

**SELL**

TP: Rs 2,530 | ▼ 31%

**ESCORTS**

| Automobiles

| 14 May 2024

**Weakness persists and likely to continue – maintain SELL**

- Q4 tractor volumes dipped 14% YoY, with domestic share recovered but overall market share recovery weak as exports volume declined
- Lower commodity cost supported gross/EBITDA margin expansion despite fall in revenue by 5% YoY; margins weak QoQ
- We have revised our FY26 EPS estimates by +3%; retain SELL with revised TP of Rs 2,530 (vs. Rs 2,389)

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**Tractor volumes continue to be weak:** Escorts's Q4FY24 revenue fell by 5%/10% YoY/QoQ to Rs 20.1bn as tractor volumes remained weak, largely offsetting realisation gains. Tractor volumes fell 14%/18% YoY/QoQ to ~21k units, marginal beat to the industry which fell 16% YoY due to deficient rains and a delayed crop harvest. Net realisation per vehicle in the segment grew 4%/2% YoY/QoQ to Rs 0.65mn on the back of price hikes in (Q1-Q2FY24) and product mix by Escorts.

**CE segment robust YoY; AM, RE fall:** Revenue from the Agriculture Machinery (AM) segment fell 11% YoY in Q4 due to weak tractor volumes. The Railways Equipment (RE) segment contracted 10% YoY due to a lower supply schedule from the Railway department, while Construction Equipment (CE) grew 45%. Segmental EBIT margin was 11.2% for AM (10% in Q4FY23), 17% for RE (14%) and 11% for CE (8.1%). The three segments contributed 67%, 10% and 23% of revenue respectively.

**Easing input cost aids margin gains:** Raw material cost (inventory adjusted) fell 9%/+12% YoY/QoQ to Rs 15.5bn, but management sees limited space for further gains. Gross margin rose 343bps YoY (130bps QoQ) to 31.9% and EBITDA margin expanded 200bps (-70bps) to 12.8%. Adj. PAT grew 31%/-13% YoY/QoQ to Rs 2.4bn.

**Amalgamation nod likely by Q1FY25:** Amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has received all necessary approvals and a final order from the National Company Law Tribunal (NCLT) is expected in 2-3 months.

**Maintain SELL:** Escorts's tractor volumes slipped 7% YoY in FY24, and the ESC has only retained domestic market share in tractor segments but lost in other segments like the PNC/BHL and compactor segments in FY24. The full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months. We retain our FY25 EPS estimates but revise upwards our FY26 forecasts by 3%, baking in a revenue/EBITDA/PAT CAGR of 13%/28%/29% for Escorts over FY23-FY26. Given sustained growth headwinds, we retain SELL, while revising our TP to Rs 2,530 (vs. Rs 2,389). Our target P/E stays at 20x – in line with the stock's long-term mean.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ESCORTS IN/Rs 3,654
Market cap	US\$ 5.9bn
Free float	63%
3M ADV	US\$ 10.4mn
52wk high/low	Rs 3,665/Rs 2,032
Promoter/FPI/DII	37%/22%/8%

