

EBITDA Margins to Remain Subdued in the Near Term
Est. Vs. Actual for Q3FY25: Revenue – INLINE ; EBITDA – MISS ; PAT – MISS
Change in Estimates post Q3FY25
FY25E/FY26E: Revenue: -5.6%/-7.2%; EBITDA: -23.2%/-7.2%; PAT: -24.8%/-9.9%.
Recommendation Rationale

- Agri-Business Outlook in India:** In Q3FY25, Escort's tractor segment experienced a 6% YoY growth in domestic volumes (vs 13.5% tractor industry); Segment revenue was up 9.4% YoY, led by price hikes taken during the year. Exports for Escorts were down 29.2% YoY, compared to industry growth of 3.9% YoY. The domestic slowdown witnessed in 9MFY25 is expected to be followed by a moderate recovery in Q4FY25 and beyond, driven by pent-up demand, government assistance, higher reservoir levels, and better crop realisation by the farming community.
- Construction Equipment (CE) Business:** Q3FY25 witnessed a 0.9% YoY volume decline (but up 42.7% QoQ), and segmental revenue was up 4% YoY to Rs 516 Cr. This volume decline was mainly due to lower government spending on infra projects (on account of union elections), followed by heavy monsoons. We expect a gradual pickup in infrastructure activities from Q4FY25 onwards.
- New launches to fill gaps in Product portfolio:** With a strategy to offer innovative products, Escorts has launched the PROMAXX series under the Farmtrac brand in the 30 to 50 HP category. The company has ~1540 exclusive dealers for Kubota, Farmtrac, and Powertrac combined. The series is primarily for the western markets—Gujarat, Maharashtra, and certain markets where Escorts is not present—Chhattisgarh, Odisha, and some parts of MP.

Sector Outlook: Positive

Company Outlook & Guidance: The domestic tractor industry and construction equipment business are expected to pick up gradually in the medium term. On account of the amalgamation of two subsidiaries (having poor operational metrics), we expect EBITDA margins to remain subdued in the near term (<12%).

Current Valuation: 28x FY27E EPS (unchanged)

Current TP: Rs 3,420/share (Earlier TP: Rs 3,290/share)

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

Financial Performance: Escorts Kubota Ltd. (Escorts) reported revenue of Rs 2,948 Cr (inline), up 8.1% YoY and 29.5% QoQ in Q3FY25. EBITDA stood at Rs 333 Cr (5.6% miss), up 2.2% YoY and 44.7% QoQ, with EBITDA margins at 11.3%, down 64 bps YoY but up ~119 bps QoQ, primarily due to production swings in Q3, higher raw material costs, and discounting. The company reported an adjusted PAT of ~Rs 288 Cr (2.6% miss), down 4% YoY and 2.6% QoQ, largely in line with EBITDA performance.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,948	29%	8%	2,945	0.11%
EBITDA	333	45%	2%	353	-6%
EBITDA Margin	11.3%	119	-64	12.0%	-69
Net Profit	288	-4%	6%	296	-3%
EPS (Rs)*	26.2	-4%	6%	26	-1%

Source: Company, Axis Securities Research

 (CMP as of 10th February 2025)

CMP (Rs)	3,303
Upside /Downside (%)	3%
High/Low (Rs)	4,422/2,647
Market cap (Cr)	40,769
Avg. daily vol. (6m)Shrs.	29.696
No. of shares (Cr)	11.18

Shareholding (%)

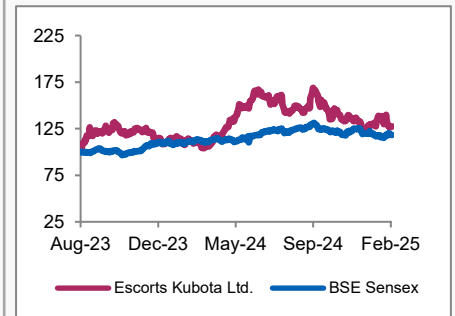
	Jun-24	Sep-24	Dec-24
Promoter Group	67.64	68.04	68.04
Institutions	6.41	6.29	5.86
Public UTI	8.61	8.39	8.07
Others	0.01	0.01	0.01
Total	17.33	17.27	18.02

