

India

**REDUCE** (no change)

Consensus ratings\*: Buy 5 Hold 5 Sell 11

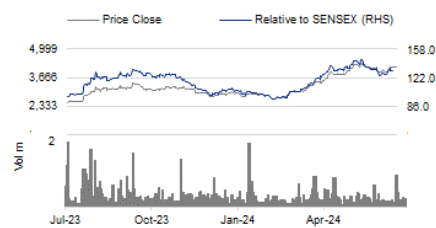
Current price:	Rs4,150
Target price:	Rs3,064
Previous target:	Rs2,385
Up/downside:	-26.2%
InCred Research / Consensus:	-7.4%

Reuters:	
Bloomberg:	ESCORTS IN
Market cap:	US\$6,315m
	Rs458,568m
Average daily turnover:	US\$14.4m
	Rs1042.1m
Current shares o/s:	110.5m
Free float:	33.7%

\*Source: Bloomberg

**Key changes in this note**

- Sales raised by 1-2% for FY25-26F.
- EBITDA raised by 4-7% for FY25-27F.
- FY25F-26F EPS raised by 4-6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.2	23.6	61.9
Relative (%)	(2.8)	12.6	30.1

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

**Research Analyst(s)**



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# Escorts Kubota Ltd

## Tractor demand yet to bottom out

- 1Q EPS grew 2% yoy and 20% qoq to Rs26.2, a big beat to our (9%) and consensus (5%) estimates, as the railway and construction margins impress.
- Company gave guidance of gradual tractor demand recovery to 5% in FY25F. Govt's continuity sop on construction & railway biz to lift EPS growth to 4-6%.
- With the recent stock rally taking P/E and P/BV valuations to +2SD above the five-year mean, we retain our REDUCE rating on it with a higher TP of Rs3,064.

### Tractor and railway divisions impress

Escorts Kubota's 1QFY25 EBITDA rose 23% qoq and remained flat yoy at Rs3.27bn, above our estimate (11%) and Bloomberg consensus estimate (3%). The EBITDA margin expansion of 150bp qoq to 14.3% was due to lower other expenses. The strong 40% qoq EBIT growth performance of tagri and railway division was impressive. PAT grew 2% yoy to Rs2.9bn, beating our estimate (9%) and Bloomberg consensus estimate (5%).

### Management conference-call highlights

Management maintained mid-single digit growth for the domestic tractor industry in FY25F, where it plans to catch up on market share loss. Strong recovery in Maharashtra and continued double-digit growth in Uttar Pradesh are the driving force. Exports are expected to remain weak in the short term due to Europe slowdown. The slowdown in railway procurement in 1Q impacted the company while with the expected approvals for its products in Vande Bharat trains, it plans to return to sales growth soon. Management indicated a delay in respect of the new greenfield plant's land acquisition.

### Raise EBITDA by 4-7% for FY25F-26F

The gradual turnaround in tractor demand sentiment and improved rural spending planned by the government in MODI 3.0 raises hopes of a strong 2HFY25F performance. Improved rainfall outlook in South India will help it recover after five years of a downtrend. We raise sales estimates by 1-2% as tractor business recovery is neutralized by the railway segment slowdown. With superior margins in the tractor business, we raise EBITDA estimates by 4-7% for FY25F-27F, leading to a PAT upgrade of 4-6%.

### Rich valuation undermines gradual Kubota synergy benefits

The strong rally in the stock price recently on tractor demand turnaround has raised forward P/E and P/BV valuations to above +2SD of the five-year mean. We feel the above-normal monsoons are factored in the current valuation while the recovery will be gradual and back-ended. The rich valuation undermines the delay in Kubota synergy benefits on exports. We maintain our REDUCE rating on the stock with a higher rolled-forward target price of Rs3,064 (Rs2,385 earlier), valuing it at 25x one-year forward P/E. Government policy on agriculture and railways will be a key upside risk.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	83,450	87,767	96,268	113,459	128,899
Operating EBITDA (Rsm)	7,805	11,687	13,467	15,692	17,152
Net Profit (Rsm)	6,070	10,371	11,826	13,679	14,932
Core EPS (Rs)	61.6	93.9	107.0	123.8	135.1
Core EPS Growth	(11.2%)	52.5%	14.0%	15.7%	9.2%
FD Core P/E (x)	75.55	44.22	38.78	33.52	30.71
DPS (Rs)	7.0	13.0	18.0	21.0	25.0
Dividend Yield	0.20%	0.31%	0.43%	0.51%	0.60%
EV/EBITDA (x)	58.16	38.24	33.48	28.91	26.43
P/FCFE (x)	151.67	49.15	(243.29)	(843.11)	146.19
Net Gearing	(5.6%)	(12.6%)	(7.6%)	(4.3%)	(4.2%)
P/BV (x)	5.44	4.98	4.50	4.05	3.65
ROE	8.3%	11.8%	12.2%	12.7%	12.5%
% Change In Core EPS Estimates			11.35%	10.61%	6.29%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Tractor demand yet to bottom out