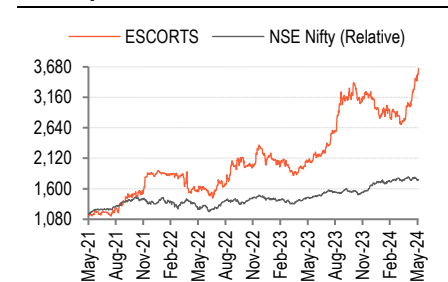
Source: NSE | Price as of 14 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	87,767	1,00,738	1,21,299
EBITDA (Rs mn)	11,688	13,976	16,433
Adj. net profit (Rs mn)	10,371	11,796	13,839
Adj. EPS (Rs)	93.9	106.8	125.2
Consensus EPS (Rs)	93.8	108.9	130.0
Adj. ROAE (%)	11.3	11.5	12.0
Adj. P/E (x)	38.9	34.2	29.2
EV/EBITDA (x)	41.4	33.6	28.3
Adj. EPS growth (%)	79.5	13.7	17.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY24	Q3FY24	Our view
Domestic volumes	In FY24, the domestic tractor industry fell 7.4% YoY to ~876k units due to erratic and deficient rainfall that led to delayed crop harvests and lower rabi (winter crop) sowing. Escorts's domestic tractor volume fell 5% YoY to 90k units. Escorts's market share as on Q4FY24 was 11.6%.	The domestic tractor industry fell 4.9% YoY to ~235k units in Q3FY24 due to erratic and deficient rainfall that led to delayed crop harvests and lower rabi (winter crop) sowing. Escorts's domestic tractor volume fell 6% YoY to 24.6k units. Escorts's market share as on Q3FY24 was 10.5%.	Escorts is facing greater volume challenges in the domestic market than the industry, leading to loss of market share.
Exports	The export tractor industry declined 21% YoY to ~98k units and Escorts's export volume fell 30% YoY to 5,619 units in FY24. Management expects export volume to reach 20-30k units in the next 2-3 years for Escorts.	The export tractor industry declined 27% YoY to ~21.3k units and Escorts's export volumes fell 26% YoY to 1,371 units in Q3FY24. Management expects export volumes to reach 20-30k units in the next 2-3 years. Sales through Kubota's global network stood at ~47% of export volumes in Q3FY24.	Formal amalgamation with Kubota will give Escorts a better foothold in export markets.
Margins	Operating margin expanded on account of improved realisation, effective cost control and softening commodity prices. However, QoQ margins were under stress. Management expects commodity prices to increase slightly in H1FY25.	Operating margin expanded on account of improved realisation, effective cost control and softening commodity prices. Price hikes taken in the previous quarter also contributed to margins. Management expects commodity prices to increase slightly in Q4FY24.	Margins benefitted from easing raw material cost, but we see little scope for improvement hereon.
Other segments	Served construction equipment industry volumes grew 18% YoY, aided by 48% growth in crane volumes, 40% growth in the compactor segment and 2% growth in backhoe loaders. Escorts's total volume grew 43% YoY Q4FY24. For the RE division, revenue fell 10% YoY to Rs 2bn due to election protocol impacted orders from the Railway department in Q4FY24. Management expects the Railway division to pick up, with good traction expected from both the freight wagon and passenger wagon divisions. The order book for the Railway division was at +Rs 9.5bn at end-Q4FY24.	Served construction equipment industry volumes grew 31% YoY, aided by 47% growth in crane volumes, 49% growth in the compactor segment and 25% growth in backhoe loaders. Escorts's total volumes grew 49% YoY to ~1,800 units in Q3FY24. For the RE division, revenue fell 18% YoY to Rs 2bn as the supply schedule from the Railway department was lower in Q3FY24. Management expects the Railway division to pick up, with good traction expected from both the freight wagon and passenger wagon divisions. The order book for the Railway division was at +Rs 9bn at end-Q3FY24.	The performance of segments other than Tractors continues to improve and they currently form ~30% of revenue. CE segment performance is likely to improve given the government's thrust on infrastructure. Railway pick up will come from 2HFY24 expectedly.
Regulations	No clarity or commentary from management.	TREM-5 emission norms will be applicable from 1 Apr 2026, as per formal communication from the government to the company. Implementation of TREM-4 norms led to a decrease in industry size for the 41-50HP segment to 2% of the total tractor market as on Q3FY24 (7% in FY23), translating into total sales of 20k-22k units for the segment (down by ~30k units in 9MFY24).	Escorts has a lower presence in the high-end tractor segment and will see limited pricing impact from the new norms.

