

India

REDUCE (no change)

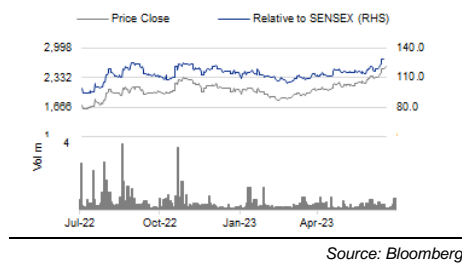
Consensus ratings*: Buy 5 Hold 8 Sell 9

Current price:	Rs2,598
Target price:	Rs2,019 ▲
Previous target:	Rs1,796
Up/downside:	-22.3%
InCred Research / Consensus:	-12.3%
Reuters:	ESCO.NS
Bloomberg:	ESCORTS IN
Market cap:	US\$4,151m Rs342,828m
Average daily turnover:	US\$8.1m Rs669.9m
Current shares o/s:	111.8m
Free float:	39.0%

*Source: Bloomberg

Key changes in this note

- FY24F sales raised by ~1.5%.
- EBITDA raised by 11-22% for FY24F-25F.
- EPS raised by 7-17% for FY24F-25F.



Price performance	1M	3M	12M
Absolute (%)	15.6	30.8	59.1
Relative (%)	14.5	21.7	41.1

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

Railway and tractor segments impress in 1Q

- 1Q EPS rose 35% qoq to Rs.31.3, beating our estimate (27%) and Bloomberg consensus estimate (33%), aided by EBITDA margin recovery (325bp qoq).
- The tractor division's profits improving, railway division scaling new peak sales and the delay in Kubota merger led to our 7-17% FY24F-25F PAT upgrade.
- The short-term profit strength trend resulted in our higher target P/E of 18x. However, following a rich valuation at +2SD PBV, we retain REDUCE rating.

Railway and tractor division's profitability impressive in 1QFY24

Escorts Kubota's 1QFY24 results were impressive, with a 22% beat in EBITDA to post a 40% qoq rise to Rs3.3bn, driven by lower raw material cost (-170bp qoq) and the railway division's sharp improvement in profitability (+700bp qoq). The standalone EBITDA margin improved by 370bp qoq to a six-quarter high of 14% (Fig. 6). The tractor division's EBIT margin improved (+205bp qoq) to 12%, aided by lower raw material cost. Higher other income (24% qoq) and lower interest cost led to a 35% qoq growth in PAT to Rs2.8bn, up 27% from our estimate.

Management conference-call highlights

Management maintains its low single-digit growth outlook in respect of tractor industry's volume in FY24F. Lower castings cost aided qoq lower raw material cost. The railway division's strong 26% qoq sales growth and improved profitability was driven by higher spare parts sales and exports. Kubota India's merger with the company is delayed due to some approvals which may take another six months, as per management. Exports remain weak in the short term due to global challenges while the Kubota network absorbs 32% of total exports.

EPS estimates raised due to good 1Q performance, merger delay

The weakness in tractor volume and rainfall distribution challenges led to our volume cut of 1.4% for FY24F-25F. Aided by 1Q strong ASP (up 12% qoq) and the railway division's sales growth momentum (88% qoq), we upgrade our FY24F sales estimate by~1.5%. The EBITDA margin was upgraded by 140-220bp for FY24F-25F, leading to an 11-22% EBITDA upgrade. Higher tax led to a 7-17% PAT upgrade for FY24F-25F.

Maintain REDUCE rating for rich valuation and peak volume cycle

Considering the peak tractor industry cycle and headwinds expected from rainfall distribution in an El Nino year and emission upgrade cost in FY24F-25F, we see a downside risk of 15-20% to industry volume, based on the historical trend. With Escorts Kubota's stock price rally making its valuation rich at +2SD above the mean P/BV (Fig. 10), we retain our REDUCE rating on it with a higher target P/E of 18x for short-term profitability improvement, leading to a higher target price of Rs2,019 (from Rs1,796 earlier). Key upside risks are a sustained improvement in profit margin from lower commodity costs.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	71,527	83,450	100,608	117,829	135,708
Operating EBITDA (Rsm)	9,513	7,805	13,266	13,977	16,781
Net Profit (Rsm)	7,656	6,070	11,214	11,785	14,003
Core EPS (Rs)	68.5	60.8	100.3	105.4	125.3
Core EPS Growth	(12.4%)	(11.2%)	64.9%	5.1%	18.8%
FD Core P/E (x)	37.94	47.86	25.90	24.65	20.75
DPS (Rs)	7.0	7.0	13.0	15.0	17.0
Dividend Yield	0.32%	0.32%	0.50%	0.58%	0.65%
EV/EBITDA (x)	30.26	36.62	21.45	20.35	16.99
P/FCFE (x)	(10.44)	96.08	109.42	152.44	260.54
Net Gearing	(3.3%)	(5.6%)	(6.3%)	(5.9%)	(4.6%)
P/BV (x)	3.69	3.44	3.09	2.79	2.50
ROE	11.5%	8.3%	12.6%	11.9%	12.7%
% Change In Core EPS Estimates			8.53%	(8.71%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Railway and tractor segments impress in 1Q