### Management conference-call highlights➤

- **Financial performance:** The EBITDA margin stood at 14.3%, up 22bp yoy, mainly led by a better product mix and price realization, effective cost control and softening commodity prices.
- **Agri machinery:** Management expects the domestic tractor industry to grow in the range of 5-6% in FY25F because growth is expected to pick up post-monsoon as the mining and construction activities resume.
- **Region-wise details:** The western and southern regions are showing a negative trend, which is likely to get better in the medium term. The northern region witnessed a growth of 5% in 1Q, which it is likely to sustain at the current level. The eastern region witnessed a 40% yoy growth during the quarter, while management expects the growth to moderate. The focus remains on the northern and western regions of the country, which currently contribute about 75%.
- **Agri export business:** Industry export volume was up by 2% yoy while Escorts Kubota's export volume was down by 28% as Europe, which accounts for 60% of the total exports, witnessed weak demand due to rising inflation. Demand is likely to pick up from the end of CY24F. In the mid-term, management plans to develop products for Latin and North America due to high demand. Exports through the Kubota channel accounted for ~21% of the total export volume and market share at 3.9% in 1QFY25.
- **Network expansion:** Management aims to expand the company's dealer base from 1,200 to 1,800 by FY28F to cover 90% of the industry.
- **New products:** The company launched Worldmaxx tractor in a phased manner in select locations, and its introduction in further markets is expected around the festive season. Also, another series on the Farmtrac range, it hopes to launch in Oc-Nov 2024F.
- **Construction equipment business:** In 1QFY25, industry volume in crane, backhoe loaders and compactors saw a 1.5% yoy growth. This growth was primarily driven by the compactor industry (+17%yoy). EBIT margin for the segment was up at 10.4% vs. 7.6% in 1QFY24, led by better realization and an improved product mix. Construction activities have been slow due to the monsoon season. However, with the government's continued thrust on infrastructure development, the company expects demand to improve post-monsoon season.
- **Railway business:** The EBIT margin stood at 20.5%, a decline of 45bp yoy. During the quarter, the company supplied the first-ever electric control panel order to a metro rail organization. Additionally, it completed the refurbishment of the train project with Welcome to Delhi Metro Rail Corporation. Order book stood at Rs.8.80bn. In new products, the company expects double-digit volume growth with margin in the range of 15-19%.

Figure 1: Results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments for the quarter
Revenue	22,925	23,277	(1.5)	20,825	10.1	2% above our estimate.
Raw material costs	15,610	16,252	(4.0)	14,181	10.1	
RM costs as % of revenue	68.1	69.8	(173)	68.1	(1.1)	41bp below our estimate.
EBITDA	3,271	3,269	0.1	2,659	23.0	11% above our estimate.
EBITDA margin (%)	14.3	14.0	22.3	12.8	149.9	117bp above our estimate.
Depreciation & amortization	433	402	7.8	441	(1.7)	2% below our estimate.
EBIT	2,838	2,868	(1.0)	2,218	27.9	
Interest expenses	16	27	(41.7)	35	(55.1)	
Other income	1,058	945	12.0	1,053	0.5	-
Pre-tax profit	3,881	3,786	2.5	3,237	19.9	9% above our estimate.
Tax	985	958	2.8	817	20.6	
Tax rate (%)	25.4	25.3	8	25.2	16	
<b>Normalized net profit</b>	<b>2,896</b>	<b>2,828</b>	<b>2.4</b>	<b>2,421</b>	<b>19.6</b>	9% above our estimate.
Exceptionals	-	-	-	-	nm	
<b>Reported net profit</b>	<b>2,896</b>	<b>2,828</b>	<b>2.4</b>	<b>2,421</b>	<b>19.6</b>	
Normalized EPS (Rs)	26.2	25.6	2.4	21.9	19.6	
Tractor volumes (nos)	25,720	26,582	(3.2)	21,253	21.0	
Tractor realisation (Rs)	6,51,617	6,27,052	3.9	6,54,331	(0.4)	1% above our estimates.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tractor division's EBIT margin witnessed a sequential uptick

