AXIS DIRECT

Result Update
06th November 2025

Escorts Kubota Ltd
Auto

HOLD
Target Price
3,590

Structural Levers in Place; Near-Term Upside Capped

Est. Vs. Actual for Q2FY26: **Revenue** – **INLINE** ; **EBITDA** – **INLINE** ; **PAT** – **INLINE**

Change in Estimates post Q2FY26
FY26E/FY27E: Revenue: 4.7%/5.5%; **EBITDA:** 11.3%/12.8%; **PAT:** 11.5%/13.4%.

Recommendation Rationale

- **Agri Machinery & Non-Tractor Business: Strong Growth and Margin Expansion:** The Agri Machinery segment delivered strong performance with revenues rising 29.1% YoY to Rs 2,432 Cr, supported by strong demand and a favorable product mix. Segmental EBIT margins expanded by 368 bps YoY to 12.8% (vs. 9.1% in Q2FY25), driven primarily by a higher contribution from non-tractor verticals, which now account for ~17% of segmental revenue. Within non-tractor offerings, the Agri Solutions division particularly harvesters was the key growth catalyst, witnessing strong traction and zero inventory levels. The product mix shift towards high-value harvesters (Rs 20–25 Lc per unit, ~4–5x the price of a tractor) proved margin accretive. Furthermore, localization of critical harvester components (such as hydraulic lifts and transmission systems) is underway, with planned exports to Japan and Thailand through Kubota's global network
- **Export Segment - Excellent Growth; Limited Immediate Impact:** Export volumes increased 26.2% YoY to 1,548 tractors, supported by improved traction in Europe and Mexico. Approximately 52% of total exports were routed through Kubota's global distribution network, enhancing market reach and operational synergies. Management remains optimistic, targeting >25% growth in FY26, with medium-term upside expected post commissioning of the greenfield capacity (FY28–29). This facility will serve as a global sourcing hub, enabling entry into the US market and production of select Kubota global models from India, positioning Escorts Kubota as a key manufacturing base within Kubota's global supply chain.
- **Construction Equipment (CE) Segment: Temporary Margin Pressure; Recovery Expected in H2:** The Construction Equipment segment witnessed a volume decline to 1,146 units (vs. 1,315 units YoY), impacted by an overall industry contraction (~4%) and the transition to new emission norms. Segmental EBIT margin contracted to 3.8% (vs. 9.3% YoY), primarily due to the clearance of old-emission inventory and lower production levels, impacting fixed-cost absorption. Management anticipates a margin recovery to high single digits in H2FY26, supported by volume normalization, input cost deflation, and operating leverage benefits.

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 Same).

Current TP: **Rs 3,590/share** (Earlier TP: Rs 3,135/share)

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

Financial Performance: Escorts Kubota Ltd. (Escorts) reported revenue of Rs 2,792 Cr in Q2FY26, up 23% YoY and 12% QoQ, largely in line with expectations. EBITDA stood at Rs 360 Cr, inline with expectations; up 56%/12% YoY/QoQ. EBITDA margin came in at 12.9%, up 279 bps YoY and 3 bps QoQ, supported by lower other expenses and cost optimisation efforts. Adjusted PAT stood at ~Rs 318 Cr, inline with expectation, broadly tracking the EBITDA performance and higher other income.

Key Financials (Consolidated)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,792	12%	23%	2,813	-0.7%
EBITDA	360	12%	56%	367	-2%
EBITDA Margin	12.9%	3	279	13.0%	-16
Net Profit	318	-14%	6%	323	-2%
EPS (Rs)*	28.9	-14%	6%	29	-2%

Source: Company, Axis Securities Research

(CMP as of 04th Nov 2025)

CMP (Rs)	3,819
Upside /Downside (%)	-6%
High/Low (Rs)	4,171/2,829
Market cap (Cr)	42,731
Avg. daily vol. (6m)Shrs.	7683
No. of shares (Cr)	11.18

Shareholding (%)

	Mar-24	Jun-25	Sep-25
Promoter Group	68.0	68.0	68.0
FII	5.2	5.2	5.3
MF/ UTI	9.3	9.5	9.9
Financial Institution/Banks	0.0	0.0	0.0
Others	17.5	17.2	16.8