Agri machinery segment

- Revenue went up by 4.4% and the EBIT margin was up by 285 bp at 13.4%, mainly led by improved price realization and softening commodity prices.
- The domestic tractor industry declined by 1.9% due to preponement of the key festive season, unseasonal rains and reduction of subsidies whereas the company's volume went up by 2.5%, resulting in a 41bp gain in market share to 9.7% in 1QFY24.
- On the export front, industry volume declined by 31% whereas the company witnessed a volume decline of 38% due to inflationary and recessionary pressure in European countries. Management expects it to pick up from Sep 2023F. Kubota's global network accounted for ~32% of total export volume.
- Going ahead, in FY24F, the company expects the domestic tractor industry to register low single-digit growth led by adequate water levels at reservoirs, better crop prices, better liquidity and adequate credit availability.

Construction equipment

- Industry volume in crane, backhoe loader and compactor segments were up 30% yoy in 1QFY24 led by growth in the crane industry by 59%, backhoe loader industry by 23%, and compactor industry by 32%.
- The company's total volume in manufactured and traded products went up by 42.1%.
- Revenue rose by 46.3% and the EBIT margin expanded by 658 bp to 7.6% led by operating leverage, better realization and an improved product mix. The company expects margins and volume to sustain going ahead.
- Despite weak monsoon, the company witnessed sustained demand led by government incentives.
- Management expects the current demand growth momentum to continue going ahead and further accelerate post-monsoon season in the remaining part of the year.

Railway equipment division

- Revenue for the quarter ended went up by 71.8% YoY led by higher sales of spare parts (12-16% of total revenue) and higher exports (4-6% of total revenue).
- The EBIT margin rose by 738 bp YoY and stood at 20.9% led by operating leverage and higher revenue. Management expects the margin to be in the range of 16-17% in FY24F.
- The order book stood at Rs9.5bn, and management continues to focus on expansion and diversification of railway business product lines.

Others

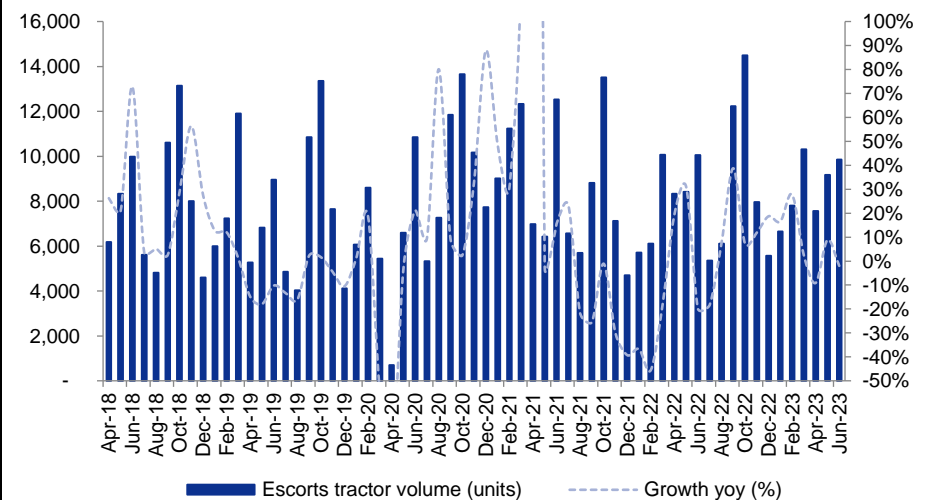
- Commodity prices have declined by ~2.5% from their peak, which is reflecting in the margins.
- The company has taken price hikes in the middle of Jun 2023, and the full impact will be visible in the next quarter.
- The company gave its margin guidance in the range of 13-14%.
- Currently, the company is looking at quality improvement in its existing product line, but the new development process will take some time.
- The greenfield expansion plan to go live only by FY26F.