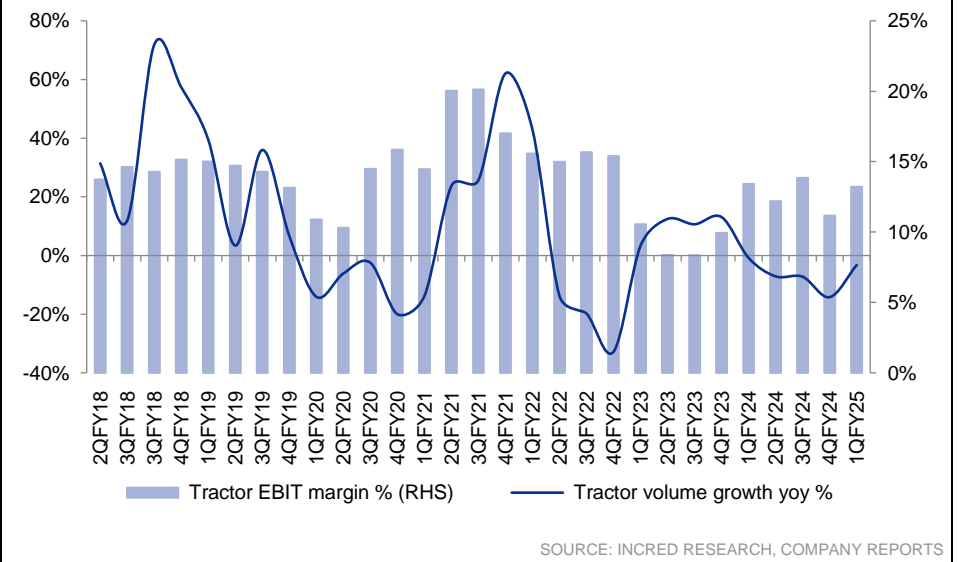


Figure 3: Railway division's sales up qoq

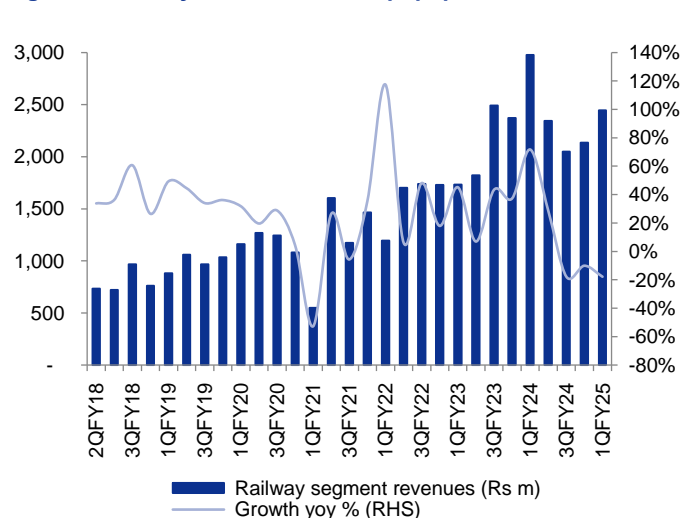


Figure 4: Segment-wise EBIT margin trend

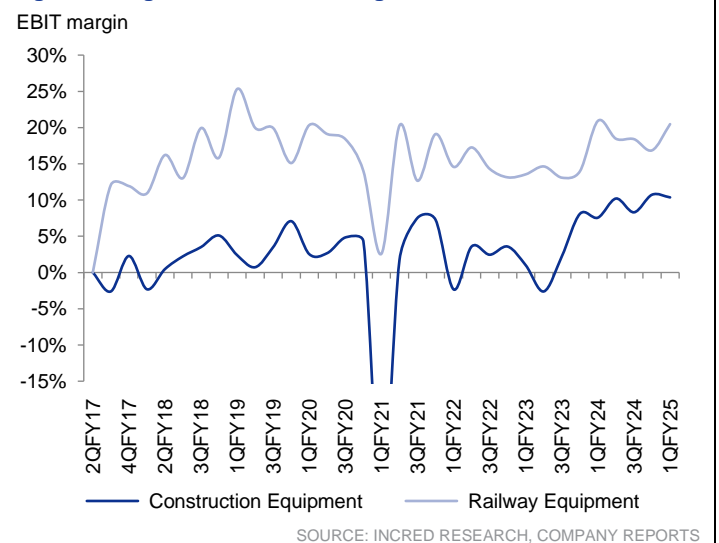
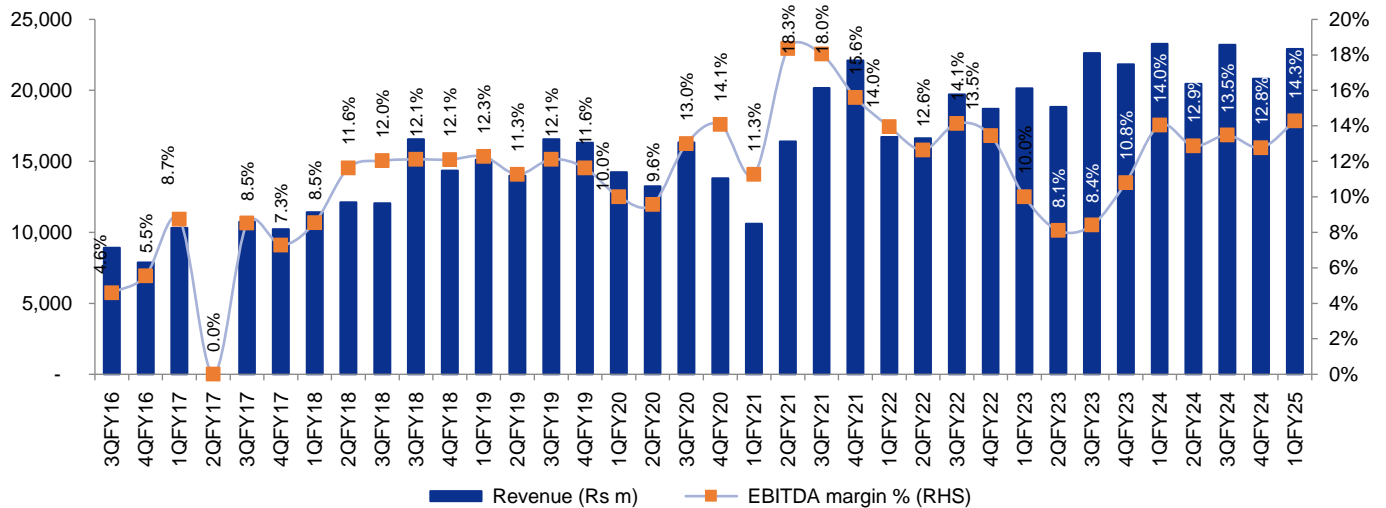


Figure 5: EBITDA margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our revised earnings estimates

Rs m	FY25F		FY26F	
	Old	New	Old	New
