

## Structural Levers in Place; Near-Term Upside Capped

Est. Vs. Actual for Q1FY26: Revenue – Largely **INLINE** ; EBITDA – **BEAT** ; PAT – **BEAT**

### Change in Estimates post Q1FY26

**FY26E/FY27E: Revenue:** -6.9%/-8.1%; **EBITDA:** -6.4%/-9.2%; **PAT:** -8.8%/-7.8%.

### Recommendation Rationale

- **Domestic Tractor Business:** Q1FY26 domestic tractor industry volumes grew 9.2% YoY to 2.86 Lc units, led by a 19.3% rise in the south and west; EKL's stronghold markets in the north and central grew a modest 0.5%. EKL's domestic tractor volumes declined 1.9% YoY to 28,848 units, impacted by geographic mismatch and inventory normalisation. Market share declined to ~8.7% (vs ~9.4% YoY); management attributes this to an industry swing and expects partial normalisation from Q3FY26.
- **Export Segment - Excellent Growth; Limited Immediate Impact:** Export volumes grew 80.3% YoY to 1,733 tractors, aided by traction in Europe, South Africa, and Mexico. ~52% of exports are now routed through Kubota's global distribution network, with a monthly run-rate stabilising at 500–600 tractors. Management targets ~25–30% growth YoY, with a medium-term export revenue share goal of ~15%. Export contribution remains small on the base and insufficient to offset domestic pressures in the near term.
- **Construction Equipment: Margin Drag to Persist in the Near Term:** In Q1FY26, CE volumes declined to 1,055 units (vs 1,382 YoY), impacted by industry de-growth (-14%) and transition to new emission norms. EBIT margin declined sharply to 5.8% (vs 10.3% YoY) due to the clearance of old-emission inventory and low production levels hurting fixed-cost absorption. Management expects margin normalisation (10–11%) only in H2FY26, with monsoon season and project delays weighing on H1 volumes.

### Sector Outlook: Cautiously Positive

**Company Outlook & Guidance:** As per management, Escorts Kubota is structurally transforming through strategic product introductions, export-led diversification, Kubota synergy benefits, and reinvestment of capital from RED divestment. These levers are expected to materialise only gradually over the next 4–6 quarters.

**Current Valuation:** 26x FY28 EPS (earlier 28x FY27 Eps).

**Current TP: Rs 3,135/share** (Earlier TP: Rs 3,365/share)

**Recommendation:** We continue to maintain our **HOLD** rating on the stock.

**Financial Performance:** Escorts Kubota Ltd. (Escorts) reported revenue of Rs 2,500 Cr in Q1FY26, down 3% YoY but up 2% QoQ, largely in line with expectations. EBITDA stood at Rs 321 Cr, marking an 8% beat; up 161%/12% YoY/QoQ, and EBITDA margin came in at 12.9%, up 808 bps YoY and ~110 bps QoQ, supported by lower personnel costs and cost optimisation efforts. Adjusted PAT stood at ~Rs 293 Cr, reflecting a 7% beat, broadly tracking the EBITDA performance and higher other income.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,500	2%	-3%	2,580	-3.10%
EBITDA	321	12%	161%	299	8%
EBITDA Margin	12.9%	110	808	11.6%	129
Net Profit	369	8%	415%	275	7%
EPS (Rs)*	26.7	8%	415%	25	7%

Source: Company, Axis Securities Research

(CMP as of 05<sup>th</sup> Aug 2025)

CMP (Rs)	3,416
Upside /Downside (%)	-8%
High/Low (Rs)	4,422/2,828
Market cap (Cr)	38,221
Avg. daily vol. (6m)Shrs.	16,999
No. of shares (Cr)	11.18

### Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter Group	68.0	68.0	68.0
Institutions	5.9	5.2	5.2
Public UTI	8.1	9.3	9.5
Others	0.0	0.0	0.0
Total	18.0	17.5	17.2

