

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Escorts Kubota Q1FY25 consolidated revenues came in at ₹2309.95 Cr, down -1.92% YoY and up +10.34% QoQ.
- Op Profit for Q1FY25 stood at ₹325.33 Cr, down -1.73% YoY and up +24.86% QoQ.
- Op margins for Q1FY25 came at 14.08%, +2 bps YoY and +163 bps QoQ.
- PAT for Q1FY25 stood at ₹287.99 Cr, up +0.97% YoY and up +21.31% QoQ.

2. MANAGEMENT COMMENTARY:

- Management gave a guidance of mid-single digit growth in FY25.
- Management expects margins to remain stable.

3. SEGMENTAL ANALYSIS:

- Q1FY25 Revenue Breakup: Agri Machinery Products (73%), Construction Equipments (16%), Railway Equipments (11%).

4. CONCALL SUMMARY

- Agri Machinery Products (73% Revenue): Total tractor sales at 25720 (-3.2% YoY and +21% QoQ). Segmental revenue at 1676 Cr with EBIT Margin 13.2%. Positive rural sentiment with Kharif sowing up 7% YoY. Co aims to increase dealers from 1,200 to 1,700 over the next 2-3 years.
- Construction Equipment (16% Revenue): Sales volume at 1325 units. Segmental revenue at 369.7 Cr with EBIT Margin at 10.4%. Product Mix and realizations helped in improving margins. Q1 is seasonally weak quarter and coming quarters are expected to be better with pick-up in demand.
- Railway Division (11% Revenue): Segmental revenue at 244.7 Cr with EBIT margin at 20.5%. Order book stand at 880 Cr as of June-24. Co secured orders for Vande Bharat and Delhi Metro. Co expects double digit revenue growth with higher margins.

5. OTHER DEVELOPMENTS:

- There was a RM cost pressure in Q1FY25, price hikes were taken in May-24 which would offset RM cost pressure in coming quarters.
- Government has increase the MSP of Kharif crops which would drive the rural sentiment.

6. VALUATION AND OUTLOOK:

Although tractor volumes were flattish in Q1FY25, H2FY25 is expected to be better led by good monsoon, increase in MSP of kharif crops, festive season demand and Government assistance.

We can also see a good boost in export numbers over medium to long term due to synergies between Escorts and Kubota.

We initiate a “BUY” rating on the stock and value the stock at 34x FY26E earnings to arrive at the target of ₹4974.

RECOMMENDATION - BUY

CMP – 4260

TARGET – 4974 (17%)

Industry	Tractors
NSE CODE	ESCORTS
BSE CODE	500495
Market Cap (₹ Cr)	47808.18
Shares Outstanding (in Cr)	11.05
52 wk High/Low (₹)	4420 / 2648.4
P/E	45.43
P/BV	5.06
Face Value (₹)	10.00
Book Value (₹)	855.44
EPS (FY24) (₹)	94.94
Dividend Yield (%)	0.65
Debt / Equity	0.00
Interest Coverage	103.12

SHAREHOLDING PATTERN

	Jun 24	Mar 24	Dec 23
Promoters	67.64	67.64	67.64
MF/ DII	8.61	7.87	8.57
FII/FPI	6.41	5.82	5.00
Retail & Others	15.55	16.75	16.81
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

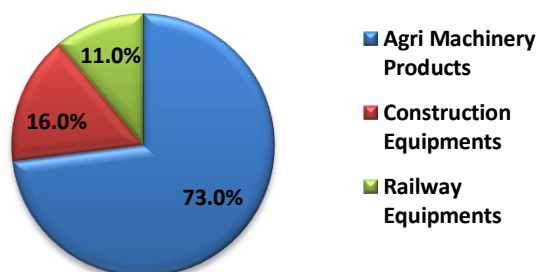
Y/E March	2024A	2025E	2026E
Creole			
Sales	8850	9912	11894
Sales Gr. (%)	5%	12%	20%
EBITDA	1165	1437	1843
EBITDA %	13.2%	14.5%	15.5%
PAT	1049	1277	1609
EPS (₹)	94.94	116.06	146.29
EPS Gr. (%)	96.72%	22.24%	26.05%
Ratios			
RoE (%)	12%	12.5%	13.6%
RoCE (%)	16.1%	16.5%	17.8%
Valuation			
P/E (x)	45.43	36.70	29.12