Tractor Volume (nos)	87,396	97,554	95,129	1,06,141
% change		10.2%		10.2%
Net Sales	91,615	96,268	1,08,251	1,13,459
% change		1.2%		2.0%
EBITDA	11,860	13,467	13,898	15,692
% change		7.0%		4.3%
EBITDA margin	12.9%	14.0%	12.8%	13.8%
bp change		57		22
PAT	10,621	11,826	12,367	13,679
% change		6.4%		4.1%

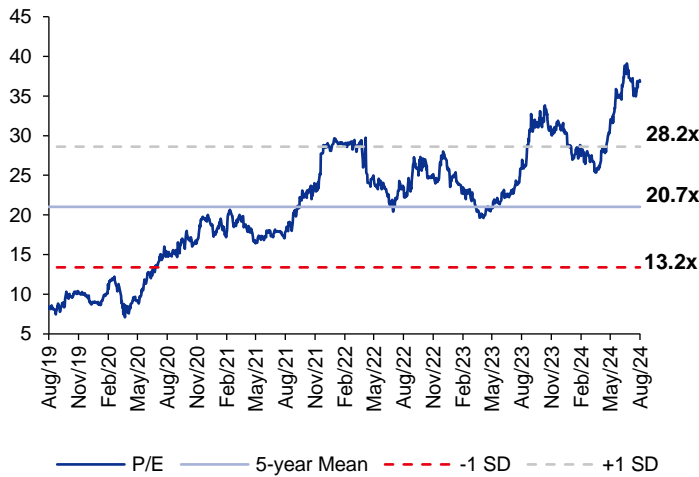
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key assumptions