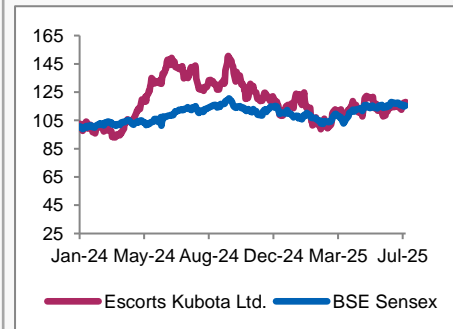
### Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
Net Sales	10,304	11,158	12,128
EBITDA	1,237	1,418	1,596
Net Profit	1,031	1,225	1,349
EPS (Rs.)	92.2	109.5	120.6
PER (x)	36.8	31.0	28.1
EV/ EBITDA	28.1	24.5	21.8
P/BV	3.6	3.2	2.9
ROE (%)	10.2	10.9	10.9

### Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-6.9%	-8.1%
EBITDA	-6.4%	-9.2%
PAT	-8.8%	-7.8%

### Relative Performance



Source: Ace Equity, Axis Securities

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## Outlook

Escorts Kubota Ltd. (EKL) reported a steady operational performance in Q1FY26 amidst challenging domestic market dynamics and the ongoing transition in its construction equipment (CE) business. While export traction and product refreshes are promising, domestic market share pressures, delayed land acquisition, and cyclical headwinds in the CE segment constrain near-term upside.

## Valuation & Recommendation

In the backdrop of the company's positive long-term fundamentals – strong cash flow generating capabilities and greenfield expansion projects – we value the stock at 26x FY28 EPS (earlier 28x FY27 EPS). However, synergy benefits with Kubota in agribusiness are expected to take longer than estimated earlier due to a slowdown in international markets, particularly in the USA. Additionally, discontinuing profits from RED in FY25/26 onwards (we revise our FY25/26E earnings downward), the valuation appears full. **Hence, we maintain our HOLD rating on the stock with a TP of Rs 3,135 (earlier Rs 3,365), implying a downside of ~8% from the CMP.**

## Key Concall Highlights

### Product Pipeline: Directionally Positive, Full Impact in FY27

Escorts Kubota's upcoming product portfolio indicates a structured and brand-specific approach to drive long-term growth. Key introductions include:

- *Promax/Powertrac*: Initial traction in select states is encouraging, contributing to marginal market share gains.
- *Wetland Series (Powertrac)*: Launch targeted for Sep–Oct' 25, with material contribution anticipated in Q4FY26 and FY27 (Southern and Eastern markets where paddy cultivation is prominent).

While the strategic expansion across Powertrac, Farmtrac, and Kubota is well-calibrated, synergies remain limited in the near term as integration is still at the pilot stage. The company has 1,600 dealers across India with 1,250 branches for Kubota, Farmtrac, Powertrac and Escort brands.

### Balance Sheet & Other Income

Other income recorded a notable uptick, driven by:

- Deployment of surplus capital from the RED divestment;
- MTM gains in a declining interest rate environment;
- Continued healthy cash flow generation.

This positions EKL with sufficient liquidity to reinvest in core business areas and R&D, though visibility on capital deployment timelines remains limited.

### UP Land Acquisition – Timeline Slippage

Land acquisition for the greenfield project in Uttar Pradesh faces delays due to pending handovers from farmers. Management expects this to conclude by the end of FY26, post which capex-related execution may commence. No significant deployment is expected in the interim.

### Margin Outlook & Commodity Cost Pressure

Q1 margins were supported by subdued steel prices. However, the management has indicated a potential uptick in steel and metal costs in Q2, likely weighing on tractor margins. Despite this, EBIT margin guidance for the agri segment is maintained at 12–12.5% for FY26.

### Key Risks to Our Estimates and TP

- A lower demand scenario may hamper vehicle off-take, impacting our sales volume growth forecasts.
- Adverse macroeconomic situations continue in countries like the EU and the US, delaying the pick-up in exports.

