BOBCAPS
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SELL
TP: Rs 2,670 | ∀ 21%

ESCORTS KUBOTA | Automobiles | 05 August 2025

Awaiting fresh triggers to mitigate challenges; maintain SELL

- **Q1 tractor volumes grew marginally by 0.7% YoY (~15% QoQ), but domestic volumes were down ~2%. Margins soften sharply by 12% YoY**
- **Raw material cost stays muted and only respite to guard margins gross and EBITDA margins stay flat ~13%, gross margins gain 100 bps YoY**
- **Revise FY26/FY27 EBITDA/EPS estimates down, introduce FY28E, retain 20x P/E multiple, revise TP to Rs 2,670 (Rs 2,658). Maintain SELL**

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Volume weakness persists, below industry growth losing market share: ESCORTS reported revenue at Rs 25bn, down 11.3% YoY (+2.3). Tractor volumes grew marginally by 0.7% YoY (~15% QoQ), but domestic volumes were down ~2%. Net realisations were down significantly by 12%/11% YoY/QoQ as regional disparities weigh on prices.

CE delivery below par, AM delivered growth: The Agri Machinery (AM) segment saw flattish revenue growth of 0.4% YoY, as the overall tractor volume growth was subdued, only exports surged 80.3%. AM EBIT margin improved to 12.6% from 11.7% YoY, boosted by soft commodity prices and operational efficiencies. Construction Equipment (CE) revenue declined 20.8% YoY, while EBIT margin fell sharply to 5.8% from 10.3% YoY. However, margins were hit by the clearance of non-emission-compliant inventory. The RED business, divested to Sona BLW, earned Rs 1.3bn/Rs0.3bn in income/PBT (discontinued operations).

Soft cost structure helps guard margins: Raw material cost (inventory adjusted) declined significantly by 12.6% YoY (+2% QoQ) at ~Rs 18bn (down 100 bps to 69.1 as % of sales). EBITDA margin was largely flat at 12.9% vs 13% YoY (11.8% QoQ) as softer commodities prices aid, but Kubota import costs continued to drag. Synergies benefits likely in 2-3 years with localisation efforts. Management is cautious about pressures raising metal prices Q2FY26 onwards.

Divestment helps improve balance sheet health: The RED divestment to Sona BLW strengthens the balance sheet with ~Rs10bn in proceeds, supporting capex plans of Rs 3.5–4bn for FY26 and Rs 4–4.5bn for UP greenfield land acquisition.

Maintain SELL: Intense competition and unfavourable regional mix keep tractor realisation under pressure YoY. ESCORTS has also lost domestic market share to the competition. The amalgamation impact on margins due to higher cost structure will stay. We revise our EBITDA/EPS for FY26E/FY27E downwards and introduce FY28 earnings. We maintain SELL with new TP of Rs 2,670 (Rs 2,658). Our target P/E stays at 20x – a marginal premium to the stock's LT mean.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ESCORTS IN/Rs 3,394
Market cap	US$ 5.1bn
Free float	63%
3M ADV	US$ 6.6mn
52wk high/low	Rs 4,420/Rs 2,776
Promoter/FPI/DII	37%/22%/8%