Figure 1: Results comparison

FYE Mar (Rs m)	1QFY24	1QFY23	yoy % chg	4QFY23	qoq % chg	Comments for the quarter
Revenue	23,277	20,149	15.5	21,830	6.6	In line with our estimates.
Raw Materials	16,252	14,546	11.7	15,615	4.1	
RM as % of revenue	69.8	72.2	(238)	71.5	(171.1)	120bp below our estimates.
EBITDA	3,269	2,016	62.2	2,358	38.6	22% above our estimates led by higher gross margin.
EBITDA margin (%)	14.0	10.0	404.0	10.8	324.2	250bp above our estimates.
Depn & amort.	402	364	10.5	380	5.7	-
EBIT	2,868	1,652	73.6	1,978	45.0	
Interest expense	27	26	2.7	28	(3.3)	
Other income	945	354	166.7	763	23.9	58% higher than our estimates.
Pretax profit	3,786	1,981	91.1	2,714	39.5	33% above our estimates.
Tax	958	506	89.2	615	55.8	
Tax rate (%)	25.3	25.6	(26)	22.7	265	
Normalised Net profit	2,828	1,475	91.8	2,099	34.8	27% above our estimates.
Exceptionals	-	-		(244)	nm	
Reported net profit	2,828	1,475	91.8	1,855	52.5	
Normalised EPS (Rs)	25.6	13.3	91.8	19.0	34.8	
Tractor Volumes (nos)	26,582	26,797	(0.8)	24,765	7.3	
Tractor realisation (Rs)	7,02,291	5,95,499	17.9	6,28,912	11.7	10% above our estimates.

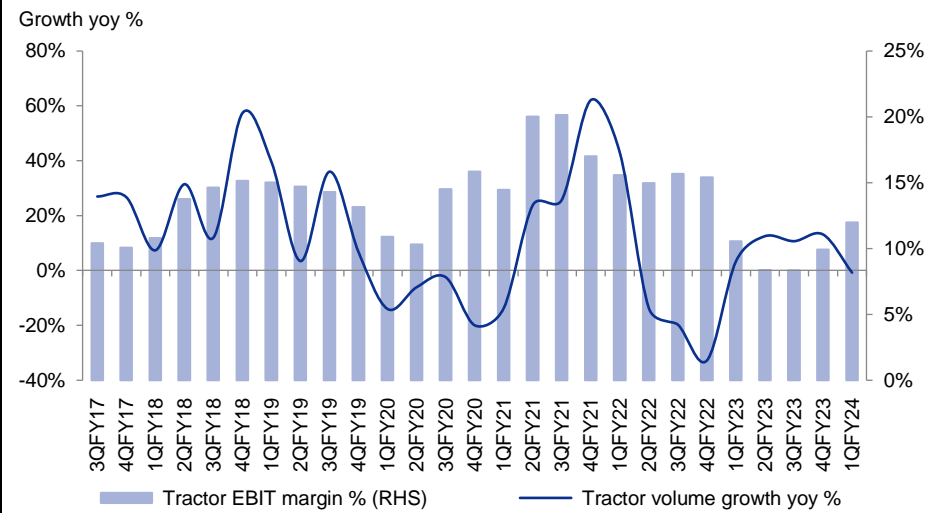
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Monthly tractor volume trend for Escorts Kubota weakens of late



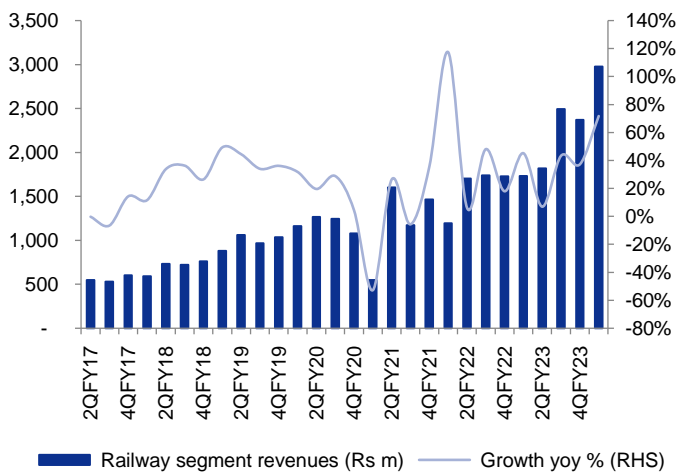
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tractor division's EBIT margin at a five-quarter high