## Change in Estimates

	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	10,304	11,158	12,128	11,062	12,148	-	-6.9%	-8.1%	-
EBITDA	1,237	1,418	1,596	1,322	1,561	-	-6.4%	-9.2%	-
PAT	1,031	1,225	1,349	1,131	1,328	-	-8.8%	-7.8%	-

Source: Company, Axis Securities Research

## Q1FY26 Results Review

YE March (Rs Cr)	Q1FY26	Axis Sec Estimates	Axis Sec Var (%)	Q4FY25	% Change (QoQ)	Q1FY25	% Change (YoY)
<b>Sales Volume (units)</b>							
Total Tractors	30,581	30,581		26,633	14.8%	30,370	0.7%
Construction Equipment	1,055	1,055		1,719	-38.6%	1,382	-23.7%
<b>Sales</b>	<b>2,500</b>	<b>2,580</b>	<b>-3.1%</b>	<b>2,445</b>	<b>2.3%</b>	<b>2,574</b>	<b>-2.9%</b>
Other Op. Inc	0	0		0.0		0.0	
<b>Total Revenue</b>	<b>2,500</b>	<b>2,580</b>	<b>-3.1%</b>	<b>2,445</b>	<b>2.3%</b>	<b>2,574</b>	<b>-2.9%</b>
<b>Expenditure</b>							
Net Raw Material	1,728	1,798	-3.9%	1,696	1.9%	1,976	-12.6%
Other Exp	262	271	-3.1%	257	2.0%	283	-7.3%
Personnel	188	212	-11.4%	204	-7.9%	191	-1.7%
Total Expenditure	2,179	2,282	-4.5%	2,157	1.0%	2,451	-11.1%
<b>EBIDTA</b>	<b>321</b>	<b>299</b>	<b>7.7%</b>	<b>288</b>	<b>11.8%</b>	<b>123</b>	<b>161.3%</b>
<b>EBITDA Margins</b>	<b>12.9%</b>	<b>11.6%</b>	<b>129</b>	<b>11.8%</b>	<b>110</b>	<b>4.8%</b>	<b>808</b>
Less: Depreciation	60	51	17.7%	62	-3.9%	62	-3.3%
EBIT	262	248	5.6%	226	16.1%	61	326.6%
Interest	4	4	-9.1%	5	-22.4%	11	-62.8%
Oth. Inc.	156	113	37.7%	132	17.8%	103	51.5%
<b>Profit Before Extraordinary Items and Tax</b>	<b>414</b>	<b>357</b>	<b>16.0%</b>	<b>353</b>	<b>17.3%</b>	<b>154</b>	<b>169.3%</b>
Less: Exceptional Item	-76	0		2		0	
Share Of Profit/Loss on Investments	0	0		0		-0.27	
PBT	490	357	37.3%	351	39.5%	153	219.3%
Tax	120	82	46.8%	79		96	
<b>PAT</b>	<b>369</b>	<b>275</b>	<b>34.5%</b>	<b>272</b>	<b>35.9%</b>	<b>57</b>	<b>548.0%</b>
Share of profit of Associates	0	0		0		0	
<b>Adjusted PAT</b>	<b>293</b>	<b>275</b>	<b>6.8%</b>	<b>272</b>	<b>8.0%</b>	<b>57</b>	<b>414.7%</b>
Weighted No Of Equity Shares(Crs)	11.0	11.0		11.0		11.0	
Reported EPS (Rs.)	33.6	25.0	34.5%	23.9	40.5%	5.2	548.0%
Adjusted EPS (Rs.)	26.7	25.0	6.8%	24.7	8.0%	5.2	414.7%
<b>Ratios</b>							
GM	30.9%	30.3%	57	30.6%	24	23.2%	767
EBITDA Margin	12.9%	11.6%	129	11.8%	110	4.8%	808
PBT	19.6%	13.8%	577	14.4%	524	6.0%	1364
PAT	11.7%	10.6%	109	11.1%	62	2.2%	952