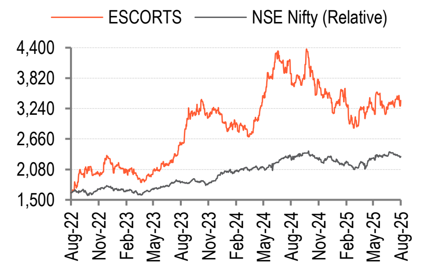
Source: NSE | Price as of 4 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,02,439	1,14,140	1,31,812
EBITDA (Rs mn)	11,653	13,450	16,205
Adj. net profit (Rs mn)	11,268	12,127	14,281
Adj. EPS (Rs)	100.7	108.4	127.6
Consensus EPS (Rs)	100.7	109.4	129.0
Adj. ROAE (%)	10.9	10.4	11.0
Adj. P/E (x)	33.7	31.3	26.6
EV/EBITDA (x)	37.4	32.2	26.5
Adj. EPS growth (%)	6.1	7.6	17.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q1FY26	Q4FY25	Our view
Domestic volumes	Domestic tractor volumes declined by 1.9% YoY, underperforming industry growth of 8.7%. Total tractor volumes (domestic + exports) grew 0.7% YoY. North/Central regions grew 0.5% YoY, while South/East/West surged 19.3%, impacting EKL's MS due to weaker presence in high-growth regions. Management expects FY26 industry growth at mid-to-high single digits. New launches (Promax, Kubota MU series 41–50hp, Powertrac Wetland series by Q3FY26) aim to boost South/East presence.	Domestic tractor volumes grew 6.0% YoY to 24.8k units, underperforming industry growth of 17.3% by 11.3%. ESCORTS underperformed the South and East regions on dealer legacy issues limiting capacity. Outlook for FY26 is positive; the industry likely to grow in high single digits. Plans to expand dealer network in South for the Farm trac product line, in East/West for the Power trac product line and in North/Central for Kubota.	ESCORTS continues to lose MS consistently vs its larger peers (which have grown in volume) despite maintaining discounts on account of unfavourable mix. This challenge will continue in the medium term. Steps to make its presence felt in the key growth region are in the right direction.
Exports	Export volumes surged 80.3% YoY, driven by a low base and strong Kubota network demand (~52% of exports). Europe remains the primary market, with Mexico and other markets (Africa, Southeast Asia) contributing. FY26 export growth is targeted at 25–30%, aiming for 15% of total revenue by FY27–30. Component exports are ~Rs 1.5bn in last year, targeting ~Rs 2.5bn for FY26.	Export tractor volumes increased by 36.6% YoY to 1.8k units from 1.3k units in Q4FY24, outperforming 4.0% industry export growth. Exports through the Kubota channel stood at ~72 % in Q4FY25. For FY25, the share stood at 40%. Mexico exports have begun via shared Kubota distributor and volumes will likely show from Q1FY26. Kubota's strategy is to position India as a global export hub for all range of tractors.	Formal amalgamation with Kubota will give ESCORTS a better foothold in export markets. However, its full impact will take another 4-6 quarters. Volume may stay impacted to the extent for nearly a year.
Margins	EBITDA margin improved to 12.9%, up 16 bps YoY, driven by soft commodity prices and operational efficiencies. However, rising metal prices may pressurise margins. Management guides FY26 margins at 12–12.5%, with Kubota import costs and localisation delays (engine localisation 2–3 years away) as headwinds.	EBITDA margin was down to 11.8% by 66 bps YoY from 12.4%, but up 50bps QoQ from 11.3%. Margin pressure included ~Rs 0.3bn impairment charge and Kubota's import costs impacted by currency depreciation.	Margins will be impacted on elevated cost structure of JV companies amalgamated with Escorts Kubota in the near term. Further, as the company engines are not allowed on Kubota platform, import costs will continue to pinch margins till the localisation is complete. Hiving off of RE business will also continue to impact the show.
Other segments	CE volumes fell 23.7% YoY, underperforming industry's 14.2% decline. Revenue dropped 20.8% YoY to Rs 3bn from Rs 3.8bn. EBIT margin weakened to 5.8% from 10.3% YoY on old emission norm inventory clearance and BS-5 transition costs. New Hydra 12 crane launched. Government's FY26 capex is expected to drive H2FY26 demand. Railway Equipment Division (RED): Divested to Sona BLW, with PAT of ~Rs 10bn crore recorded as discontinued operations income.	Total CE volumes declined by 12.2% YoY to 1.7k units YoY, underperforming the industry's 8% decline. ESCORTS has completed the BS5 transition and liquidated the old inventory. Full price recovery is expected by September 2025. New BHL platform targeting domestic and international market was showcased at the Bharat mobility. Plans to have premium Kubota engine versions are in pipeline. Sale of Railway Equipment Division (RED) was delayed from 1st May to 1st of June due to pending approvals. Order book of RED stood at Rs 9 bn by Q4FY25-end.	Performance of segments other than tractors will improve. CE segment performance is likely to improve given the government's thrust on infrastructure. In crane and mini escalator market, the company is No. 2 player. However, backhoe loaders and compactors are a challenge due to growing export markets dominated by MNC companies and not a strong play for ESCORTS. However, hiving off the Railway Equipment business at below-par valuations will have an impact in the short term.

Parameter	Q1FY26	Q4FY25	Our view
Regulations	Tractor Trem V norms (initially April 1, 2026) likely delayed, with a proposal to exempt 25–50hp segment. Clarity expected by mid-August 2025. CE BS-5 transition completed, with cost hikes impacting demand. Full price recovery expected by September 2025.	ESCORTS has successfully transitioned the product portfolio BS5 norms, while the residual stock has been rundown. Cost impact for customers transitioning from BS3 and BS4 will be 10% and 7% respectively. TREM IV norms, which were initially set to be effective 1st April, are expected to be delayed with no official update.	ESCORTS has a lower presence in the high-end tractor segment and will see limited pricing impact from new norms.
Capex	FY26 capex planned at Rs 3.5–4bn, with Rs 4–4.5bn for UP greenfield land acquisition, totaling ~Rs 8bn. Land acquisition delayed by ~6 months due to farmer issues; expected completion within FY26. Greenfield plant targeted for FY28–29 production. Tractor capacity utilization at ~60%, CE at ~30%.	Management has earmarked Rs 3.5-4 bn as capex for FY26. Another Rs 4-4.5 bn is kept aside for the land acquisition in UP totaling to ~Rs 8bn for the whole year. Post-acquisition, the greenfield plant will take 24-36 months to operationalise, targeting late FY28 or FY29 for production.	Ongoing capex is likely to be delayed, but likely to be commissioned by FY28/29. Any meaningful reflection on the volume is visible only post the availability of extra capacity.
Merger	Kubota merger continues to drag margins by ~2% due to import costs and currency depreciation. Synergies expected in 2–3 years with localization and new product launches (Promax, Kubota MU, Powertrac Wetland). Management targets marginal margin improvement in FY26.	Merger continues to drag margin by ~2% as Kubota's import cost and currency depreciation weighs in. Merger synergies likely to kick in, in a time of 2-3 years.	In the medium term, margins likely to be under pressure. Clarity, particularly on the exports business, is likely to emerge in the next 4-6 quarters, post a complete branding revamp. In India, localisation effort will only be the next trigger for Kubota units.
Other Information	Channel inventory maintained at 4–5 weeks. Agri machinery non-tractor revenue (~20%) includes spares (~10%), implements, and engines (low single digits).	ESCORTS maintained a channel inventory of 4-5 weeks at Q4FY25-end. Cash and cash equivalents were Rs 65-66 bn post-debt repayment of Rs 3.5 bn for merged entities. RED sale is expected to add Rs 14-15 bn (post-taxes) by FY26 end, projecting Rs 75-80 bn in cash. ESCORTS has invested Rs 0.6 bn in the captive finance arm of the Rs 2 bn commitment. They are targeting a book size of Rs 1 bn by FY26-end and 30-35% penetration in 2-3 years.	Channel inventory is marginally below industry average of ~45-50 days, but discounting structure hits performance. Balance sheet strength is reasonably healthy, though greenfield investments pace is clearly lacking. UP expansion hinges on government clearances.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Consolidated)

