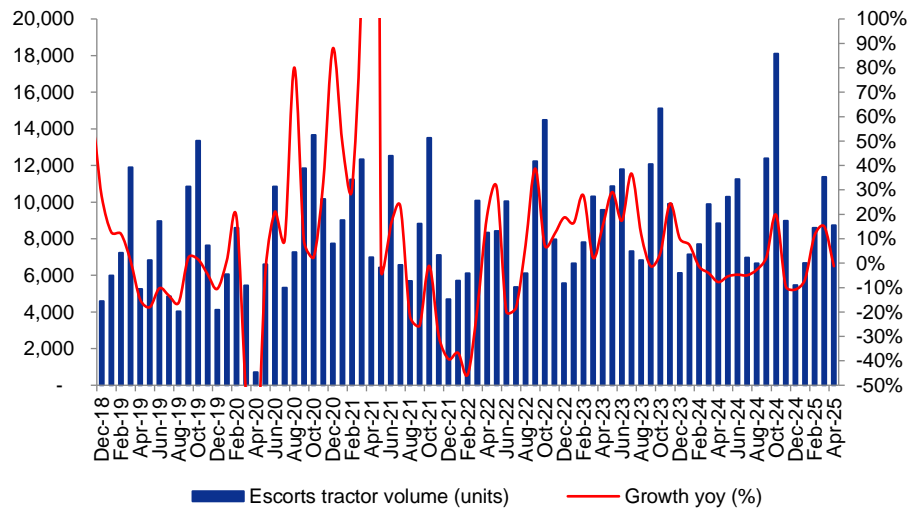
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Gradual recovery in the tractor division's EBIT margin**



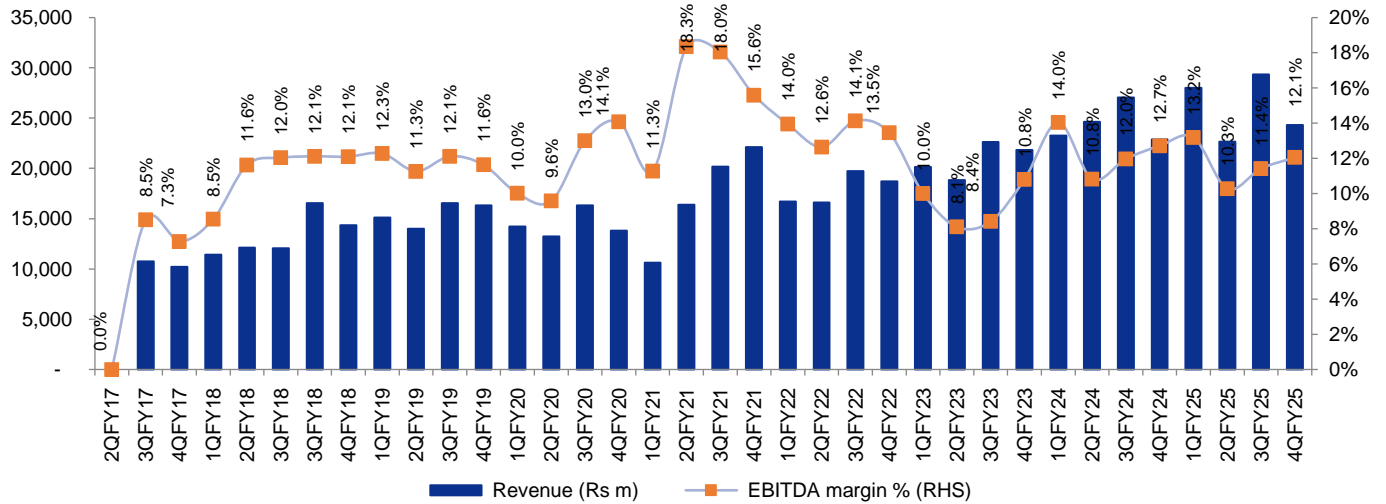
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Escort Kubota's tractor volume grows slower vs. industry**