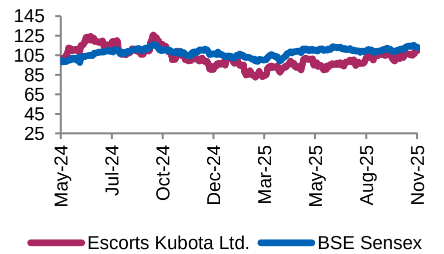
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
Net Sales	10,789	11,769	12,856
EBITDA	1,376	1,600	1,814
Net Profit	1,149	1,390	1,544
EPS (Rs.)	102.7	124.2	138.0
PER (x)	36.8	30.4	27.4
EV/ EBITDA	28.6	24.6	21.4
P/BV	4.0	3.5	3.1
ROE (%)	11.3	12.2	12.1

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	4.7%	5.5%
EBITDA	11.3%	12.8%
PAT	11.5%	13.4%

Relative Performance



Source: Ace Equity, Axis Securities

Results Gallery
Q1FY26
Q4FY25
Q3FY25
Q2FY25

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Outlook

Escorts Kubota Ltd. (EKL) reported a steady operational performance in Q2FY26 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 same). 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, the valuation appears full. **Hence, we maintain our HOLD rating on the stock with a TP of Rs 3,590 (earlier Rs 3,135), implying a downside of ~6% from the CMP.**

Key Concall Highlights

- **Capex, Operations, and Capacity Expansion**: Escorts Kubota Ltd. (EKL) is in the final stages of land acquisition for its upcoming greenfield facility, with formal transfer expected to be completed within FY26. Construction is scheduled to begin in FY27, with commissioning targeted for FY28–FY29. The new plant will add ~100,000 units of tractor capacity in Phase I (current capacity: ~170,000–200,000 units) and will also integrate construction equipment (CE) manufacturing. Capex guidance for FY26 remains at Rs 350–400 Cr, broadly in line with the company's normal range and excluding greenfield-related investments.

- **Operating Leverage and Cost Trends**: During Q2FY26, EKL witnessed mild input cost inflation; however, management expects deflationary trends in Q3, which should aid margin recovery. Employee costs rose 8–9% YoY, mainly due to annual increments, while other expenses remained tightly controlled with a 50:50 fixed-to-variable cost split, supporting operating leverage benefits as volumes scale up.

- **Kubota Localization Strategy**: Currently, Kubota-branded tractors sold in India continue to import engines, impacting overall profitability. Full localization is not yet viable given the modest sales volume (~10,000–12,000 units annually). However, EKL is developing a new range of Kubota tractors based on Escorts' local platforms and powered by indigenous engines, which is expected to improve Kubota's margin profile over the next two years.

- **Captive Finance: Strategic Enabler for Volume Growth**: EKL's captive finance arm, launched in late FY25, is currently operating in 4–5 states as part of its pilot phase. FY26 is positioned as a stabilization year, focused on building IT infrastructure and process frameworks. Management targets break-even (pre-risk cost) by FY27 and full profitability by FY28, with penetration expected to reach 25–35% over the next 3–4 years. This initiative aims to enhance dealer liquidity, improve retail financing penetration, and strengthen EKL's competitive positioning in the domestic market.

- **Margin Outlook & Commodity Cost Pressure**: While Q1 margins benefited from soft steel prices, management highlighted a potential uptick in steel and metal costs in Q2, which could exert pressure on tractor margins. Despite these near-term headwinds, EKL has maintained its EBIT margin guidance at 12–12.5% for FY26, supported by cost control initiatives, favorable mix, and localization efforts.

- **Treasury Income**: EKL's treasury income declined sequentially in Q2FY26, primarily due to mark-to-market losses following the hardening of bond yields. This contrasts with Q1FY26, where softening yields had resulted in positive MTM gains.

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	10,789	11,769	12,856	10,304	11,158	12,128	4.7%	5.5%	6.0%
EBITDA	1,376	1,600	1,814	1,237	1,418	1,596	11.3%	12.8%	13.7%
PAT	1,149	1,390	1,544	1,031	1,225	1,349	11.5%	13.4%	14.5%