Historical & Industrial Val Ratios

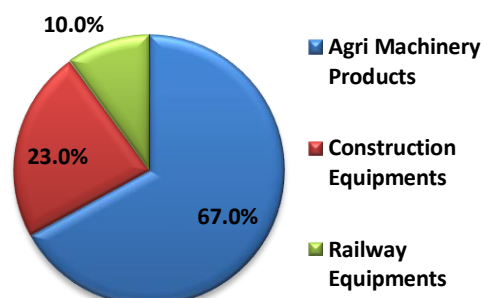
Historical P/E	27.18
Industry P/E	44.81
Historical P/B	3.09
Industry P/B	4.96

REVENUE SPLIT

Segmental Mix (Q1 FY25)



Segmental Mix (Q1 FY24)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23		FY24				FY25		FY24	FY25E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	2,291	2,214	2,355	2,059	2,342	2,094	2,310	2,347	8850	9912
YoY change (%)	14.67%	17.38%	15.90%	8.91%	2.19%	-5.46%	-1.92%	14%	4.99%	12%
Total Expenditures	2,106	1,981	2,024	1,807	2,027	1,833	1,985	2,019	7683	8474
EBITDA	185	233	331	252	314	261	325	329	1167	1437
Margins (%)	8%	11%	14%	12%	13%	12%	14%	14%	13%	14.5%
Other income	92	86	99	95	109	120	112	112	415	450
Interest	3	4	3	3	3	4	2	2	14	10
Depreciation	38	38	40	41	42	44	43	44	167	175
PBT	236	278	386	303	379	333	391	395	1401	1702
Rate (%)	23%	22%	25%	26%	25%	24%	25%	25%	25%	25%
Adjusted PAT	181	216	290	223	284	252	293	296	1049	1277
EPS in Rs	13.7	16.41	26.24	20.21	25.7	22.8	26.53	26.91	94.94	116.06

Key Performance Indicators

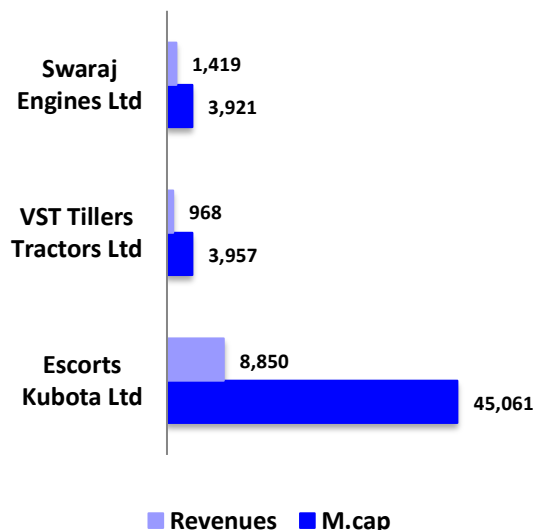
Volumes (000)	26582	22024	25999	21253	25720		
Realization (000/ Unit)	627	633	638	654	652		
RM Cost %	69.8	67.7	69.4	68.1	68.1		
GM%	30.2	32.2	30.6	31.9	31.9		
EBITDA%	14	12	13	12	14		
EBIT%	12	11	2	11	12		

Source: Company, Hem Securities Research.

