

February 10, 2025

RESULT REPORT Q3 FY25 | Sector: Automobile

Escorts Kubota Ltd

Tractors margins continues to disappoint

View – Recent stock correction yet not make risk reward favorable

Escorts Kubota (ESCORTS) 3QFY25 results were weak though reported numbers are not comparable as Railways division (RED) is shown as discontinued operations. While CE/RED business performance was in-line, lower than expected margins in FES led EBITDA margins at 11.4% (-50bp YoY/ +110bp QoQ, est 12.9%) continues to disappoint. Margins expansion for the merged entity to likely be gradual given full benefits of localization etc. to only kick-in over 1-2 years. However, improved volume outlook on tractors, new launches and fading impact of higher discounting should help margins expansion QoQ. We believe, ESCORTS can surpass co guidance of mid-single digit industry volume growth for FY25E with large part of inventory destocking done and early signs of volume stability in North markets (key markets for Escorts) to be supported by new launches in Farmtrac. While we remain constructive on growth opportunities for merged entity in tractor, implements, components sourcing and exports to synergize only over mid-term, near term margin recovery to be only gradual. We see EKL's market share remain range bound.

We believe, EKL is more vulnerable v/s peers as 1) it derives ~75% of its revenues from agri segment and 2) aggressive expansion by Sonalika, TAFE, John Deere, etc. necessitating tight balance between market share and margins. Despite recent correction, the valuations at 30.3x/26.3x FY26/27 EPS, do reflect positive synergies making risk reward yet not favorable. We believe, benefits arising out of Kubota to start reflecting meaningfully led by exports ramp-up (FY26E) and localization (FY27E). We cut FY26/27 EPS by ~1-3% each to factor in for weaker margins. Maintain Neutral with revised TP of Rs3,643 (vs Rs3,752). We value co at 29x Mar'27 EPS (unchanged) and build in revenue/EBITDA/PAT CAGR of 15.4%/14.9%/13.6% over FY24-27E.

Result Highlights – Weak operating performance

- Revenues grew 8.5% YoY (+29.6% QoQ) at Rs29.4b as Agri/construction equip (CE) revenues grew +9.4%/+4.1% YoY. Tractor ASP grew 3.3% YoY (+1% QoQ) at Rs732k/unit while vols grew ~4.5% YoY (+25.2% QoQ) at ~32.6k units.
- Gross margins came in at 26.9% (-60bp YoY/-340bp QoQ). Weak gross margins were led by normalized impact of production, RM inflation (~50bp) and higher discounting due to festive. EBITDA came in at Rs3.35b (+3.5% YoY/+44% QoQ) with margins at 11.4% (-50bp YoY/+110bp QoQ).
- Segmental EBIT margins – Agri at 10.4% (-160bp YoY/+130bp QoQ), CE at 9.3% (+170bp YoY/+290bp QoQ), RED at 21.5% (+310 YoY/ +630bp QoQ).
- Adj.PAT to grew 7.7% YoY (-3.8% QoQ) at ~Rs2.9b.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	29,354	31,490	31,342	-6.8	-6.3	Weak operating performance
EBITDA	3,353	4,058	3,974	-17.4	-15.6	
EBITDA margins %	11.4	12.9	12.7	-150bp	-130bp	
Adjusted PAT	2,905	3,472	3,164	-16.3	-8.2	

Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 3,305
Target Price	: Rs 3,643
Return	: +10.2%

Stock data (as on Feb 10, 2025)

Nifty	23,382
52 Week h/l (Rs)	4,420 / 2,648
Market cap (Rs/USD mn)	3,59.643 / 4,113
Outstanding Shares (mn)	110
6m Avg t/o (Rs mn):	951
Div yield (%):	0.5
Bloomberg code:	ESCORTS IN
NSE code:	ESCORTS

Stock performance



	1M	3M	1Y
Absolute return	(3.0%)	(9.1%)	+17.7%

Shareholding pattern (As of Dec'24)

Promoter	68.0%
FII+DII	16.1%
Others	14.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	3,643	3,752

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	109.1	125.6
EPS (Old)	110.2	129.4
% change	(1.0%)	(2.9%)