Source: Company, Axis Securities Research

Q2FY26 Results Review

YE March (Rs Cr)	Q2FY26	Axis Sec Estimates	Axis Sec Var (%)	Q1FY26	% Change (QoQ)	Q2FY25	% Change (YoY)
Sales Volume (units)							
Total Tractors	33,877	33,877	-	30,581	10.8%	25,995	30.3%
Construction Equipment	1,146	1,146	-	1,055	8.6%	1,315	-12.9%
Sales	2,792	2,813	-0.7%	2,500	11.7%	2,277	22.6%
Other Op. Inc	0	0	-	0.0	-	0.0	-
Total Revenue	**2,792**	**2,813**	**-0.7%**	**2,500**	**11.7%**	**2,277**	**22.6%**
Expenditure							
Net Raw Material	1,934	1,946	-0.6%	1,728	11.9%	1,585	22.0%
Other Exp	291	299	-3.0%	262	10.7%	272	6.7%
Personnel	208	200	3.9%	188	10.4%	190	9.1%
Total Expenditure	2,432	2,446	-0.6%	2,179	11.6%	2,047	18.8%
EBIDTA	**360**	**367**	**-2.0%**	**321**	**11.9%**	**230**	**56.4%**
EBITDA Margins	*12.9%*	*13.0%*	*-16*	*12.9%*	*3*	*10.1%*	*279*
Less: Depreciation	62	56	10.0%	60	4.3%	61	1.8%
EBIT	298	311	-4.2%	262	13.7%	169	76.2%
Interest	5	6	-24.2%	4	14.3%	10	-53.4%
Oth. Inc.	134	127	6.0%	156	-14.0%	116	15.7%
Profit Before Extraordinary Items and Tax	427	431	-0.9%	414	3.2%	275	55.3%
Less: Exceptional Item	0	0	-	-76	-	0	-
Share Of Profit/Loss on Investments	0	0	-	0	-	-0.11	-
PBT	427	431	-0.9%	490	-12.8%	275	55.4%
Tax	109	108	1.2%	120	-	-25	-
PAT	**318**	**323**	**-1.6%**	**369**	**-13.9%**	**300**	**6.0%**
Share of profit of Associates	0	0	-	0	-	0	-
Adjusted PAT	**318**	**323**	**-1.6%**	**369**	**-13.9%**	**300**	**6.0%**
Weighted No Of Equity Shares(Crs)	11.0	11.0	-	11.0	-	11.0	-
Reported EPS (Rs.)	28.9	29.4	-1.6%	32.8	-11.8%	27.3	6.0%
Adjusted EPS (Rs.)	28.9	29.4	-1.6%	33.6	-13.9%	27.3	6.0%
Ratios							
GM	30.7%	30.8%	-7	30.9%	-15	30.4%	32
EBITDA Margin	12.9%	13.0%	-16	12.9%	3	10.1%	279
PBT	15.3%	15.3%	-3	19.6%	-429	12.1%	323
PAT	11.4%	11.5%	-10	14.8%	-338	13.2%	-179

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY25	FY26E	FY27E	FY28E
Net revenues	10,244	10,789	11,769	12,856
Operating expenses	9,079	9,413	10,170	11,042
EBIDTA	1,165	1,376	1,600	1,814
EBITDA margin (%)	11.4	12.8	13.6	14.1
Other income	461	544	542	558
Interest	29	20	24	24
Depreciation	244	240	263	287
Profit Before Tax	1,354	1,661	1,854	2,061
Tax	227	434	464	515
Reported Net Profit	1,124	1,149	1,390	1,544
Net Margin (%)	11.0	11.2	11.8	12.0
Adjusted Net Profit	1,125	1,204	1,390	1,544

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	11,323	12,632	14,095
Net Worth	**10,367**	**11,435**	**12,744**	**14,207**
Minority Interest	(4)	(4)	(4)	(4)
Total Loans	113	113	113	113
Other LT Liabilities & Provisions	77	77	77	77
Deferred tax liability	58	62	71	79
Total Liabilities and Equity	**10,611**	**11,683**	**13,001**	**14,473**
Gross block	3,665	4,896	5,576	6,255
Depreciation	1,611	1,851	2,114	2,401
Net block	2,083	3,075	3,491	3,883
Capital WIP	123	(429)	(429)	(429)
Investments & Other LT assets	3,757	1,486	1,692	1,898
Inventory	1,399	1,473	1,607	1,756
Debtors	1,332	1,403	1,530	1,671
Cash & Bank Bal	1,124	3,080	3,075	3,630
Loans & Advances	2,679	3,644	4,230	4,434
Current Assets	6,534	9,600	10,442	11,491
Sundry Creditors	1,640	1,700	1,837	1,995
Other Current Liability	582	545	545	545
Current Liability& Provisions	159	287	296	311
Net current assets	4,154	7,068	7,765	8,641
Misc Assets	494	484	481	480
Total Assets	**10,611**	**11,684**	**13,000**	**14,473**