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY25	FY26E	FY27E	FY28E
<b>Net revenues</b>	10,244	10,304	11,158	12,128
Operating expenses	9,079	9,067	9,740	10,532
<b>EBIDTA</b>	1,165	1,237	1,418	1,596
<b>EBITDA margin (%)</b>	11.4	12.0	12.7	13.2
Other income	461	514	503	516
Interest	29	22	24	24
Depreciation	244	229	263	287
Profit Before Tax	1,354	1,500	1,635	1,800
Tax	227	392	409	450
<b>Reported Net Profit</b>	1,124	1,031	1,225	1,349
Net Margin (%)	11.0	10.5	11.0	11.1
<b>Adjusted Net Profit</b>	1,125	1,086	1,225	1,349

Source: Company, Axis Securities research

### Balance Sheet

(Rs Cr)

Y/E March (Rs Cr)	FY25	FY26E	FY27E	FY28E
Equity capital	112	112	112	112
Reserves & surplus	10,255	11,205	12,349	13,729
<b>Net Worth</b>	<b>10,367</b>	<b>11,317</b>	<b>12,461</b>	<b>13,841</b>
Minority Interest	(4)	(4)	(4)	(4)
Total Loans	113	113	113	-
Other LT Liabilities & Provisions	77	77	77	77
Deferred tax liability	58	62	71	-
<b>Total Liabilities and Equity</b>	<b>10,611</b>	<b>11,565</b>	<b>12,718</b>	<b>13,914</b>
Gross block	3,665	4,896	5,576	6,255
Depreciation	1,611	1,840	2,103	2,391
Net block	2,083	3,085	3,502	3,894
Capital WIP	123	(429)	(429)	(429)
Investments & Other LT assets	3,757	1,486	1,692	1,898
Inventory	1,399	1,407	1,524	1,656
Debtors	1,332	1,340	1,451	1,577
Cash & Bank Bal	1,124	3,326	3,259	3,182
Loans & Advances	2,679	3,324	3,821	4,239
Current Assets	6,534	9,397	10,055	10,654
Sundry Creditors	1,640	1,638	1,759	1,902
Other Current Liability	582	545	545	545
Current Liability & Provisions	159	274	279	135
Net current assets	4,154	6,940	7,472	8,072
Misc Assets	494	483	482	480
<b>Total Assets</b>	<b>10,611</b>	<b>11,565</b>	<b>12,718</b>	<b>13,914</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March (Rs Cr)	FY25	FY26E	FY27E	FY28E
EBIT	1,381	1,446	1,659	1,824
Depreciation & Amortisation	244	229	263	287
Interest paid(-)	(29)	(22)	(24)	(24)
Tax paid(-)	(227)	(392)	(409)	(450)
EOI	(185)	29	30	30
<b>Operating Cash Flow</b>	<b>1,184</b>	<b>1,291</b>	<b>1,518</b>	<b>1,667</b>
Change in Working Capital	453	97	(101)	(260)
<b>Cash flow from Operations</b>	<b>1,637</b>	<b>1,388</b>	<b>1,417</b>	<b>1,407</b>
Capex	(399)	(679)	(679)	(679)
Investments	(783)	1,638	(701)	(622)
<b>Cash flow from Investing</b>	<b>(1,182)</b>	<b>959</b>	<b>(1,381)</b>	<b>(1,301)</b>
Change in borrowing	(329)	(37)	-	(113)
Others	(24)	4	9	(71)
Dividends Paid (-)	(307)	(112)	(112)	-
<b>Cash Flow from Financial Activities</b>	<b>(660)</b>	<b>(145)</b>	<b>(103)</b>	<b>(184)</b>
Change in Cash	(205)	2,202	(67)	(78)
Opening cash	1,206	1,124	3,326	3,259
Closing cash	1,001	3,326	3,259	3,182