Parameter	Q4FY24	Q3FY24	Our view
Captive financing	Escorts incorporated its non-banking finance company (NBFC) in Jan'24 and applied to the Reserve Bank of India (RBI) for a licence in Mar'24. RBI has responded with some queries, to which the company will reply.	Escorts incorporated its NBFC in Jan'24 and intends to apply to the RBI for a licence in Feb. Post the RBI's approval (expected in 6-8 months), management intends to launch the NBFC arm in FY25 and commence financing.	This is unlikely to have a near-term impact but may help all the three business segments in the medium term.
Capex	Capex of Rs 3bn in FY25 and no clear comments on long-term plan of Rs 40bn.	No comments in Q3FY24 earnings call.	Limited visibility on the capex for 1 year.
Merger	For the Kubota amalgamation, all the required approvals are in place and the matter is now pending with the NCLT for the final order. Management expects NCLT approval shortly.	For the Kubota amalgamation, all the required approvals are in place and the matter is now pending with NCLT for the final order. Management expects NCLT approval for the merger in the next 2-3 months.	Clarity, particularly on the exports business, is likely to emerge in the next 3-4 years following a complete branding revamp.
Other information	Escorts's inventory level is currently at 37-39 days and management does not intend to increase this level for FY25.  Management indicated that it will be primarily focusing on western (namely Gujarat and Maharashtra) and northern India markets.	Escorts's inventory level is currently at 35-38 days and management does not intend to increase this level for FY24.  Management indicated that it will be primarily focusing on western India markets, namely Gujarat and Maharashtra (currently contributing ~21% of TIV), and to some extent on southern India markets (15-16% of TIV).	Tractor inventory is unlikely to change much.

Source: Company, BOBCAPS Research | TIV: Total Industry Volume

**Fig 2 – Quarterly performance (Standalone)**

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	21,253	24,765	(14.2)	25,999	(18.3)
Avg. Realisation per Vehicle	9,79,848	8,81,466	11.2	8,92,438	9.8
<b>Net Revenues</b>	<b>20,825</b>	<b>21,830</b>	<b>(4.6)</b>	<b>23,203</b>	<b>(10.2)</b>
Total Income (A)	20,825	21,830	(4.6)	23,203	(10.2)
<b>Operating Expenses:</b>					
Raw materials consumed	14,181	15,615	(9.2)	16,092	(11.9)
Employee Expenses	1,577	1,565	0.7	1,635	(3.6)
Other Expenses	2,408	2,291	5.1	2,349	2.5
Total Expenditure (B)	18,166	19,471	(6.7)	20,077	(9.5)
<b>EBITDA (A-B)</b>	<b>2,659</b>	<b>2,358</b>	<b>12.8</b>	<b>3,126</b>	<b>(14.9)</b>
Other Income	1,053	763	38.1	1,035	1.8
Depreciation	441	380	15.9	415	6.2
EBIT	3,272	2,741	19.4	3,745	(12.6)
Finance Costs	35	28	25.5	24	45.0
PBT after excep items	3,237	2,714	19.3	3,722	(13.0)
Tax expense	817	615	32.8	950	(14.0)
Reported PAT	2,421	2,343	3.3	2,772	(12.7)
<b>Adjusted PAT</b>	<b>2,421</b>	<b>2,099</b>	<b>15.3</b>	<b>2,772</b>	<b>(12.7)</b>
Adj EPS (Rs)	21.9	15.9	37.7	25.1	(12.7)
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin (%)	31.9	28.5	343	30.6	126
EBITDA Margin (%)	12.8	10.8	197	13.5	(70)
EBIT Margin (%)	15.7	12.6	315	16.1	(43)
PBT Margin (%)	15.5	12.4	311	16.0	(49)
Tax Rate (%)	25.2	20.8	443	25.5	(30)
Adj PAT Margin (%)	11.6	9.6	201	11.9	(32)

Source: Company, BOBCAPS Research

## Valuation methodology

Escorts's tractor volume slipped 7% YoY in FY24, and Escorts has only retained domestic market share in the tractor segment but lost share in other segments like PNC/BHL (Pick-and-Carry/Backhoe Loader) and compactor in FY24. The full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months.