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY25	FY26E	FY27E	FY28E
EBIT	1,381	1,604	1,878	2,085
Depreciation & Amortisation	244	240	263	287
Interest paid(-)	(29)	(20)	(24)	(24)
Tax paid(-)	(227)	(434)	(464)	(515)
EOI	(185)	29	29	30
Operating Cash Flow	**1,184**	**1,419**	**1,683**	**1,862**
Change in Working Capital	453	43	(116)	(117)
Cash flow from Operations	**1,637**	**1,462**	**1,567**	**1,746**
Capex	(399)	(679)	(679)	(679)
Investments	(783)	1,318	(790)	(409)
Cash flow from Investing	**(1,182)**	**638**	**(1,469)**	**(1,088)**
Change in borrowing	(329)	(37)	-	-
Others	(24)	4	9	9
Dividends Paid (-)	(307)	(112)	(112)	(112)
Cash Flow from Financial Activities	**(660)**	**(145)**	**(103)**	**(103)**
Change in Cash	(205)	1,956	(5)	555
Opening cash	1,206	1,124	3,080	3,075
Closing cash	1,001	3,080	3,075	3,630

Source: Company, Axis Securities research

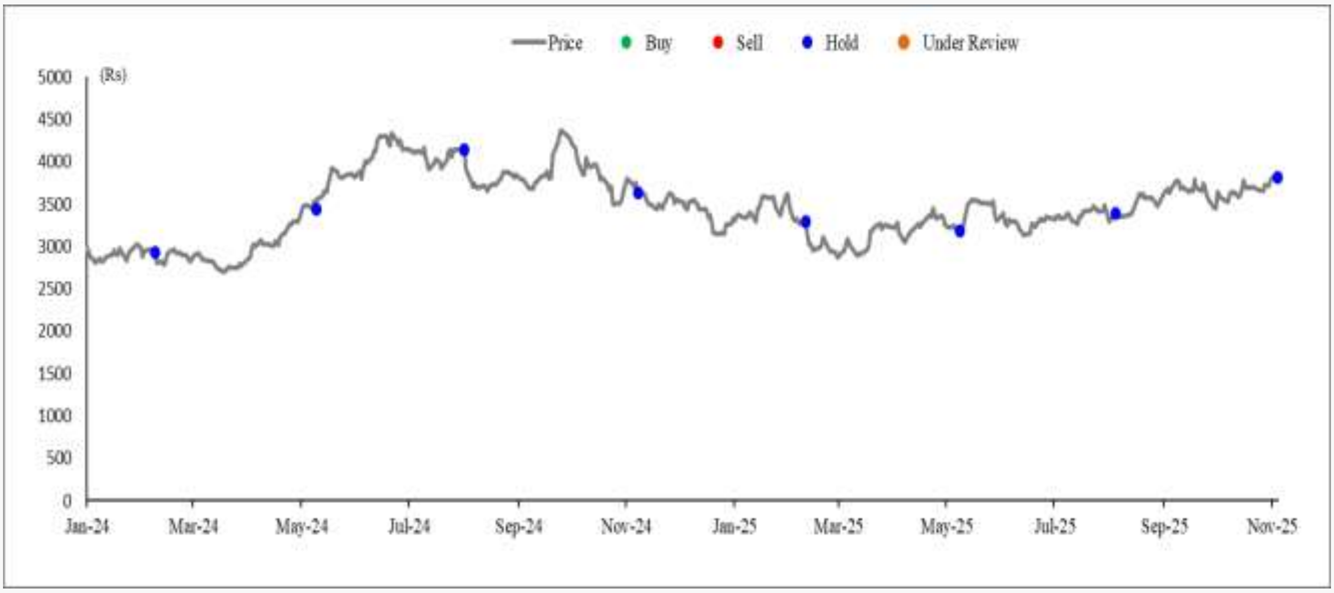
Ratio Analysis

(%)

Y/E Mar	FY25	FY26E	FY27E	FY28E
Revenue Growth	4.5	5.3	9.1	9.2
EBITDA Margin (%)	11.4	12.8	13.6	14.1
Net Profit Margin (%)	11.0	10.6	11.8	12.0
ROCE (%)	13.6	15.0	15.0	14.9
ROE (%)	11.8	11.3	12.2	12.1
EPS (Rs.)	100.5	102.7	124.2	138.0
PER (x)	32.3	36.8	30.4	27.4
P/BV (x)	3.8	4.0	3.5	3.1
EV/ EBITDA (x)	30.3	28.6	24.6	21.4
Fixed Assets Turnover Ratio (x)	1.0	1.0	1.0	0.9
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	3.5	3.6	3.3	3.0

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
06-Nov-25	HOLD	3,590	Result Update

Source: Axis Securities Research

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Ratings	**Expected absolute returns over 12 – 18 months**
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 a 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, valuations or recommendations for the stock.

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