

Retail Equity Research
ESCORTS KUBOTA Ltd.

Auto – Tractors & Construction

BSE CODE : 500495 NSE CODE: ESCORTS
BLOOMBERG CODE: ESCORTS : IN SENSEX: 65,676

Sell

12Months Investment Period

Rating as per Midcap

CMP Rs.3,132 TARGET Rs. 2,830 RETURN -10%
(Closing: 15-11-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Overall tractor volume below expectation.

Escorts Kobota Ltd (EKL) is the third largest agricultural tractor manufacturer in India. It has a strong presence in the north and west markets, with a 10.1% market share in FY23.

- Q2FY24 revenue grew by 9%YoY, driven by a superior product mix and price hike. The domestic tractor segment de-grew by -7%YoY, while Construction equipment & Railway registered robust growth.
- EBITDA margin expanded by 476bps (came below our expectations) but declined by 118bps QoQ due to operating deleverage.
- We expect low single digit growth for the domestic tractor segment for the fiscal year. Furthermore, the lackluster performance of exports, is likely to continue in the near term.
- Kubota currently has the majority stake in the EKL and holds 30% of the global tractor market share. This will enable EKL to expand its geographical footprint into the western market.
- The stock is currently trading at 32x and 27x on FY24/F25, respectively. Which is high compared to its 10yr. historical avg. at 15x. We value the company at 25x and recommend Sell rating at CMP.

Slow ramp in the export volume

Lacklustre performance in the export market is hindering the ability to offset the cyclicity in the domestic market, which is expected to be in the low single digits due to the high base last year. The company is enjoying a better margin owing to a softening of the metal price and a price hike which was taken over the course of the last year. However, strong growth in construction equipment and Railway has led to a superior product mix. As a result, margins remain resilient above 12-13% for the period. In terms of segmental performance, the Agri sector de-grew by -5.1% YoY, which constitutes 68% of the overall revenue mix. In the construction equipment segment, demand is expected to increase by double digits for the year on the back of increased govt. spending on infrastructure projects, including smart city development and irrigation projects. We anticipate that growth in material handling and construction machinery will continue in the coming months. The segment grew by 71.5YoY at Rs415cr. In railways, revenue increased by 28.7% YoY, reaching a high of Rs 234cr.

Synergies led to expansion globally.

EKL's expanded portfolio & technology upgrades in tractors have resulted in improved numbers both in existing and newer geographies. Strategic collaboration with Kubota has led to an improvement in the global footprint, not only for tractors but also for some export components that are happening in the manufacturing JV. Kubota's share in the exports is gradually moving up, which is positive for EKL's ability to sell more in the U.S. and Asia markets. The synergies have lined up a robust capex plan for the long term, but product development will have some lead time due to lower capacity utilization at the existing plant.

Increase in tractor cost and low rural income.

Domestic tractor demand is largely dependent on the high crop yield and favourable monsoon, which were uneven due to the flood situation in many parts. The southern market has experienced a decline in monsoons compared to the northern market, which has better irrigation facilities. Moreover, low subsidies from the government also added to the woes. As a result, the adverse product mix has restricted the full realization of the price hike. The company's focus is primarily on high-HP tractors, which are currently in lower demand than low-HP tractors.

Valuations

The stock is trading at its all-time high of 32x due to mid-term optimism and post-integration with Kubota, which are largely factors in the price. We expect the margin to stabilize at its current level due to softening raw material prices and cost control initiatives. However, considering the slow ramp in exports and the loss of pricing power in the domestic market compared to its peers, we expect the near-term pressure in demand to bring consolidation to the current valuation. Hence, we recommend sell rating at CMP with a revised target price of Rs2,830.