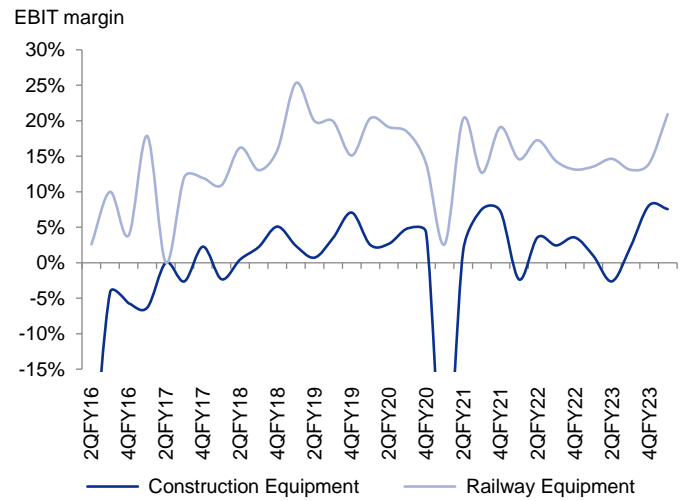
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Railway sales continue to scale a new peak



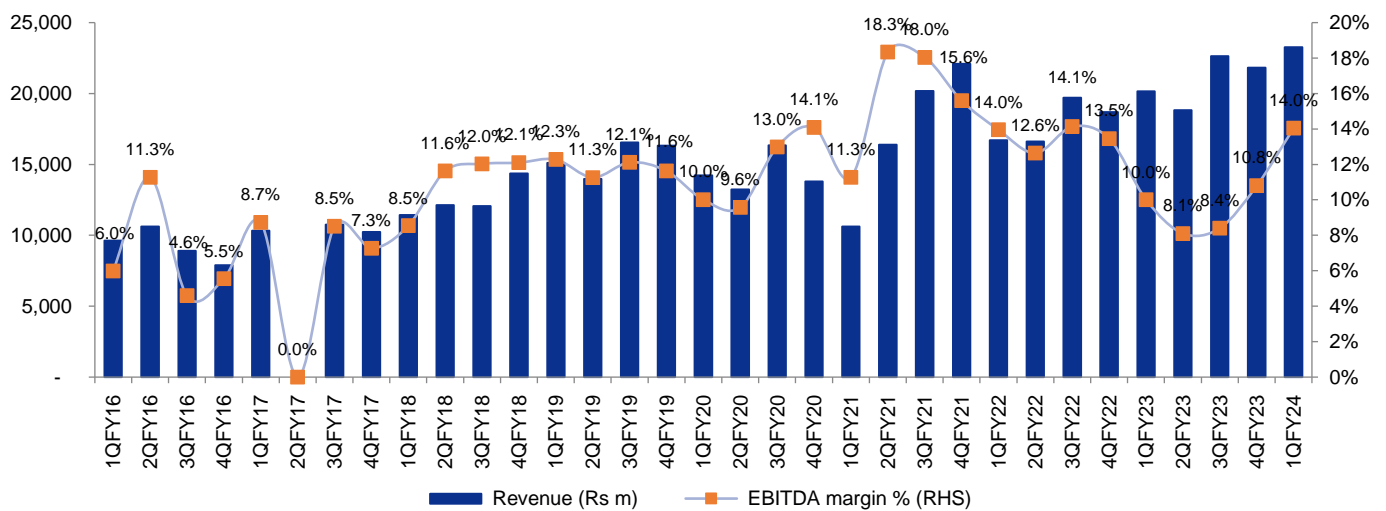
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Segment-wise EBIT margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: EBITDA margin scales a six-quarter high



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs m	FY24F		FY25F	
	Old	New	Old	New
Tractor Volume (nos)	1,11,162	1,09,648	1,20,047	1,18,307
% change		-1.4%		-1.4%
Net Sales	99,039	1,00,608	1,18,254	1,17,829
% change		1.6%		-0.4%
EBITDA	10,909	13,266	12,581	13,977
% change		21.6%		11.1%
EBITDA margin	11.0%	13.2%	10.6%	11.9%
bp change		197		115
PAT	9,589	11,214	10,968	11,785
% change		16.9%		7.5%