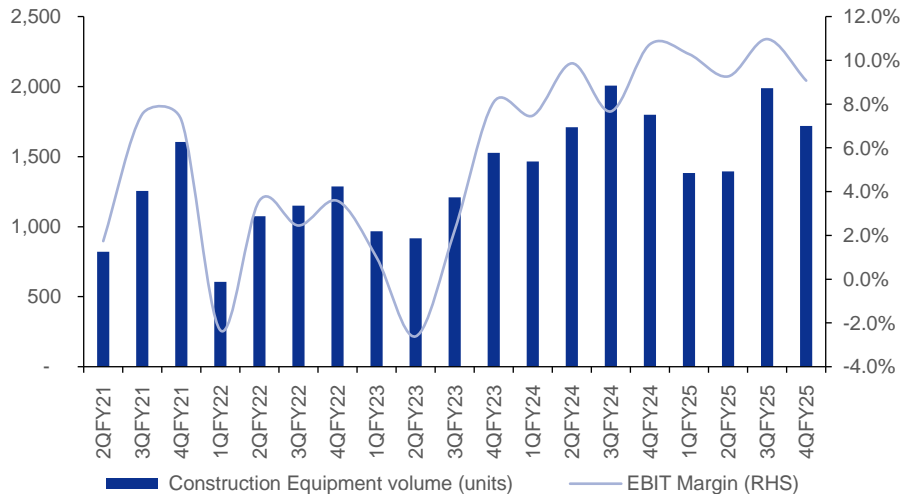
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Standalone EBITDA margin profile is lower than the historical trend**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Crane demand impacted by cost spike due to new emission norms**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Our revised earnings estimates**

Rs m	FY26F		FY27F	
	Old	New	Old	New
Tractor volume (nos.)	1,32,917	1,24,292	1,22,284	1,32,887
% change		-6.5%		8.7%
Net sales	1,35,594	1,12,478	1,27,207	1,25,643
% change		-17.0%		-1.2%
EBITDA	16,899	13,692	15,238	15,729
% change		-19.0%		3.2%
EBITDA margin	12.5%	12.2%	12.0%	12.5%
bp change		(23)		45
PAT	14,097	11,854	13,135	13,607
% change		-15.9%	2.0%	3.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Key assumptions**

Volume Assumptions	Mar-24A	Mar-25	Mar-26F	Mar-27F	Mar-28F
Tractor volume (units)	1,14,396	1,15,554	1,24,292	1,32,887	1,54,692
Growth yoy %	10.8%	1.0%	7.6%	6.9%	16.4%
Construction Equipment volume (units)	7,141	6,484	6,808	7,625	8,693
Growth yoy %	54.6%	-9.2%	5.0%	12.0%	14.0%
Total Revenue (Rs m)	97,307	1,01,870	1,12,478	1,25,643	1,52,534
Growth yoy %	16.6%	4.7%	10.4%	11.7%	21.4%
EBITDA margin %	11.6%	11.6%	12.2%	12.5%	12.2%
<b>Segment-wise Assumptions</b>					
Tractor revenue (Rs m)	78,974	84,472	93,585	1,04,060	1,27,191
EBIT margin %	11.2%	7.0%	10.8%	11.2%	22.2%
Construction equipment revenue (Rs m)	18,182	17,301	18,893	21,583	25,343
EBIT margin %	9.2%	9.9%	10.0%	11.0%	11.3%

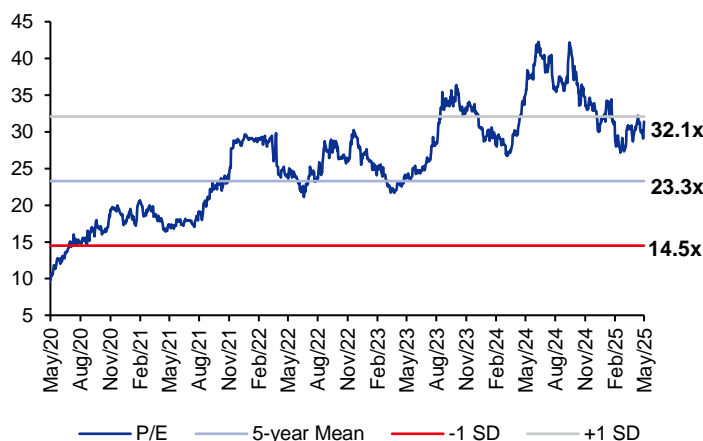
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Our valuation methodology**