Financial Summary

Y/E Mar (Rs b)	FY25E	FY26E	FY27E
Sales	109.9	122.5	135.9
EBITDA	13.0	15.1	17.7
Adj. PAT	8.9	13.4	15.4
EPS (INR)	72.8	109.1	125.6
EPS Gr. (%)	(23.3)	49.9	15.1
BV/Sh. (INR)	815	917	1,036
RoE (%)	9.3	12.6	12.9
RoCE (%)	15.5	16.8	17.2
Payout (%)	9.6	6.4	5.6
P/E (x)	45.4	30.3	26.3
P/BV (x)	4.1	3.6	3.2
EV/EBITDA (x)	30.2	25.6	21.3
EV/Sales (x)	3.6	3.1	2.8

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs. mn)	Q3FY25	Q3FY24	YoY chg (%)	Q2FY25	QoQ chg	9MFY25	9MFY24	YoY chg (%)
Net Revenues	29,354	27,064	8.5	22,649	29.6	80,013	74,987	6.7
Raw Materials	21,444	19,617	9.3	15,766	36.0	56,849	53,100	7.1
% of Net Sales	73.1%	72.5%		69.6%		71.0%	70.8%	
Gross Margins %	26.9%	27.5%		30.4%		29.0%	29.2%	
Personnel	1,983	1,742	13.8	1,861	6.5	5,718	5,166	10.7
% of Net Sales	6.8%	6.4%		8.2%		7.1%	6.9%	
Manufacturing & Other Exp	2,575	2,467	4.4	2,694	(4.4)	8,071	7,546	7.0
% of Net Sales	8.8%	9.1%		11.9%		10.1%	10.1%	
Total Expenditure	26,001	23,826	9.1	20,321	28.0	70,638	65,812	7.3
EBITDA	3,353	3,238	3.5	2,328	44.0	9,375	9,175	2.2
EBITDA Margin (%)	11.4%	12.0%		10.3%		11.7%	12.2%	
Depreciation	612	565	8.4	610	0.5	1,837	1,549	18.6
EBIT	2,741	2,673	2.5	1,718	59.5	7,538	7,626	(1.2)
Interest Expenses	31	104	(70.6)	92	(66.8)	224	217	3.2
Non-operating income	1,092	1,004	8.8	1,152	(5.2)	3,269	2,885	13.3
Extraordinary Expenses	-	-		-		0	0	
PBT	3,802	3,573	6.4	2,779	36.8	10,583	10,295	2.8
Tax-Total	897	875	2.5	3,027	(70.4)	4,891	2,635	85.6
Tax Rate (%) - Total	23.6%	24.5%		108.9%		46.2%	25.6%	
Reported PAT	2,905	2,698	7.6	(248)	(1,270.8)	5,692	7,660	(25.7)
Adj. PAT	2,905	2,698	7.6	(248)	(1,270.8)	5,692	7,660	(25.7)
PAT Margin	9.9%	10.0%		-1.1%		7.1%	10.2%	

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

Tractors segment

- **Domestic outlook** – expect domestic tractor industry to grow by 6-7% in FY25E and 14-15% in 4QFY25 (vs mid-single digit indicated earlier) led by better farm sentiments due to favorable monsoon and terms of trade.
 - In 3QFY25, domestic tractor industry in North and central regions grew 2.5% YoY while for others region it grew 28.6% YoY.
 - Expect 1QFY26 tractor industry growth also to be decent.
- **Wholesales market share impacted by**, 1) higher growth in non-strong market for EKL and 2) reduced channel inventory at little over 4 weeks (vs 5-5.5 weeks earlier). Retail market share is better than wholesales though. Expect benefit of Kubota integration and captive NBFC from 2HFY26E.
- **Have launched new product launch under Farmtrac series for 30-50HP categories** - This is largely for markets such as GJ, MH, Chhattisgarh etc. which should help market share gains.
- **Captive financing** – pilot is underway and expect full impact of the same from 2HFY26E.
- Domestic tractor volume mix
 - <40HP/>40HP – 32/68 (vs 34/66 QoQ and 35/65 YoY).
- **Channel expansion** – total dealer counts for the merged entity at ~1,540 as of Dec'24 (flat QoQ). Co indicated >1,200 (flat QoQ since 2 quarters) for Escorts while Kubota channel is ~300 dealers.
- **Capacity utilization at ~60% in 3QFY25** (vs 73% in 2QFY25). Current capacity is ~170k and production of ~125-130k leaving out limited scope for further growth. Hence there is need for greenfield.
- **Exports sales through Kubota channel contributed ~27% in 3QFY25** (vs ~20% in 2QFY25, ~21% in 1QFY25) and ~22% in 9MFY25. Expect the exports momentum to continue form here on. Current exports are mostly in Europe markets which new product launches as well. Expect exports to grow 20-25% in FY26E. Margins are same like domestic market but realizations is much better than domestic market.
- **Tractor to non-tractor ratio** at 21/79 in 3Q (vs 19/81 YoY, 18/82 QoQ) and 20/80 in 9MFY25.
- Non tractor machinery – engines, spares, implements (12-13% of revenues).
- **Agri implements** – Escorts was primarily focus on Rotavators with Kubota integration the product portfolio expanded to combined harvesters, rice transplanters, sprayers, super seeders which should support overall growth. Harvesters' volume grew +30% in 3Q which helped revenues while margins are lower as its traded (vs manufactured in house).
- **Expect components exports to Kubota** from India are expected to increase from FY26E.