INDUSTRY OVERVIEW

- The Indian agriculture sector grew by 1.8% in FY 2023-24, lower than the 4% expansion recorded in FY 2022-23, on account of lower monsoon rainfall.
- The construction sector grew by 10.7% year-on-year from 10% in FY 2023- 24, driven by rising incomes, housing shortages, in big cities, and a growing population.
- The Indian Railways demonstrated commendable growth, with total revenue reaching Rs 2.40 Lac crores in FY 2023-24 compared to Rs 2.23 Lac crores in FY 2022-23.
- During FY 2023-24, the domestic tractor industry experienced a decline in volumes, with sales decreasing by 7.4% to 8.75 Lac tractors compared to 9.45 Lac tractors in FY 2022- 23.
- On the export front, tractor volumes saw a decline in FY 2023-24, dropping by 21.4% to 0.98 Lac compared to 1.25 Lac in the previous fiscal year.
- Sectorial demand drivers include Growing Demand for Food Production, Agricultural Mechanization, Easy Credit Access, Labor Scarcity Due to Rising Wages, Government Initiatives.

KEY PLAYERS related to Tractor Industry



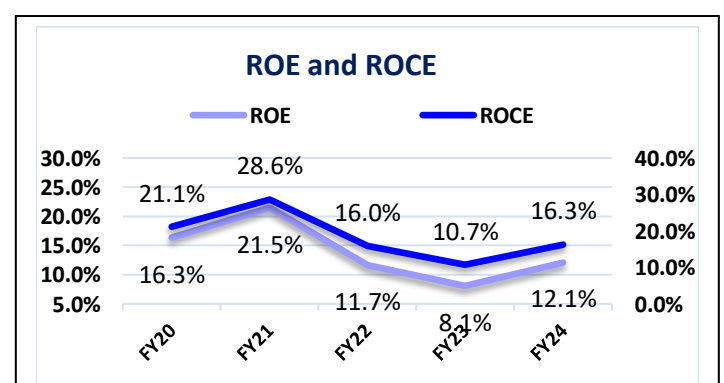
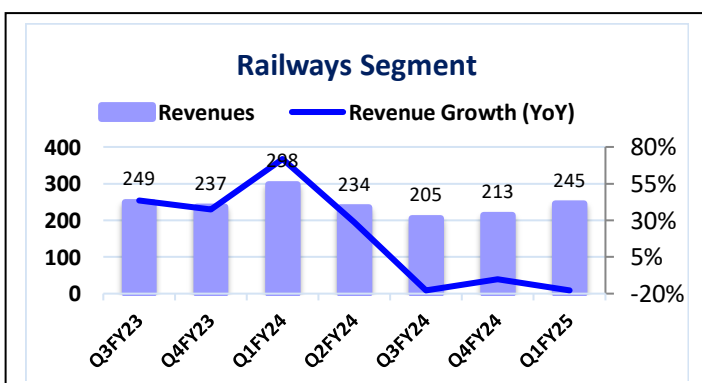
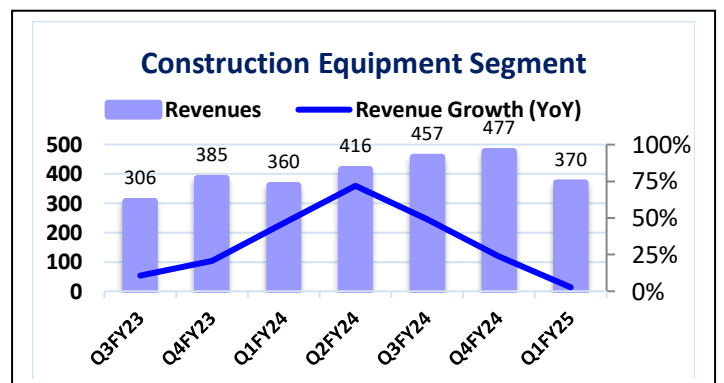
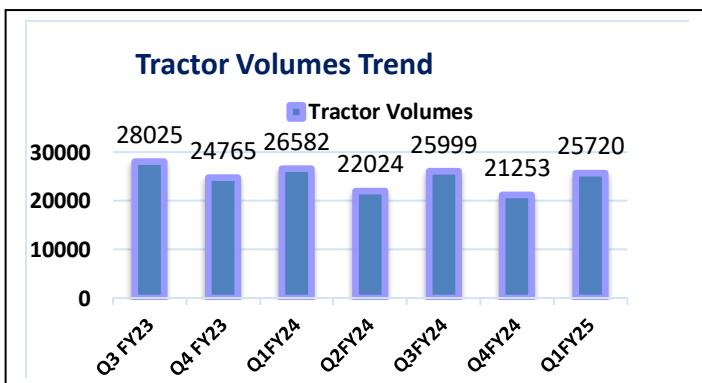
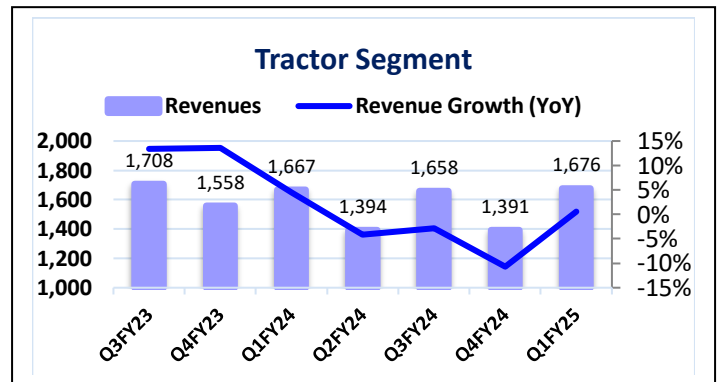
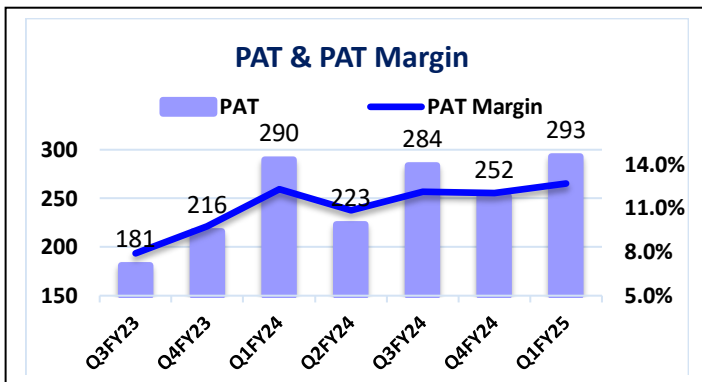
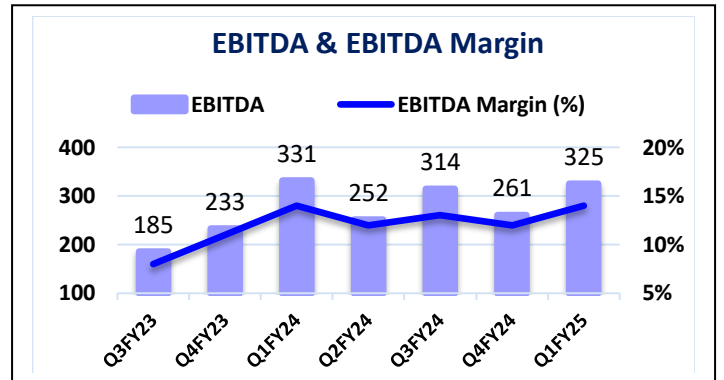
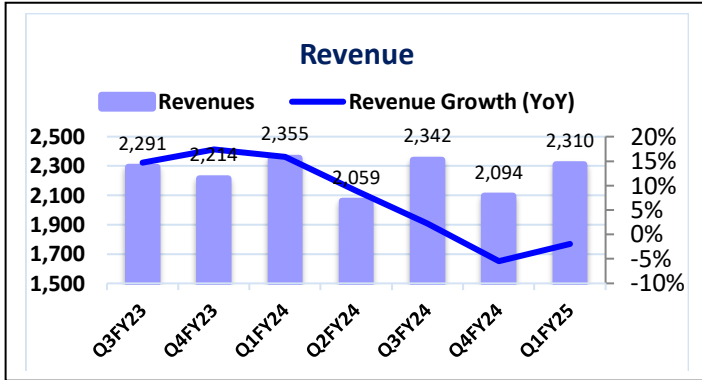
PEER PERFORMANCE