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	10,565	11,327	12,338
EBITDA	1,025	1,372	1,584
Net Profit	943	1,173	1,349
EPS (Rs.)	85.3	106.1	122.1
PER (x)	42.7	34.3	29.9
EV/ EBITDA	36.4	27.0	23.0
P/BV	4.1	3.7	3.3
ROE (%)	9.9	11.2	11.6

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-5.6%	-7.2%	-0.7%
EBITDA	-23.2%	-7.2%	10.2%
PAT	-24.8%	-9.9%	3.9%

Relative Performance


Source: Ace Equity, Axis Securities

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Outlook

We expect (1) The industry to witness high single-digit growth in FY26; (2) Infrastructure spending to improve gradually in the medium term and hence boost demand in the CE division; and (3) With expected stability in commodity prices and a richer product mix (growth in export sales), EBITDA margins are expected to remain resilient in the long run.

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 28x FY27 EPS (unchanged). However, synergy benefits with Kubota in agribusiness are expected to take longer than estimated earlier due to a slowdown in international markets. 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 3,420 (earlier Rs 3,290), implying a limited upside of ~3% from the CMP.**

Key Concall Highlights

- Exclusive Dealers for EKL Brands of tractors in India at the end of December 2024 ~ 1,540.
- Less than 40 HP: Greater than 40 HP Tractor Sales Ratio in Q3FY25 at 32:68 as against 35:65 YoY and 34:66 QoQ and in 9MFY25 at 33:67 as that of 39:61 YoY.
- Non-Tractor: Tractor Revenue Ratio in Q3FY25 at 21:79 as against 19:81 YoY and 18:82 QoQ and 9MFY25 at 20:80 as that of 17:83 YoY.
- Export through Kubota channel of total Export volume ~27% in Q3FY25 and ~ 22% in 9MFY25.
- Inventory levels have been rationalised in Q3 to over 4 weeks vs over 6 weeks in a comparable period last year.
- Railway Division Outlook: In Q3FY25, revenue declined by 2% YoY. (On 23rd Oct'24, Escorts entered into a Business Transfer Agreement with Sona BLW Precision Forgings Limited (Sona Comstar) for transferring the existing Railway Equipment Business Division (RED) as a going concern, on a slump sale basis, for a lump sum cash consideration of Rs 1,600 Cr. We estimate 12-15 months for regulatory clearance and have factored NIL revenue/PAT from the segment in FY27E onwards.)

Key Risks to Our Estimates and TP

- 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 exports pick up.

Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	10,565	11,327	12,338	11,195	12,208	12,420	-5.6%	-7.2%	-0.7%
EBITDA	1,025	1,372	1,584	1,334	1,478	1,437	-23.2%	-7.2%	10.2%
PAT	943	1,173	1,349	1,254	1,302	1,299	-24.8%	-9.9%	3.9%