Source: Company, Axis Securities research

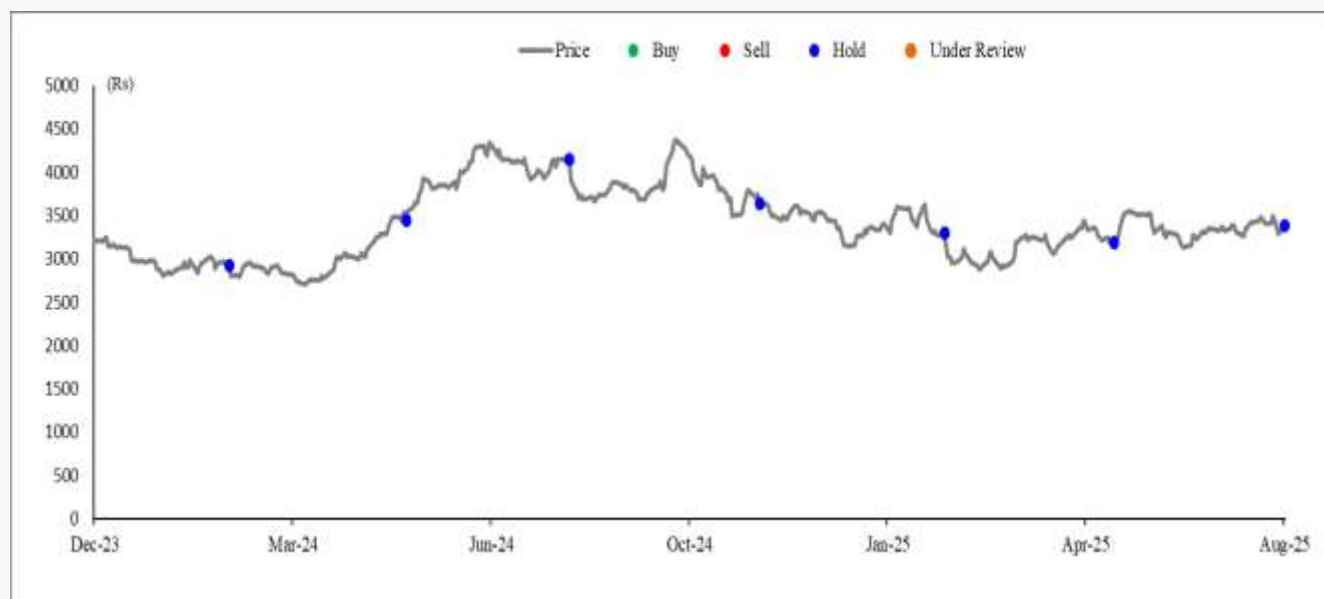
**Ratio Analysis**

(%)

Y/E Mar	FY25	FY26E	FY27E	FY28E
Revenue Growth	4.5	0.6	8.3	8.7
EBITDA Margin (%)	11.4	12.0	12.7	13.2
Net Profit Margin (%)	11.0	10.0	11.0	11.1
ROCE (%)	13.6	13.7	13.5	13.6
ROE (%)	11.8	10.2	10.9	10.9
EPS (Rs.)	100.5	92.2	109.5	120.6
PER (x)	33.7	36.8	31.0	28.1
P/BV (x)	4.0	3.6	3.2	2.9
EV/ EBITDA (x)	31.7	28.1	24.5	21.8
Fixed Assets Turnover Ratio (x)	1.0	0.9	0.9	0.9
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	3.6	3.4	3.1	2.9

Source: Company, Axis Securities Research

## Escorts Kubota Ltd Recommendation History



Date	Reco	TP	Research
09-Feb-24	HOLD	2,310	Result Update
10-May-24	HOLD	3,500	Result Update
02-Aug-24	HOLD	4,205	Result Update
08-Nov-24	HOLD	3,290	Result Update
11-Feb-25	HOLD	3,300	Result Update
09-May-25	HOLD	3,365	Result Update
06-Aug-25	HOLD	3,135	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.