(₹ Cr)

Particulars	Escorts Kubota Ltd.	V.S.T. Tillers Tractors Ltd.	Swaraj Engines Ltd.
Market Cap	45,061.2	3,956.9	3,921.0
Net Sales	8,849.6	968.0	1,419.2
EBITDA	1,165.3	124.6	187.2
PAT	1,049.1	121.1	137.9
EPS(₹)	94.9	140.1	113.5
EBITDA MARGIN %	17.0	18.2	14.3
PAT MARGIN %	11.4	11.9	9.7
ROCE %	16.3	18.0	52.1
ROE %	12.1	13.9	38.8
P/E TTM	42.8	32.7	28.0
P/B TTM	4.8	4.2	9.5
EV/EBITDA	28.9	23.1	18.2
Dividend Yield %	0.4	0.4	2.9
MCap/ Sales TTM	5.1	4.1	2.7

Source: Company, Hem Securities Research.

STORY IN CHARTS



INVESTMENT RATIONALE:

- Tractor Industry is showing sign of improvement led by normal monsoon and better MSPs.
- Infrastructure spending likely to improve in short to medium term which will benefit the Company's CE segment.
- Railway Equipment Division benefitted by strong order book and ramp-up of new products.
- Escorts likely to be benefitted by Kubota's parentage in long run which would help the Company in improving its exports via Kubota's distribution network. Some of the other benefits of Kubota's parentage includes small tractors, component sourcing and CE segment as Kubota is leader in small excavators.
- H2 FY25 would be better for Company led by pent up demand, government assistance, festive season, normal monsoon and government assistance.
- Recently Co took price hikes which would offset rise in commodity prices in the coming quarters.

RISK / NEGATIVE FACTORS:

- EU and US (Export markets) are facing adverse macroeconomic situations.
- Weak demand scenario may impact the sales volume growth forecasts.
- Company has strengthened its business position over the past few years, its market share in the western and southern regions remains limited, restricting it from ramping up its market share at a pan India level.
- The company has a limited product range in the CE segment (cranes, compactors and backhoe loaders), constraining growth prospects in the sector

COMPANY RECAP

- Incorporated in 1944, Escorts Kubota Limited (formerly Escorts Limited) is a leading tractor and farm equipment OEM in India with ~10.3% market share in the domestic market (FY2024).
- The company generates business from its three key divisions — AGM, involved in manufacturing tractors; the CE division, involved in manufacturing and trading construction equipment products; and the RE division, which manufactures shock absorbers for railway coaches, centre buffer couplers and brake systems, etc.
- The AGM segment manufactures and markets its tractors under the Farmtrac, Powertrac and Steeltrac brands and commands a strong presence in northern and Central India.
- The company was promoted by the Delhi NCR-based Nanda family. Mr. Nikhil Nanda is the current chairman and managing director of the company.
- EKL entered into a collaboration with Kubota Corporation, Japan, wherein after establishing two JVs, the latter acquired an equity stake in the company through a preferential issue in 2020. Thereafter, in February 2022, and a mandatory open offer in April 2022, Kubota's shareholding in EKL rose to ~53.50%.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Revenue from operations	5,810.09	7,014.42	7,282.65	8,428.69	8,849.62	9912	11894
Growth YoY (%)	-7.22	20.73	3.82	15.74	4.99	12%	20%
Total Expenditure	5,147.69	5,891.63	6,287.55	7,700.78	7,684.37	8474.40	10050.34
(%) of sales	88.6	83.99	86.34	91.36	86.83	85.50%	84.50%
EBITDA	662.4	1,122.79	995.1	727.91	1,165.25	1437.18	1843.55
EBITDA Growth (%)	-6.97	69.36	-9.16	-9.47	47.88	23.34%	28.28%
EBITDA Margin (%)	13.08	17.53	15.5	12.07	13.17	15%	16%
Depreciation	107.22	118.28	132.06	150.06	166.9	175	190
EBIT	642.48	1,168.12	1,007.80	847.86	998.35	1,262.18	1,653.55
EBIT Growth (%)	-12.39	81.81	-13.72	-15.87	17.74	26.43%	31.01%
Net Interest Expenses	17.23	13.34	14.97	13.27	13.72	10	8
Other Income	97.6	164.35	174.11	330.54	400.02	450	500
Earnings before Taxes	625.25	1,154.78	992.83	834.59	1,401.00	1,702.18	2,145.55
EBT Margin (%)	10.76	15.73	13.16	9.52	15.83	17.17%	18.04%
Tax-Total	153.53	283.15	257.22	197.94	351.94	425.54	536.39
Rate of tax (%)	24.55	24.52	25.91	23.72	25.12	25%	25%
Net Profit	471.72	871.63	735.61	636.65	1,049.08	1,276.63	1,609.16
PAT Growth (%)	-1.04	84.78	-15.61	-13.45	64.78	21.69%	26.05%
PAT Margin (%)	8.12	11.87	9.75	7.26	11.4	12.88%	13.53%
Minority Interest	0.53	-0.17	0.86	0.13	0.03	0	0
Adjusted PAT	472.25	871.46	736.47	636.78	1,049.11	1,276.63	1,609.16
EPS	38.53	64.63	55.82	48.26	94.94	116.06	146.29
EPS Growth (%)	-1.39	67.77	-13.64	-13.54	96.72	22.24%	26.05%