Construction equipment segment (CE)

- **Outlook** - Have introduced range of stage 5 emission (Jan'25) implied products. Expect near term hiccups due to price hikes of 5-10% (to be passed in staggered manner) but mid-long term growth trajectory intact. Expect profitability growth to be flat.
- Few products which directly upgraded to BS-V from BS-3, cost increase for the customer is >10% and from BS-4 to BS-V is 5-6%.
- In 9MFY25, BHL Industry up by 7.9% YoY, PnC Industry declined 5.1% YoY, compactors industry grew by 7.3% YoY, mini excavators grew 5.6% YoY.

Escorts Kubota Ltd (ESCORTS)

- **Capacity utilization at ~95% in 3QFY25 (vs 68% in 2QFY25, ~55% in 1QFY25 and ~70% in 4QFY24).**

Railways segment (RED)

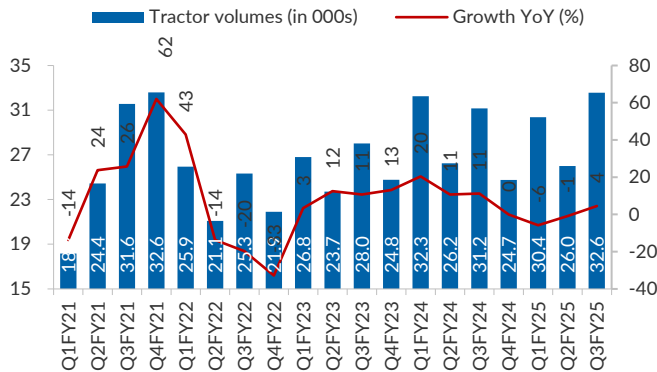
- Order Book at the end of 3QFY25 at Rs8.9b, excluding BMBS (bogie mounted brake system) orders for ~Rs3.83b, supplies of which have temporarily been on hold by RDSO.
- EBIT for the segment is Rs440m.
- Co has agreed to transfer of ~33 acres of land parcel for ~Rs1.1b to Sonacoms. The land was used as spare parts storage which will be relocated.

Financials

- Gross margins were weak led by normalized impact of production, RM inflation (~50bp) and higher discounting.