Source: Company, Axis Securities Research

Q3FY25 Results Review

YE March (Rs Cr)	Q3FY25	Axis Sec Estimates	Axis Sec Var (%)	Q2FY25	% Change (QoQ)	Q3FY24	% Change (YoY)
Sales Volume (units)							
Total Tractors	32,556			25,995	25.2%	31,155	4.5%
Construction Equipment	1,989			1,315	51.3%	1,800	10.5%
Sales	2,948	2,945	0.1%	2,277	29.5%	2,728	8.1%
Other Op. Inc	0	0		0.0		0.0	
Total Revenue	2,948	2,945	0.1%	2,277	29.5%	2,728	8.1%
Expenditure							
Net Raw Material	2,153	2,058	4.6%	1,585	35.8%	1,976	9.0%
Other Exp	259	292	-11.2%	272	-4.7%	249	4.0%
Personnel	203	241	-15.9%	190	6.8%	177	14.7%
Total Expenditure	2,615	2,592	0.9%	2,047	27.7%	2,402	8.9%
EBIDTA	333	353	-5.6%	230	44.7%	325	2.2%
EBITDA Margins	11.3%	12.0%	-69	10.1%	119	11.9%	-64
Less: Depreciation	62	62	-1.0%	61	0.8%	57	8.7%
EBIT	271	290	-6.6%	169	60.6%	269	0.9%
Interest	4	10	-65.1%	10	-63.8%	11	-68.3%
Oth. Inc.	110	114	-3.6%	116	-5.3%	101	9.3%
Profit Before Extraordinary Items and Tax	378	394	-4.2%	275	37.2%	358	5.4%
Less: Exceptional Item	0	0		0		0	
Share Of Profit/Loss on Investments	0	0		0		-0.18	
PBT	377	394	-4.4%	275	37.1%	358	5.3%
Tax	89	99	-9.5%	-25		88	
PAT	288	296	-2.6%	300	-4.1%	270	6.5%
Share of profit of Associates	0	0		0		0	
Adjusted PAT	288	296	-2.6%	300	-4.1%	270	6.5%
Weighted No Of Equity Shares(Crs)	11.0	11.2		11.0		11.0	
Reported EPS (Rs.)	26.2	26.4	-0.9%	26.5	-1.2%	24.6	6.5%
Adjusted EPS (Rs.)	26.2	26.4	-0.9%	27.3	-4.1%	24.6	6.5%
Ratios							
GM	27.0%	30.1%	-312	30.4%	-343	27.6%	-59
EBITDA Margin	11.3%	12.0%	-69	10.1%	119	11.9%	-64
PBT	12.8%	13.4%	-60	12.1%	72	13.1%	-33
PAT	9.8%	10.0%	-28	13.2%	-342	9.9%	-15

Source: Company, Axis Securities Research

*NA: Due to accounting for the amalgamation of two subsidiaries estimates are non-comparable

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net revenues	8,850	10,565	11,327	12,338
Operating expenses	7,683	9,541	9,956	10,754
EBIDTA	1,167	1,025	1,372	1,584
EBITDA margin (%)	13.2	9.7	12.1	12.8
Other income	399	445	473	497
Interest	14	34	35	35
Depreciation	167	255	268	268
Profit Before Tax	1,385	1,180	1,542	1,777
Tax	352	254	385	444
Reported Net Profit	1,049	943	1,173	1,349
Net Margin (%)	11.9	8.9	10.4	10.9
Adjusted Net Profit	1,049	943	1,173	1,349

Source: Company, Axis Securities research

Balance Sheet

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Equity capital	111	111	111	111
Reserves & surplus	9,066	9,912	10,987	12,240
Net Worth	9,176	10,022	11,098	12,350
Minority Interest	(4)	(4)	(4)	(4)
Total Loans	62	80	80	80
Other LT Liabilities & Provisions	45	45	45	45
Deferred tax liability	115	42	44	46
Total Liabilities and Equity	9,395	10,186	11,263	12,517
Gross block	3,187	3,342	3,487	3,631
Depreciation	1,411	1,666	1,934	2,203
Net block	1,812	1,711	1,587	1,463
Capital WIP	116	106	106	106
Investments & Other LT assets	3,450	1,108	1,156	1,204
Inventory	1,218	1,526	1,636	1,782
Debtors	1,173	1,479	1,585	1,727
Cash & Bank Bal	1,179	3,062	3,254	3,904
Loans & Advances	2,302	3,511	4,364	4,905
Current Assets	5,872	9,578	10,839	12,319
Sundry Creditors	1,208	1,572	1,641	1,772
Other Current Liability	550	532	532	532
Current Liability & Provisions	115	231	270	288
Net current assets	4,000	7,243	8,396	9,727
Misc Assets	18	18	18	18
Total Assets	9,395	10,186	11,263	12,517