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Volume Assumptions</b>					
Tractor volume (units)	1,03,290	95,858	97,554	1,06,141	1,13,201
Growth yoy %	9.6%	-7.2%	1.8%	8.8%	6.7%
Construction Equipment volume (units)	4,620	6,548	7,530	9,036	10,392
Growth yoy %	12.2%	41.7%	15.0%	20.0%	15.0%
Total Revenue (Rs m)	83,450	87,767	96,268	1,13,459	1,28,899
Growth yoy %	16.7%	5.2%	9.7%	17.9%	13.6%
EBITDA margin %	9.4%	13.3%	14.0%	13.8%	13.3%
<b>Segment-wise Assumptions</b>					
Tractor Revenue (Rs m)	63,161	61,101	65,162	75,087	83,261
EBIT margin %	9.3%	12.7%	13.5%	13.2%	12.5%
Construction Equipment Revenue (Rs m)	11,790	17,097	20,841	26,260	31,709
EBIT margin %	2.9%	9.3%	10.0%	11.0%	11.0%
Railway Equipment Revenue (Rs m)	8,419	9,504	10,264	12,112	13,929
EBIT margin %	13.8%	18.9%	20.0%	20.5%	20.0%

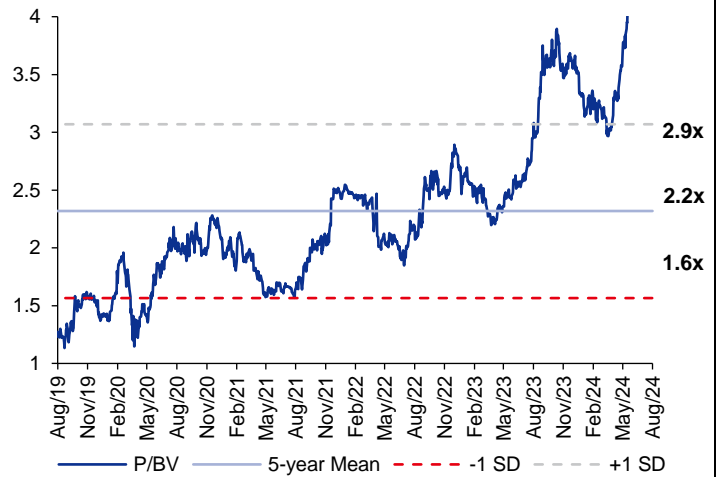
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Forward P/E is rich at +2 standard deviation



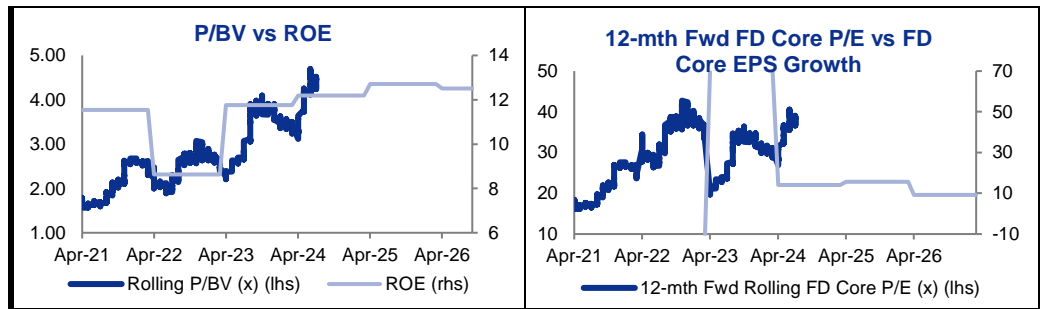
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Forward P/BV is rich at +2 standard deviation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	83,450	87,767	96,268	113,459	128,899
<b>Gross Profit</b>	22,781	27,396	30,421	35,740	39,959
<b>Operating EBITDA</b>	7,805	11,687	13,467	15,692	17,152
Depreciation And Amortisation	(1,484)	(1,664)	(1,890)	(2,092)	(2,348)
<b>Operating EBIT</b>	6,321	10,023	11,577	13,601	14,803
Financial Income/(Expense)	(103)	(108)	(70)	(50)	(50)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,806	3,983	4,262	4,688	5,157
<b>Profit Before Tax (pre-EI)</b>	9,024	13,898	15,768	18,239	19,910
Exceptional Items	(972)				
<b>Pre-tax Profit</b>	8,052	13,898	15,768	18,239	19,910
Taxation	(1,982)	(3,527)	(3,942)	(4,560)	(4,977)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	6,070	10,371	11,826	13,679	14,932
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	6,070	10,371	11,826	13,679	14,932
Recurring Net Profit	6,802	10,371	11,826	13,679	14,932
<b>Fully Diluted Recurring Net Profit</b>	6,802	10,371	11,826	13,679	14,932