Company Data

Market Cap (Rs.cr)	34,766
Enterprise Value (Rs.cr)	32,065
Outstanding Shares (cr)	11.0
Free Float	32.4%
Dividend Yield	0.2%
52 week high Rs.	3,435
52 week low Rs.	1,810
6m average volume (cr)	0.04
Beta	0.6
Face value Rs.	10

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	72.9	67.6	67.6
FII's	4.7	5.6	6.7
MFs/Insti	8.1	9.9	9.3
Public	14.3	16.9	16.3
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.8%	52.5%	60.7%
Absolute Sensex	-1.1%	4.8%	6.2%
Relative Return*	22.9%	47.8%	54.5%

***over or under performance to benchmark index**



Standalone (cr)	FY23A	FY24E	FY25E
Sales	8,344	9,583	10,623
Growth (%)	16.7	14.8	10.9
EBITDA	734	1,274	1,487
EBITDA Margin (%)	8.8	13.3	14.0
Adj. PAT	686	1,092	1,257
Growth (%)	-10.4	59.1	15.1
Adj. EPS	61.8	98.4	113.2
Growth (%)	4.9	59.1	15.1
P/E	50.6	31.8	27.6
P/B	4.6	4.0	3.4
EV/EBITDA	55.3	31.9	27.3
ROE (%)	10.3	14.4	14.4
D/E	0.0	0.0	0.0

Saji John
Research Analyst



Quarterly Financials (Standalone)

Profit & Loss

Rs(cr.)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Sales	2,046	1,883	8.6	2,328	-12.1
EBITDA	263	153	72.4	327	-19.5
EBITDA margins (%)	12.9	8.1	476bps	14.0	-118bps
Depreciation	41	36	11.5	40	1.3
EBIT	223	116	91.6	287	-22.4
Interest	2	2	3.1	3	-14.5
Other Income	95	78	22.5	95	0.5
Exceptional Items	0	0	0.0	0	0.0
PBT	315	191	64.6	379	-16.7
Tax	80	31	158.6	96	-16.3
Share of profit from associates	0	0	0.0	0	0.0
Minority interest	0	0	0.0	0	0.0
Reported PAT	235	160	46.5	283	-16.9
Adjustments	0	0	0.0	0	-
Adj PAT	235	160	46.5	283	-16.9
No. of Shares	13	13	1.6	12	6.0
Adj EPS (Rs)	19.2	13.1	46.5	23.1	-16.9

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	9,540	11,478	9,583	10,623	0.4%	-7.5%
EBITDA	964	1,285	1,274	1,487	32.2%	15.7%
Margins (%)	10.1	11.2	13.3	14.0	320bps	280bps
Adj. PAT	855	1,088	1,092	1,257	27.7%	15.5%
EPS	77.0	98.1	98.4	113.2	27.7%	15.4%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	5,761	6,929	7,153	8,344	9,583	10,623
% change	-7.0	20.3	3.2	16.7	14.8	10.9
EBITDA	676	1,129	951	734	1,274	1,487
% change	-7.8	-22.8	16.7	0.0	0.0	0.0
Depreciation	105	116	130	145	160	179
EBIT	571	1,014	822	589	1,115	1,308
Interest	15	11	13	11	11	13
Other Income	92	155	213	300	364	389
PBT	556	1,003	809	578	1,103	1,296
% change	-11.4	81.1	-11.7	-14.0	67.0	14.8
Tax	153	283	256	192	376	428
Tax Rate (%)	0.2	0.2	0.3	0.2	0.3	0.3
Reported PAT	486	874	766	686	1,092	1,257
Adj*	-9.2	0.0	0.0	0.0	0.0	0.0
Adj PAT	495	874	766	686	1,092	1,257
% change	4.7	76.7	-12.4	-10.4	59.1	15.1
No. of shares (cr)	13	13	13	11	11	11
Adj EPS (Rs.)	38.5	68.3	58.9	61.8	98.4	113.2
% change	-3	77	-14	5	59	15
DPS (Rs.)	1.2	1.2	1.2	1.2	1.2	1.2
CEPS (Rs.)	47	77	69	75	113	129

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	724	1,262	1,138	1,008	1,612	1,844
Non cash Adjustments	23	7	14	12	21	24
Changes in W.C	-188	-1083	16	-362	-673	-585
C.F. Operation	578	197	1,182	674	975	1,302
Capital exp.	-210	-122	-320	-375	-375	-375
Change in inv.	-333	-1,176	-345	-350	-350	-350
Other invest.CF	-2	0	0	0	0	0
C.F - Investment	-539	-1,300	-660	-725	-725	-725
Issue of equity	0	12	0	-3	0	0
Issue/repay debt	-238	23	-72	0	0	0
Dividends paid	-14	-15	-16	-16	-16	-16
Other finance.CF	-	-	-	-	-	-
C.F - Finance	-267	1269	-87	-18	-16	-16
Chg. in cash	-228	165	435	-70	235	561
Closing cash	84	249	684	615	849	1411