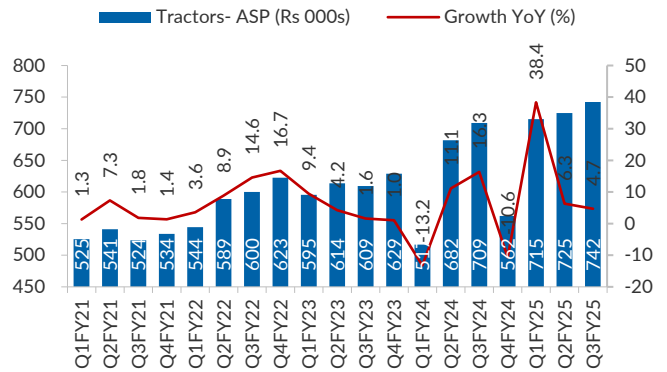
CHARTS

Exhibit 1: Tractor volume grew 4.5% YoY/+25.2% QoQ



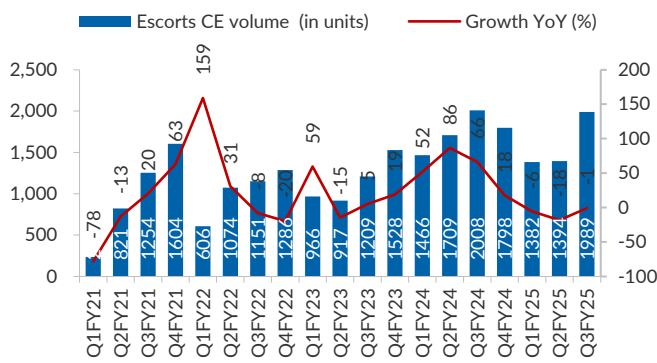
Source: Company, YES Sec

Exhibit 2: ASPs grew 4.7% YoY led by price hikes, mix



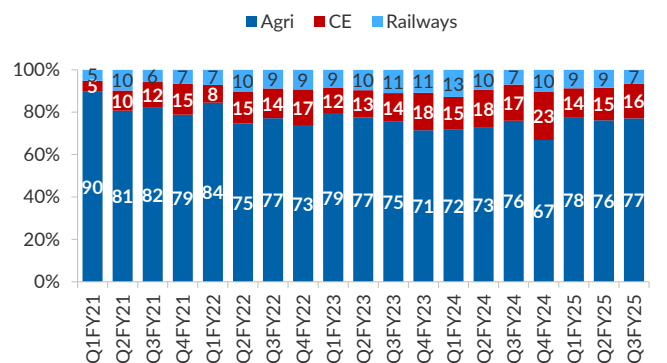
Source: Company, YES Sec

Exhibit 3: CE volumes fell 0.9% YoY/+42.7 QoQ



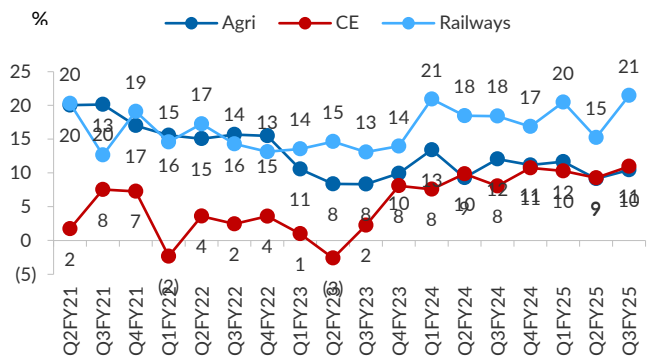
Source: Company, YES Sec

Exhibit 4: Segment wise revenue share trend



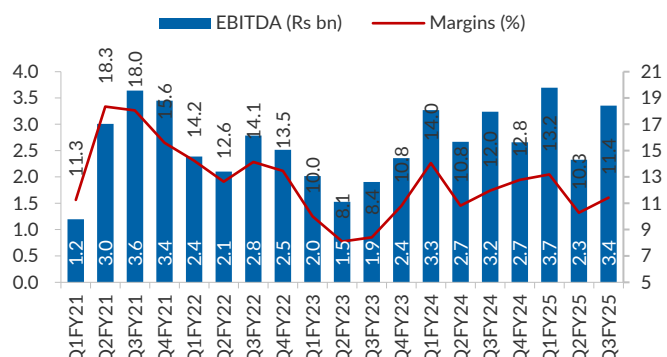
Source: Company, YES Sec

Exhibit 5: Trend in segmental margins



Source: Company, YES Sec

Exhibit 6: EBITDA margin expanded ~110bp QoQ



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,319	1,319	1,105	1,226	1,226	1,226
Total Reserves	74,680	80,548	90,658	98,708	111,218	125,752
Net Worth	75,999	81,867	91,763	99,934	112,444	126,978
Minority Interest	(38)	(39)	(39)	(39)	(39)	(39)
Deferred Liabilities	373	646	1,149	1,878	1,878	1,878
Total Loans	-	-	42	42	42	42
Capital Employed	76,334	82,475	92,915	101,814	114,325	128,858
Gross Block	29,973	31,687	32,666	33,713	34,835	36,034
Less: Accum. Deprn.	12,389	13,573	14,502	16,991	18,705	20,477
Net Fixed Assets	17,585	18,114	18,164	16,722	16,129	15,557
Capital WIP	878	1,137	1,515	1,429	1,593	1,767
Total Investments	49,184	48,465	52,746	55,383	58,152	61,060
Curr. Assets, Loans&Adv.	23,431	33,135	40,244	50,139	62,143	76,765
Inventory	8,466	12,177	12,181	15,499	17,717	19,577
Account Receivables	7,926	11,797	11,732	15,658	18,459	20,484
Cash and Bank Balance	2,718	4,719	11,790	13,532	19,427	28,857
Loans and Advances	4,320	4,442	4,542	5,450	6,540	7,848
Curr. Liability & Prov.	14,743	18,375	19,754	21,859	23,693	26,291
Account Payables	13,341	16,912	18,156	19,873	21,480	23,836
Provisions	1,402	1,463	1,599	1,985	2,213	2,456
Net Current Assets	8,687	14,760	20,490	28,280	38,450	50,474
Deferred Tax assets	-	-	-	-	-	-
Appl. of Funds	76,334	82,475	92,915	101,814	114,325	128,858

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	72,827	84,287	88,496	109,906	122,504	135,938
Change (%)	3.8	15.7	5.0	24.2	11.5	11.0