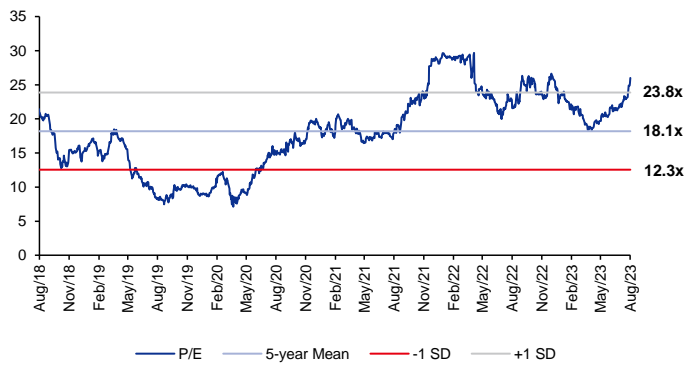
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 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	1,09,648	1,18,307	1,29,123
Growth yoy %	24.1%	-11.7%	9.6%	6.2%	7.9%	9.1%
Construction Equipment volume (units)	3,913	4,117	4,620	6,006	7,207	8,288
Growth yoy %	-3.2%	5.2%	12.2%	30.0%	20.0%	15.0%
Total Revenue (Rs m)	69,293	71,527	83,450	1,00,608	1,17,829	1,35,708
Growth yoy %	20.3%	3.2%	16.7%	20.6%	17.1%	15.2%
EBITDA margin %	16.3%	13.6%	9.4%	13.2%	11.9%	12.4%
Segment-wise Assumptions						
Tractor Revenue (Rs m)	56,673	55,210	63,161	72,728	83,804	94,995
EBIT margin %	18.2%	15.5%	9.3%	11.3%	11.5%	11.8%
Construction Equipment Revenue (Rs m)	7,761	9,853	11,790	16,093	20,471	24,718
EBIT margin %	3.6%	2.4%	2.9%	6.0%	5.5%	5.0%
Railway Equipment Revenue (Rs m)	4,790	6,362	8,419	11,787	13,555	15,994
EBIT margin %	16.0%	14.8%	13.8%	18.0%	17.0%	17.0%

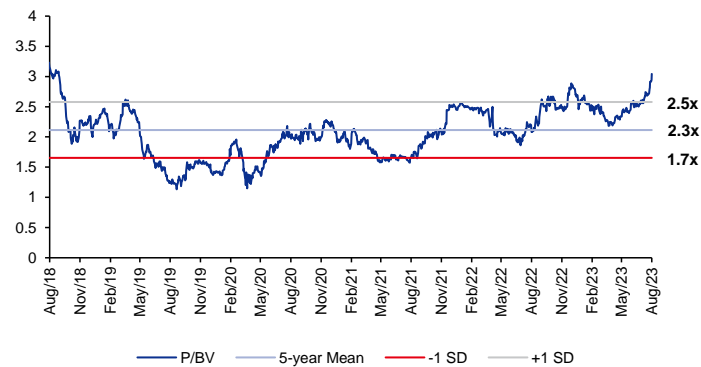
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Forward P/E is rich at +1SD



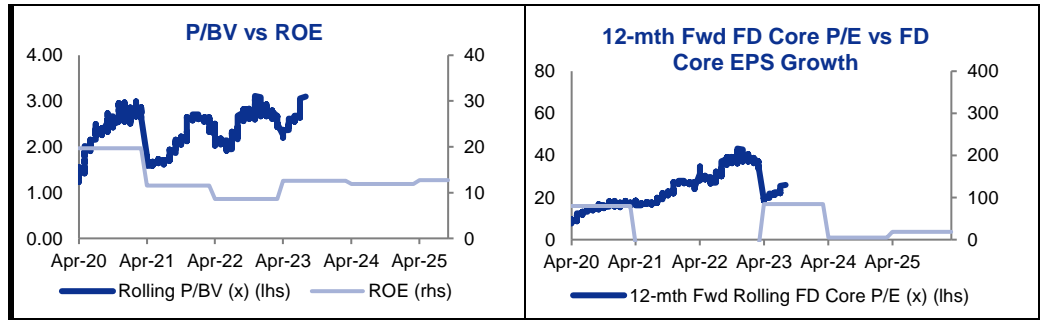
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 10: Forward P/BV is super-rich at +2SD above the mean level