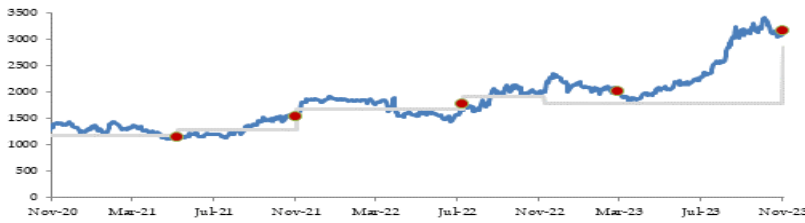
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	84	249	684	615	849	1411
Accounts Receivable	757	698	745	869	998	1,106
Inventories	822	674	730	906	967	1069
Other Cur. Assets	378	279	294	343	394	437
Investments	1,387	3,632	4,082	4,775	5,379	5,943
Gross Fixed Assets	2830	2984	3334	3684	4034	4384
Net Fixed Assets	1,600	1,642	1,862	2,067	2,257	2,429
CWIP	172	139	109	134	159	184
Intangible Assets	32	28	28	28	28	28
Def. Tax (Net)	30	23	9	-4	-24	-48
Other Assets	20.1	23.2	18.0	18.0	18.0	18.0
Total Assets	5,282	7,389	8,561	9,751	11,026	12,576
Current Liabilities	334	380	432	537	573	633
Provisions	156	150	157	183	210	233
Debt Funds	6.6	0.0	0.0	0.0	0.0	0.0
Other Liabilities	1,264	1,187	1,622	2,014	2,149	2,375
Equity Capital	123	135	135	132	132	132
Reserves & Surplus	3,358	5,465	6,215	6,886	7,962	9,203
Shareholder's Fund	3480	5600	6350	7018	8094	9335
Total Liabilities	5,282	7,389	8,561	9,751	11,026	12,576
BVPS (Rs.)	340	548	621	686	791	913

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	11.7	16.3	13.3	8.8	13.3	14.0
EBIT margin (%)	9.9	14.6	11.5	7.1	11.6	12.3
Net profit mgn.(%)	8.6	12.6	10.7	8.2	11.4	11.8
ROE (%)	15.2	19.3	12.8	10.3	14.4	14.4
ROCE (%)	9.1	13.5	9.6	7.6	10.6	10.8
W.C & Liquidity						
Receivables (days)	53.5	38.3	36.8	35.3	35.5	36.1
Inventory (days)	78.6	59.5	52.0	48.7	52.3	51.4
Payables (days)	29.2	28.4	30.1	28.9	31.0	30.5
Current ratio (x)	4.6	6.0	6.5	6.2	6.6	7.2
Quick ratio (x)	2.5	2.5	3.3	2.8	3.2	4.0
Turnover & Leverage						
Gross asset T.O (x)	2.1	2.4	2.3	2.4	2.5	2.6
Total asset T.O (x)	1.1	1.1	0.9	0.9	0.9	0.9
Int. coverage ratio (x)	37.0	92.3	64.7	54.9	97.3	103.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
EV/Sales (x)	6.5	5.9	5.7	4.9	4.2	3.8
EV/EBITDA (x)	55.2	36.0	42.7	55.3	31.9	27.3
P/E (x)	81.1	45.8	53.1	50.6	31.8	27.6
P/BV (x)	9.3	5.7	5.1	4.6	4.0	3.4

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
03.02.2020	Hold	820
15.04.2020	Buy	819
17.05.2020	Hold	837
04.08.2020	Hold	1,189
16.09.2020	Accumulate	1,355
18.05.2021	Accumulate	1,283
12.11.2021	Accumulate	1,665
19.07.2022	Buy	1,918
17.11.2022	Sell	1,783
01.03.2023	Sell	1,768
15.11.2023	Sell	2,830

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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