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	7,805	11,687	13,467	15,692	17,152
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,803)	(437)	(1,150)	(1,065)	(844)
(Incr)/Decr in Total Provisions	(392)	1,827	608	300	200
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(972)				
Net Interest (Paid)/Received	2,703	3,875	4,192	4,638	5,107
Tax Paid	(1,982)	(3,527)	(3,942)	(4,560)	(4,977)
<b>Cashflow From Operations</b>	3,360	13,426	13,175	15,006	16,637
Capex	(2,304)	(1,842)	(8,491)	(5,500)	(3,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,968	(2,255)	(6,569)	(10,050)	(10,000)
<b>Cash Flow From Investing</b>	(336)	(4,097)	(15,060)	(15,550)	(13,500)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		(931)			
Shares Repurchased					
Dividends Paid	(924)	(1,437)	(1,989)	(2,321)	(2,763)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	(924)	(2,367)	(1,989)	(2,321)	(2,763)
Total Cash Generated	2,100	6,962	(3,874)	(2,864)	374
<b>Free Cashflow To Equity</b>	3,024	9,329	(1,885)	(544)	3,137
<b>Free Cashflow To Firm</b>	3,127	9,438	(1,815)	(494)	3,187

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	4,685	11,647	7,773	4,908	5,283
Total Debtors	12,076	12,086	12,396	13,988	15,185
Inventories	11,590	11,581	13,187	13,988	15,185
Total Other Current Assets	4,405	4,512	4,881	5,231	5,531
<b>Total Current Assets</b>	<b>32,756</b>	<b>39,826</b>	<b>38,238</b>	<b>38,116</b>	<b>41,185</b>
Fixed Assets	20,725	23,689	26,798	30,207	31,358
Total Investments	50,306	52,826	59,326	69,326	79,326
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>71,030</b>	<b>76,514</b>	<b>86,124</b>	<b>99,533</b>	<b>110,684</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	12,329	11,893	12,660	13,988	15,539
Other Current Liabilities	4,300	6,076	6,576	7,076	7,576
<b>Total Current Liabilities</b>	<b>16,628</b>	<b>17,969</b>	<b>19,236</b>	<b>21,064</b>	<b>23,114</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>					
Total Provisions	2,105	2,743	3,151	3,251	3,251
<b>Total Liabilities</b>	<b>18,733</b>	<b>20,711</b>	<b>22,387</b>	<b>24,315</b>	<b>26,365</b>
Shareholders Equity	84,348	92,138	101,975	113,333	125,503
Minority Interests					
<b>Total Equity</b>	<b>84,348</b>	<b>92,138</b>	<b>101,975</b>	<b>113,333</b>	<b>125,503</b>

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	16.7%	5.2%	9.7%	17.9%	13.6%
Operating EBITDA Growth	(18.0%)	49.7%	15.2%	16.5%	9.3%
Operating EBITDA Margin	9.4%	13.3%	14.0%	13.8%	13.3%
Net Cash Per Share (Rs)	42.39	105.40	70.34	44.42	47.81
BVPS (Rs)	763.33	833.82	922.85	1,025.64	1,135.78
Gross Interest Cover	61.37	92.46	165.38	272.02	296.06
Effective Tax Rate	24.6%	25.4%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	13.1%	13.9%	16.8%	17.0%	18.5%
Accounts Receivables Days	44.51	50.24	46.41	42.44	41.30
Inventory Days	59.04	70.05	68.65	63.81	59.86
Accounts Payables Days	63.49	73.22	68.05	62.57	60.59
ROIC (%)	18.5%	23.3%	25.6%	26.8%	26.2%
ROCE (%)	7.7%	11.2%	11.8%	12.5%	12.3%
Return On Average Assets	7.2%	9.5%	9.9%	10.5%	10.3%

**Key Drivers**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	4.4%	4.2%	4.8%	5.9%	4.0%
Unit sales grth (% , main prod./serv.)	9.6%	(7.2%)	1.8%	8.8%	6.7%
ASP (% chg, 2ndary prod./serv.)	6.6%	2.3%	6.0%	5.0%	5.0%
Unit sales grth (% ,2ndary prod/serv)	12.2%	41.7%	15.0%	20.0%	15.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS



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