Total Expenditure	62,872	76,512	76,829	96,921	107,417	118,246
% of Sales	86.3	90.8	86.8	88.2	87.7	87.0
EBITDA	9,954	7,775	11,667	12,985	15,086	17,692
Margin (%)	13.7	9.2	13.2	11.8	12.3	13.0
Depreciation	1,321	1,501	1,669	2,489	1,714	1,772
EBIT	8,634	6,275	9,998	10,496	13,372	15,921
Int. and Finance Charges	150	133	137	288	274	260
Other Income	1,738	2,809	3,986	4,384	4,516	4,652
PBT bef. EO Exp.	10,222	8,951	13,847	14,592	17,615	20,312
EO Items	-	(531)	-	-	-	-
PBT after EO Exp.	10,222	8,421	13,847	14,592	17,615	20,312
Current Tax	2,572	1,979	3,519	5,101	4,402	5,076
Deferred Tax	-	-	-	729	-	-
Tax Rate (%)	25.2	23.5	25.4	39.9	25.0	25.0
Less: Mionrity Interest	294	75	(164)	(164)	(164)	(164)
Reported PAT	7,356	6,367	10,491	8,927	13,377	15,400
Adjusted PAT	7,356	6,772	10,491	8,927	13,377	15,400
Change (%)	(15.6)	(7.9)	54.9	(14.9)	49.9	15.1
Margin (%)	10.1	8.0	11.9	8.1	10.9	11.3

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	9,928	8,346	14,010	14,574	17,607	20,304
Depreciation	1,321	1,501	1,669	2,489	1,714	1,772
Interest & Finance Charges	790	1,513	2,081	288	274	260
Direct Taxes Paid	(2,547)	(1,864)	(2,340)	(5,101)	(4,402)	(5,076)
(Inc)/Dec in WC	(6,526)	(4,102)	512	(6,048)	(4,276)	(2,593)
CF from Operations	2,966	5,393	15,932	6,202	10,917	14,667
Others	(2,644)	(3,154)	(5,610)	0	0	0
CF from Operating incl EO	323	2,239	10,322	6,202	10,917	14,667
(inc)/dec in FA	(1,759)	(2,132)	(1,751)	(961)	(1,285)	(1,374)
Free Cash Flow	(1,436)	107	8,571	5,241	9,632	13,292
(Pur)/Sale of Investments	(28,434)	6,702	(1,363)	0	0	0
Others	11,625	(5,187)	(6,165)	(2,637)	(2,769)	(2,908)
CF from Investments	(18,567)	(618)	(9,279)	(3,599)	(4,054)	(4,282)
Issue of Shares	19,021	206	135	121	0	0
Inc/(Dec) in Debt	(78)	(71)	(84)	0	0	0
Interest Paid	(98)	(91)	(101)	(288)	(274)	(260)
Dividend Paid	(737)	(757)	(758)	(858)	(858)	(858)
Others	(8)	-	42	164	164	164
CF from Fin. Activity	18,099	(712)	(767)	(862)	(968)	(955)
Inc/Dec of Cash	(145)	909	276	1,742	5,895	9,430
Opening Balance	1,057	915	1,822	11,790	13,532	19,427
Closing Balance	912	1,825	2,098	13,532	19,427	28,857