We retain our FY25 EPS estimates but revise upwards our FY26 forecasts by 3%, baking in a revenue/EBITDA/PAT CAGR of 13%/28%/29% for Escorts over FY23-FY26. Given sustained growth headwinds, we retain SELL, while revising our TP to Rs 2,530 (vs. Rs 2,389). Our target P/E stays at 20x – in line with the stock's long-term mean.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,00,738	1,21,299	100,481	118,869	0.3	2.0
EBITDA	13,976	16,433	13,921	15,934	0.4	3.1
Adj PAT	11,796	13,839	11,756	13,470	0.0	2.7
Adj EPS (Rs)	107	125	106.4	121.9	0.0	2.7

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY23	FY24P	FY25E	FY26E
Volumes	1,03,290	95,858	1,00,976	1,07,540
Blended Realisation (Rs)	6,11,215	6,41,776	6,61,029	6,94,081
EBITDA (Rs mn)	7,775	11,688	13,976	16,433
EBITDA margin (%)	9.2	13.3	13.9	13.5
Adj. PAT (Rs mn)	6,897	10,371	11,796	13,839
EPS (Rs)	52.3	93.9	106.8	125.2

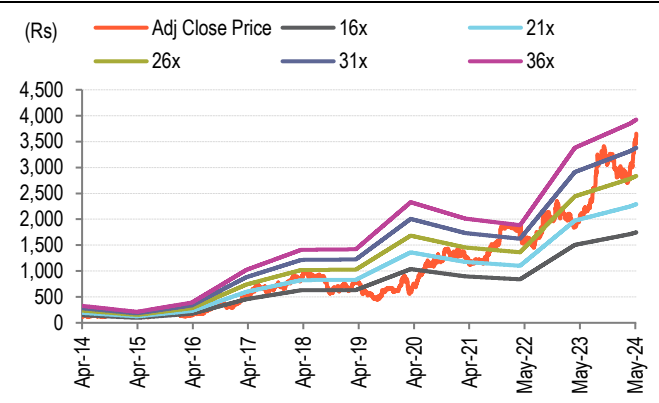
Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Escorts Kubota	ESCORTS IN	SELL	2,530	106.8	125.2	12.1	12.7
VST Tillers Tractors	VSTT IN	HOLD	3,213	128.7	144.6	12.1	12.1
Mahindra & Mahindra	MM IN	BUY	2,077	94.6	103.4	19.0	17.6

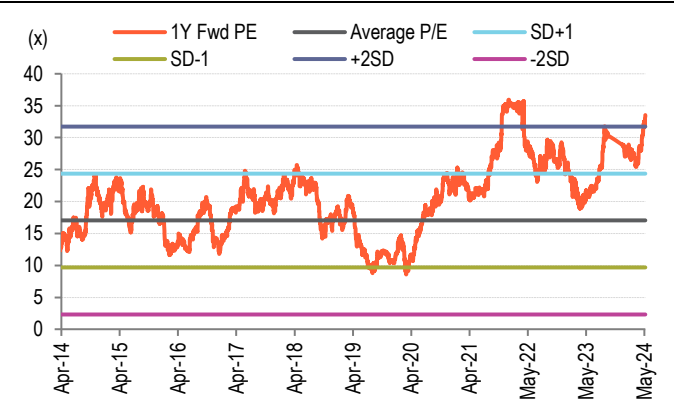
Source: Company, BOBCAPS Research

**Fig 6 – P/E band: Expect valuations to soften, in line with performance**



Source: Bloomberg, BOBCAPS Research

**Fig 7 – P/E 1Y fwd: Expect reversal to mean**



Source: Bloomberg, BOBCAPS Research

### Key risks

Key upside risks to our estimates are:

- faster-than-expected revival in industry and export volumes,
- faster-than-anticipated margin revival owing to earnings-accretive price hikes, and
- quicker easing of commodity prices than anticipated.