One-year forward EPS (Rs.)	123.9
P/E(x)	25.0
Target Price (Rs.)	3,098

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Forward P/E valuation eases below the +1SD level**



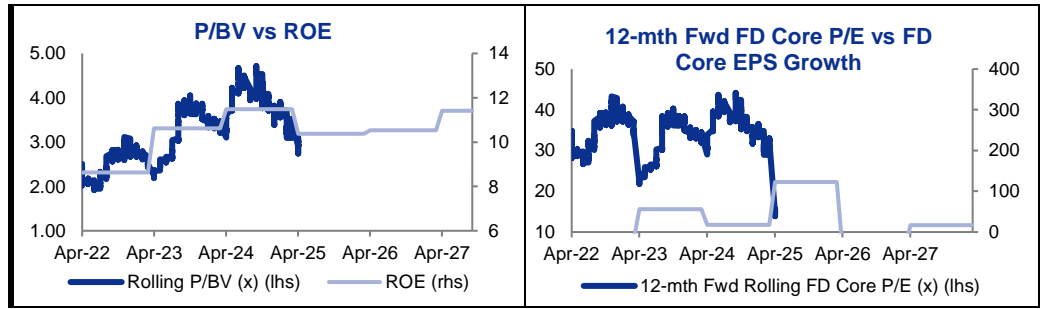
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

**Figure 10: Forward P/BV valuation eases below the +1SD level**



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	<b>97,307</b>	<b>101,870</b>	<b>112,478</b>	<b>125,643</b>	<b>152,534</b>
<b>Gross Profit</b>	<b>28,188</b>	<b>29,707</b>	<b>33,406</b>	<b>37,944</b>	<b>45,455</b>
<b>Operating EBITDA</b>	<b>11,330</b>	<b>11,778</b>	<b>13,692</b>	<b>15,729</b>	<b>18,549</b>
Depreciation And Amortisation	(2,236)	(2,426)	(2,729)	(3,073)	(3,509)
<b>Operating EBIT</b>	<b>9,094</b>	<b>9,352</b>	<b>10,963</b>	<b>12,656</b>	<b>15,040</b>
Financial Income/(Expense)	(388)	(270)	(200)	(160)	(125)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,915	4,584	5,042	5,647	6,212
<b>Profit Before Tax (pre-EI)</b>	<b>12,621</b>	<b>13,666</b>	<b>15,805</b>	<b>18,143</b>	<b>21,127</b>
Exceptional Items		(271)	12,800		
<b>Pre-tax Profit</b>	<b>12,621</b>	<b>13,395</b>	<b>28,605</b>	<b>18,143</b>	<b>21,127</b>
Taxation	(3,141)	(2,295)	(3,951)	(4,536)	(5,282)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>9,480</b>	<b>11,100</b>	<b>24,654</b>	<b>13,607</b>	<b>15,845</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>9,480</b>	<b>11,100</b>	<b>24,654</b>	<b>13,607</b>	<b>15,845</b>
Recurring Net Profit	9,480	11,325	13,622	13,607	15,845
<b>Fully Diluted Recurring Net Profit</b>	<b>9,480</b>	<b>11,325</b>	<b>13,622</b>	<b>13,607</b>	<b>15,845</b>

### Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>EBITDA</b>	<b>11,330</b>	<b>11,778</b>	<b>13,692</b>	<b>15,729</b>	<b>18,549</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,538)	3,901	(427)	387	(3,193)
(Incr)/Decr in Total Provisions	3,182	(3,923)	337	300	300
Other Non-Cash (Income)/Expense					
Other Operating Cashflow		(271)	12,800		
Net Interest (Paid)/Received	3,527	4,314	4,842	5,487	6,087
Tax Paid	(2,616)	(2,710)	(3,951)	(4,536)	(5,282)
<b>Cashflow From Operations</b>	<b>11,885</b>	<b>13,089</b>	<b>27,293</b>	<b>17,367</b>	<b>16,461</b>
Capex	(5,455)	(1,133)	(12,162)	(5,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,729)	(6,453)	(13,221)	(9,500)	(7,500)
<b>Cash Flow From Investing</b>	<b>(8,184)</b>	<b>(7,586)</b>	<b>(25,383)</b>	<b>(14,500)</b>	<b>(13,500)</b>
Debt Raised/(repaid)	3,634	(3,634)			
Proceeds From Issue Of Shares	1,991	1,670			
Shares Repurchased					
Dividends Paid	(1,454)	(3,133)	(3,916)	(4,475)	(5,594)
Preferred Dividends					
Other Financing Cashflow	(642)	(1,181)			
<b>Cash Flow From Financing</b>	<b>3,529</b>	<b>(6,277)</b>	<b>(3,916)</b>	<b>(4,475)</b>	<b>(5,594)</b>
Total Cash Generated	7,230	(775)	(2,006)	(1,608)	(2,633)
<b>Free Cashflow To Equity</b>	<b>7,335</b>	<b>1,869</b>	<b>1,910</b>	<b>2,867</b>	<b>2,961</b>
<b>Free Cashflow To Firm</b>	<b>4,089</b>	<b>5,773</b>	<b>2,110</b>	<b>3,027</b>	<b>3,086</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	11,915	11,140	9,134	7,526	4,893
Total Debtors	14,633	13,798	13,867	12,048	14,627
Inventories	16,562	13,439	13,867	16,179	19,641
Total Other Current Assets	7,028	13,164	13,685	14,485	15,285
<b>Total Current Assets</b>	<b>50,137</b>	<b>51,541</b>	<b>50,553</b>	<b>50,237</b>	<b>54,445</b>
Fixed Assets	25,456	24,108	31,378	33,305	35,796
Total Investments	50,726	56,410	69,410	78,410	85,410
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>76,182</b>	<b>80,517</b>	<b>100,788</b>	<b>111,715</b>	<b>121,205</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	16,319	16,263	16,332	17,211	20,059
Other Current Liabilities	6,952	7,189	7,689	8,189	8,689
<b>Total Current Liabilities</b>	<b>23,272</b>	<b>23,451</b>	<b>24,021</b>	<b>25,400</b>	<b>28,748</b>
Total Long-term Debt	3,634				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>3,634</b>				
Total Provisions	3,032	2,643	2,780	2,880	2,980
<b>Total Liabilities</b>	<b>29,937</b>	<b>26,094</b>	<b>26,801</b>	<b>28,279</b>	<b>31,727</b>
Shareholders Equity	94,165	103,802	124,540	133,672	143,924
Minority Interests					
<b>Total Equity</b>	<b>94,165</b>	<b>103,802</b>	<b>124,540</b>	<b>133,672</b>	<b>143,924</b>

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	16.6%	4.7%	10.4%	11.7%	21.4%
Operating EBITDA Growth	45.2%	4.0%	16.3%	14.9%	17.9%
Operating EBITDA Margin	11.6%	11.6%	12.2%	12.5%	12.2%
Net Cash Per Share (Rs)	74.02	99.57	81.64	67.27	43.73
BVPS (Rs)	841.66	927.80	1,113.16	1,194.78	1,286.41
Gross Interest Cover	23.45	34.60	54.82	79.10	120.32
Effective Tax Rate	24.9%	17.1%	13.8%	25.0%	25.0%
Net Dividend Payout Ratio	15.3%	27.5%	33.0%	32.9%	35.3%
Accounts Receivables Days	50.09	50.93	44.89	37.64	31.91
Inventory Days	74.33	75.87	63.02	62.53	61.05
Accounts Payables Days	75.64	82.40	75.23	69.80	63.52
ROIC (%)	21.2%	19.3%	20.0%	19.5%	22.3%
ROCE (%)	9.9%	9.2%	9.6%	9.8%	10.8%
Return On Average Assets	8.5%	9.0%	8.5%	8.8%	9.4%

### Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
ASP (% chg, main prod./serv.)	12.9%	5.9%	3.0%	4.0%	5.0%
Unit sales grth (% , main prod./serv.)	10.8%	1.0%	7.6%	6.9%	16.4%
ASP (% chg, 2ndary prod./serv.)	(0.2%)	4.8%	4.0%	2.0%	3.0%
Unit sales grth (% ,2ndary prod/serv)	54.6%	(9.2%)	5.0%	12.0%	14.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.