Balance Sheet

Y/E March	2020	2021	2022	2023	2024
Equity Capital	123	135	132	132	110
Reserves	2,995	4,891	7,468	8,055	9,066
Borrowings	48	61	52	57	53
Other Liabilities	1,849	1,791	1,456	1,841	2,036
Total Liabilities & Equity	5,014	6,878	9,108	10,085	11,266
Fixed Assets	1,702	1,796	1,841	1,891	1,871
CWIP	125	65	88	114	152
Investments	797	1,938	4,836	4,767	5,220
Other Assets	2,390	3,079	2,343	3,313	4,023
Total Assets	5,014	6,878	9,108	10,085	11,266

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2020	2021	2022	2023	2024
Profitability and return ratios					
Net profit margin (%)	8.12	11.87	9.75	7.26	11.40
EBITDA margin (%)	13.08	17.53	15.50	12.07	17.01
EBIT margin (%)	11.06	15.91	13.36	9.67	15.38
ROE (%)	16.32	21.48	11.68	8.08	12.10
ROCE (%)	21.09	28.61	15.96	10.74	16.29
Working Capital & liquidity ratios					
Payables (Days)	105.57	91.91	76.04	64.19	74.01
Inventory (Days)	54.68	39.81	37.86	42.96	48.32
Receivables (Days)	52.23	34.53	35.09	41.05	46.68
Current Ratio (x)	1.63	2.73	5.02	2.85	3.14
Valuations Ratios					
EV/sales (x)	1.35	2.29	3.03	2.91	3.34
EV/EBITDA (x)	10.29	12.48	18.85	23.14	18.86
P/E (x)	17.21	19.94	30.30	39.20	29.27
P/BV (x)	2.61	3.47	2.94	3.05	3.35
Dividend Yield (%)	0.38	0.58	0.41	0.37	0.65
Return on Assets (%)	9.71	14.66	9.20	6.63	9.83
Leverage Ratio					
Debt/Equity (x)	0.01	0.00	0.00	0.00	0.00

Cash Flow Statement					
Y/E March	2020	2021	2022	2023	2024
CF from Operating activities (A)	797	1,129	32	224	1,032
CF from Investing Activities (B)	-421	-2,195	-1,856	-62	-928
CF from Financing Activities (C)	-300	1,003	1,810	-71	-77
Net Cash Flow	76	-63	-14	91	28
Add: Opening Bal.	93	169	106	92	182
Closing Balance	169	106	92	182	210

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
30 Sep 2024	Buy	4974

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Name of the Research Analyst: ABHISHEK SHARDA

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