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.3	205	226	BUY
Bajaj Auto	BJAUT IN	31.9	9,065	6,823	SELL
Eicher Motors	EIM IN	15.7	4,731	4,045	HOLD
Escorts	ESCORTS IN	5.9	3,654	2,530	SELL
Hero MotoCorp	HMCL IN	12.3	5,043	4,776	HOLD
Maruti Suzuki	MSIL IN	47.1	12,814	12,965	HOLD
TVS Motor	TVSL IN	12.3	2,135	2,382	BUY
VST Tillers Tractors	VSTT IN	0.3	3,299	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 14 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>72,384</b>	<b>84,287</b>	<b>87,767</b>	<b>1,00,738</b>	<b>1,21,299</b>
EBITDA	9,512	7,775	11,688	13,976	16,433
Depreciation	1,218	1,399	1,664	1,507	1,624
EBIT	10,372	9,084	14,006	16,091	18,872
Net interest inc./(exp.)	(150)	(133)	(108)	(150)	(170)
Other inc./(exp.)	2,180	2,809	3,983	3,622	4,063
Exceptional items	0	(531)	0	0	0
EBT	9,928	8,346	13,898	15,941	18,702
Income taxes	2,572	1,979	3,527	4,145	4,862
Extraordinary items	(9)	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,365</b>	<b>6,367</b>	<b>10,371</b>	<b>11,796</b>	<b>13,839</b>
Adjustments	0	531	0	0	0
<b>Adjusted net profit</b>	<b>7,365</b>	<b>6,897</b>	<b>10,371</b>	<b>11,796</b>	<b>13,839</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	9,855	13,427	11,660	12,402	6,613
Other current liabilities	3,486	3,485	6,308	11,984	23,051
Provisions	1,402	1,466	1,592	1,774	1,951
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	1,319	1,319	1,105	1,105	1,105
Reserves & surplus	74,642	80,509	91,033	1,01,113	1,14,289
Shareholders' fund	75,961	81,829	92,138	1,02,218	1,15,394
<b>Total liab. and equities</b>	<b>90,705</b>	<b>1,00,206</b>	<b>1,11,698</b>	<b>1,28,377</b>	<b>1,47,010</b>
Cash and cash eq.	2,718	4,719	11,646	13,804	17,225
Accounts receivables	7,926	11,797	12,086	12,972	14,456
Inventories	8,466	12,177	11,581	12,144	14,955
Other current assets	5,258	5,291	4,512	6,402	7,042
Investments	48,358	47,667	52,826	62,924	72,924
Net fixed assets	18,172	18,621	18,956	19,549	20,325
CWIP	563	694	508	1,000	500
Intangible assets	553	734	734	734	734
Deferred tax assets, net	(1,311)	(1,492)	(1,151)	(1,151)	(1,151)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>90,704</b>	<b>1,00,206</b>	<b>1,11,698</b>	<b>1,28,377</b>	<b>1,47,010</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>(2,927)</b>	<b>863</b>	<b>10,212</b>	<b>12,792</b>	<b>11,751</b>
Capital expenditures	(2,000)	(2,260)	(1,814)	(2,592)	(1,900)
Change in investments	(28,978)	692	(5,159)	(10,098)	(10,000)
Other investing cash flows	2,180	2,809	3,983	3,622	4,063
<b>Cash flow from investing</b>	<b>(28,798)</b>	<b>1,240</b>	<b>(2,990)</b>	<b>(9,068)</b>	<b>(7,837)</b>
Equities issued/Others	17,932	242	(456)	0	0
Debt raised/repaid	(17)	0	0	0	0
Interest expenses	(150)	(133)	(108)	(150)	(170)
Dividends paid	(737)	(763)	(663)	(663)	(663)
Other financing cash flows	2,199	185	677	(1,018)	0
<b>Cash flow from financing</b>	<b>19,226</b>	<b>(469)</b>	<b>(550)</b>	<b>(1,831)</b>	<b>(833)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(12,499)</b>	<b>1,635</b>	<b>6,672</b>	<b>1,893</b>	<b>3,081</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,718</b>	<b>4,719</b>	<b>11,646</b>	<b>13,804</b>	<b>17,225</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	68.6	52.3	93.9	106.8	125.2
Adjusted EPS	55.8	52.3	93.9	106.8	125.2
Dividend per share	5.6	5.8	6.0	6.0	6.0
Book value per share	576.0	620.5	833.8	925.4	1,044.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	6.5	5.6	5.5	4.7	3.8
EV/EBITDA	49.1	60.9	41.4	33.6	28.3
Adjusted P/E	65.5	69.9	38.9	34.2	29.2
P/BV	6.3	5.9	4.4	3.9	3.5