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
EBIT	1,398	1,214	1,577	1,812
Depreciation & Amortisation	167	255	268	268
Interest paid(-)	(14)	(34)	(35)	(35)
Tax paid(-)	(352)	(254)	(385)	(444)
EOI	(73)	22	29	30
Operating Cash Flow	1,127	1,203	1,454	1,631
Change in Working Capital	173	(133)	(109)	(138)
Cash flow from Operations	1,300	1,070	1,345	1,492
Capex	(130)	(144)	(144)	(144)
Investments	(444)	1,140	(900)	(589)
Cash flow from Investing	(574)	996	(1,044)	(734)
Change in borrowing	(12)	(0)	-	-
Others	70	(73)	2	2
Dividends Paid (-)	(76)	(111)	(111)	(111)
Cash Flow from Financial Activities	(18)	(183)	(109)	(109)
Change in Cash	707	1,883	192	650
Opening cash	472	1,179	3,062	3,254
Closing cash	1,179	3,062	3,254	3,904

Source: Company, Axis Securities research

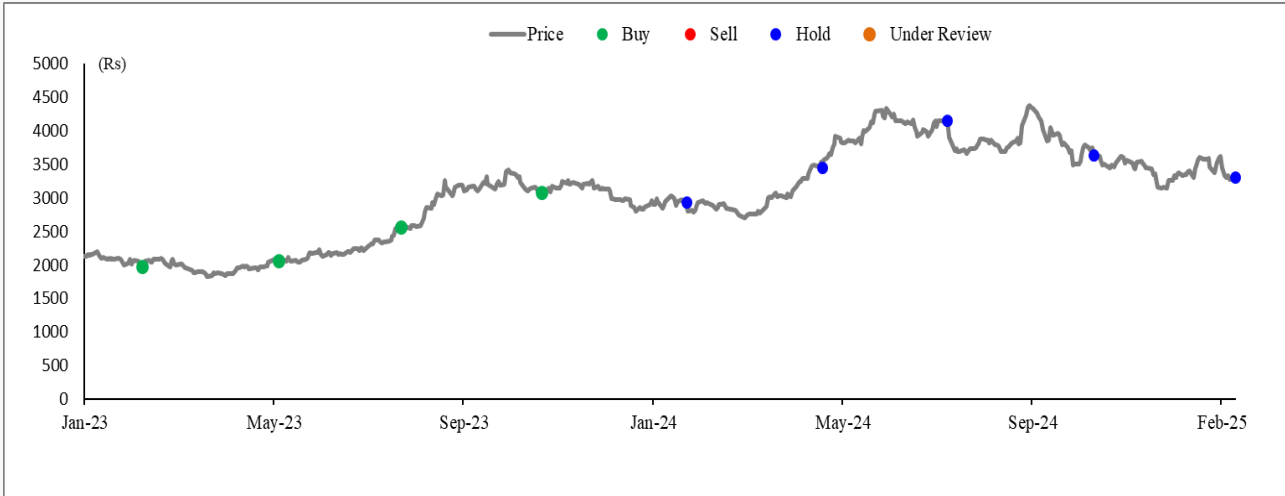
Ratio Analysis

(%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Revenue Growth	5.0	19.4	7.2	8.9
EBITDA Margin (%)	13.2	9.7	12.1	12.8
Net Profit Margin (%)	11.9	8.9	10.4	10.9
ROCE (%)	14.9	11.9	14.0	14.5
ROE (%)	12.0	9.9	11.2	11.6
EPS (Rs.)	96.6	85.3	106.1	122.1
PER (x)	28.7	42.7	34.3	29.9
P/BV (x)	3.3	4.1	3.7	3.3
EV/ EBITDA (x)	24.8	36.4	27.0	23.0
Fixed Assets Turnover Ratio (x)	1.0	1.1	1.1	1.0
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	3.3	3.5	3.3	3.0

Source: Company, Axis Securities Research

Escorts Kubota Ltd Recommendation History



Date	Reco	TP	Research
09-Feb-23	BUY	2,200	Result Update
11-May-23	BUY	2,310	Result Update
02-Aug-23	BUY	2,910	Result Update
06-Nov-23	BUY	3,400	Result Update
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	3,420	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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