SOURCE: INCRED RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	71,527	83,450	100,608	117,829	135,708
Gross Profit	22,199	22,781	30,484	34,170	40,034
Operating EBITDA	9,513	7,805	13,266	13,977	16,781
Depreciation And Amortisation	(1,298)	(1,484)	(1,780)	(2,011)	(2,223)
Operating EBIT	8,216	6,321	11,486	11,966	14,558
Financial Income/(Expense)	(127)	(103)	(140)	(100)	(75)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,130	2,806	3,030	3,243	3,470
Profit Before Tax (pre-EI)	10,219	9,024	14,377	15,109	17,953
Exceptional Items		(972)			
Pre-tax Profit	10,219	8,052	14,377	15,109	17,953
Taxation	(2,563)	(1,982)	(3,163)	(3,324)	(3,950)
Exceptional Income - post-tax					
Profit After Tax	7,656	6,070	11,214	11,785	14,003
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,656	6,070	11,214	11,785	14,003
Recurring Net Profit	7,656	6,802	11,214	11,785	14,003
Fully Diluted Recurring Net Profit	7,656	6,802	11,214	11,785	14,003

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,513	7,805	13,266	13,977	16,781
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,678)	(3,803)	(239)	(690)	(1,861)
(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	2,890	3,143	3,395
Tax Paid	(2,420)	(1,982)	(3,163)	(3,324)	(3,950)
Cashflow From Operations	2,799	3,360	13,350	13,456	14,665
Capex	(2,023)	(2,304)	(4,955)	(5,000)	(3,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(28,596)	1,968	(5,741)	(6,550)	(10,050)
Cash Flow From Investing	(30,619)	(336)	(10,696)	(11,550)	(13,550)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	18,162				
Shares Repurchased					
Dividends Paid	(924)	(924)	(1,453)	(1,677)	(1,901)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	17,239	(924)	(1,453)	(1,677)	(1,901)
Total Cash Generated	(10,581)	2,100	1,201	229	(786)
Free Cashflow To Equity	(27,819)	3,024	2,655	1,906	1,115
Free Cashflow To Firm	(27,692)	3,127	2,795	2,006	1,190

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	5,886	6,115	5,329
Total Debtors	8,276	12,076	12,404	13,881	14,872
Inventories	8,036	11,590	12,955	12,913	14,129
Total Other Current Assets	4,287	4,405	4,745	5,095	5,445
Total Current Assets	23,183	32,756	35,989	38,003	39,774
Fixed Assets	19,200	20,725	23,195	26,184	27,461
Total Investments	51,335	50,306	55,806	62,306	72,306
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	70,534	71,030	79,001	88,490	99,766
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	8,777	12,329	13,782	14,527	14,872
Other Current Liabilities	4,388	4,300	4,800	5,300	5,800
Total Current Liabilities	13,165	16,628	18,581	19,826	20,672
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	21,083	22,478	23,423
Shareholders Equity	78,782	84,348	93,907	104,015	116,118
Minority Interests					
Total Equity	78,782	84,348	93,907	104,015	116,118

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	3.2%	16.7%	20.6%	17.1%	15.2%
Operating EBITDA Growth	(15.8%)	(18.0%)	70.0%	5.4%	20.1%
Operating EBITDA Margin	13.3%	9.4%	13.2%	11.9%	12.4%
Net Cash Per Share (Rs)	23.12	41.90	52.65	54.69	47.67
BVPS (Rs)	704.67	754.46	839.96	930.37	1,038.62
Gross Interest Cover	64.69	61.37	82.05	119.66	194.11
Effective Tax Rate	25.1%	24.6%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	12.1%	13.1%	13.0%	14.2%	13.6%
Accounts Receivables Days	38.93	44.51	44.40	40.71	38.67
Inventory Days	54.68	59.04	63.88	56.43	51.58
Accounts Payables Days	76.39	63.49	67.95	61.76	56.08
ROIC (%)	31.7%	18.5%	27.9%	26.9%	29.7%
ROCE (%)	12.3%	7.7%	12.8%	12.0%	13.1%
Return On Average Assets	9.4%	7.2%	10.4%	9.8%	10.6%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	10.4%	4.4%	8.5%	6.8%	3.9%
Unit sales grth (% , main prod./serv.)	(11.7%)	9.6%	6.2%	7.9%	9.1%
ASP (% chg, 2ndary prod./serv.)	20.7%	6.6%	5.0%	6.0%	5.0%
Unit sales grth (% ,2ndary prod/serv)	5.2%	12.2%	30.0%	20.0%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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