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.2	82.6	74.6	74.0	74.0
Interest burden (PBT/EBIT)	95.7	91.9	99.2	99.1	99.1
EBIT margin (EBIT/Revenue)	14.3	10.8	16.0	16.0	15.6
Asset turnover (Rev./Avg TA)	113.9	106.8	100.9	103.7	111.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	11.7	8.7	11.9	12.1	12.7

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	3.2	16.4	4.1	14.8	20.4
EBITDA	(15.6)	(18.3)	50.3	19.6	17.6
Adjusted EPS	(13.7)	(6.4)	79.5	13.7	17.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.1	9.2	13.3	13.9	13.5
EBIT margin	14.3	10.8	16.0	16.0	15.6
Adjusted profit margin	10.2	8.2	11.8	11.7	11.4
Adjusted ROAE	9.7	8.4	11.3	11.5	12.0
ROCE	12.1	8.8	12.0	12.3	12.8
<b>Working capital days (days)</b>					
Receivables	37	43	50	45	41
Inventory	39	45	49	43	41
Payables	80	69	76	64	41
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.4	0.4	0.4	0.3
Current ratio	1.7	1.8	2.0	1.7	1.7
Net interest coverage ratio	(69.3)	(68.5)	(129.2)	(107.3)	(111.0)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

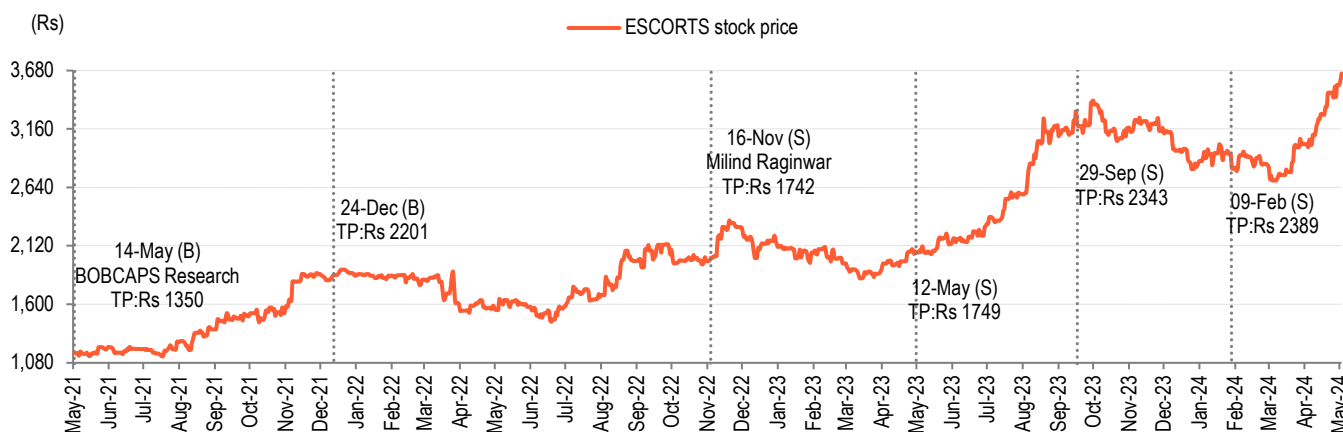
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): ESCORTS (ESCORTS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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