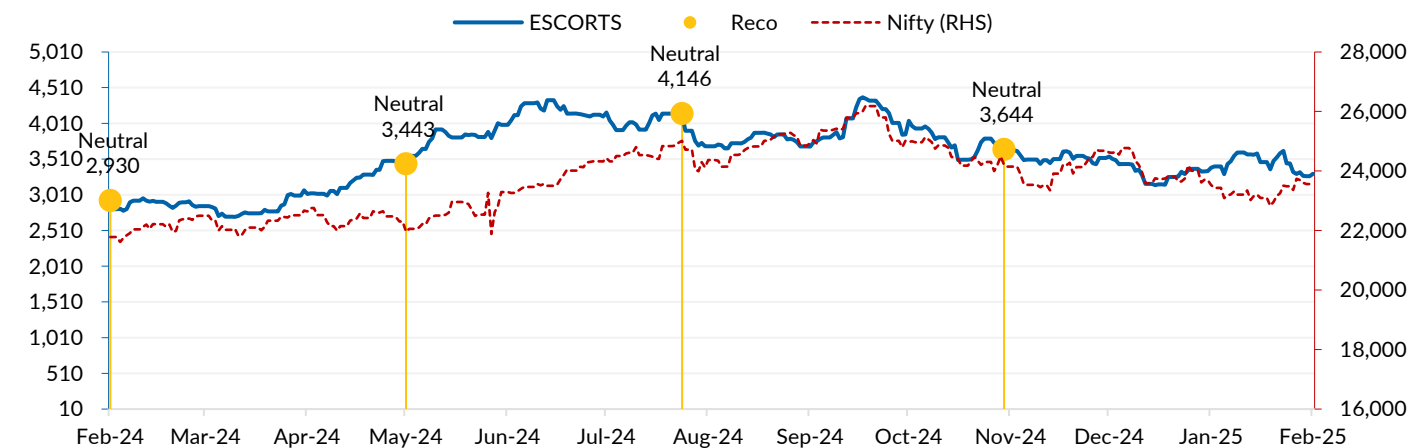
Source- Company, Yes Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS (ex treasury)	74.9	68.9	94.9	72.8	109.1	125.6
Cash EPS	88.3	84.2	110.0	93.1	123.1	140.1
BV/Share	773.6	833.3	830.4	815.1	917.2	1,035.7
DPS	7.0	7.0	7.0	7.0	7.0	7.0
Payout (%)	12.6	14.5	7.4	9.6	6.4	5.6
Valuation (x)						
P/E	44.1	47.9	34.8	45.4	30.3	26.3
Cash P/E	37.4	39.2	30.0	35.5	26.9	23.6
P/BV	4.3	4.0	4.0	4.1	3.6	3.2
EV/Sales	5.5	4.8	4.4	3.6	3.1	2.8
EV/EBITDA	40.4	51.5	33.7	30.2	25.6	21.3
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2
FCF per share	(10.9)	0.8	77.6	42.7	78.6	108.4
Return Ratios (%)						
RoE	11.7	8.6	12.1	9.3	12.6	12.9
RoCE	16.4	11.5	16.1	15.5	16.8	17.2
RoIC	32.2	18.6	27.1	21.6	30.1	33.0
Working Capital Ratios						
Asset Turnover (x)	1.0	1.0	1.0	1.1	1.1	1.1
Inventory (Days)	62.1	72.6	73.0	73.0	75.0	75.0
Debtor (Days)	39.7	51.1	48.4	52.0	55.0	55.0
Creditor (Days)	66.9	73.2	74.9	66.0	64.0	64.0
Working Cap. Turnover (Days)	29.9	43.5	35.9	49.0	56.7	58.0
Leverage Ratio (x)						
Current Ratio	1.6	1.8	2.0	2.3	2.6	2.9
Interest Cover Ratio	57.7	47.3	72.9	36.4	48.9	61.2
Debt/Equity	-	-	0.0	0.0	0.0	0.0

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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Analyst signature

Analyst signature

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