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Q1FY26E
Volume	30,581	30,370	0.7	26,633	14.8	30,581
Avg. Realisation per Vehicle	8,17,517	9,28,018	(11.9)	9,17,989	(10.9)	9,17,989
Net Revenues	25,001	28,184	(11.3)	24,449	2.3	28,073
Total Income (A)	**25,001**	**28,184**	**(11.3)**	**24,449**	**2.3**	**28,073**
Operating Expenses						
Raw materials consumed	17,282	19,764	(12.6)	16,959	1.9	19,507
Employee Expenses	1,881	1,913	(1.7)	2,042	(7.9)	2,144
Other Expenses	2,624	2,830	(7.3)	2,573	2.0	2,701
Total Expenditure (B)	**21,787**	**24,507**	**(11.1)**	**21,574**	**1.0**	**24,352**
EBITDA (A-B)	**3,214**	**3,677**	**(12.6)**	**2,875**	**11.8**	**3,721**
Other Income	1,561	1,030	51.5	1,325	17.8	1,185
Depreciation	596	616	(3.3)	620	(3.9)	641
EBIT	4,179	4,091	2.2	3,580	16.7	4,265
Finance Costs	40	107	(62.8)	51	(22.4)	55
PBT after excep items	4,899	3,981	23.1	3,509	39.6	4,210
Tax expense	1,205	964	25.0	793	51.9	926
Reported PAT	**3,695**	**3,017**	**22.5**	**2,716**	**36.0**	**3,283**
Adjusted PAT	**2,935**	**3,020**	**(2.8)**	**2,736**	**7.3**	**3,283**
EPS (Rs)	26.2	27.3	(4.0)	24.5	7.3	29.3
Key Ratios (%)			**(bps)**		**(bps)**	
Gross Margin	30.9	29.9	100	30.6	24	30.5
EBITDA Margin	12.9	13.0	(19)	11.8	110	13.3
EBIT Margin	16.7	14.5	220	14.6	207	15.2
PBT Margin	16.6	14.1	242	14.4	212	15.0
Tax Rate	24.6	24.2	37	22.6	199	22.0
Adj PAT Margin	11.7	10.7	103	11.2	55	11.7

Source: Company, BOBCAPS Research | Note: Includes impact of amalgamation with the JV partners

Valuation Methodology

Intense competition and unfavourable regional mix keep tractor realisation under pressure YoY. ESCORTS has also lost domestic market share to the competition. The amalgamation impact on margins due to higher cost structure will stay and also will be very challenging to regain the lost market share.

The amalgamation impact on margins due to higher cost structure will stay. Import substitution of Kubota engines due to the policy of not allowing Escorts engines (on Kubota platform) will be a drag. Margin impact will be ~1-2% in the medium term. Further, we believe the hiving-off impact of the remunerative Railway Equipment division will impact on the FY26/FY27 earnings trajectory. The combined impact is reflected in our earnings revisions for FY26/FY27. Full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months.

Effectively, we revise our EBITDA/EPS for FY26E/FY27E downwards by 1%/2% each and introduce FY28 earnings. We pencil in a 3Y EBITDA/PAT CAGR of 17%/12% over FY25-FY28. We maintain SELL with new TP of Rs 2,670 (Rs 2,658). Our target P/E stays at 20x – a marginal premium to the stock's LT mean.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,14,140	1,31,812	1,50,816	1,14,140	1,33,584		(0.0)	(1.3)	
EBITDA	13,450	16,205	18,809	13,632	16,555		(1.3)	(2.1)	
Adj PAT	12,127	14,281	15,612	12,265	14,547		(1.1)	(1.8)	
Adj EPS (Rs)	108.4	127.6	139.5	109.6	130.0		(1.1)	(1.8)	

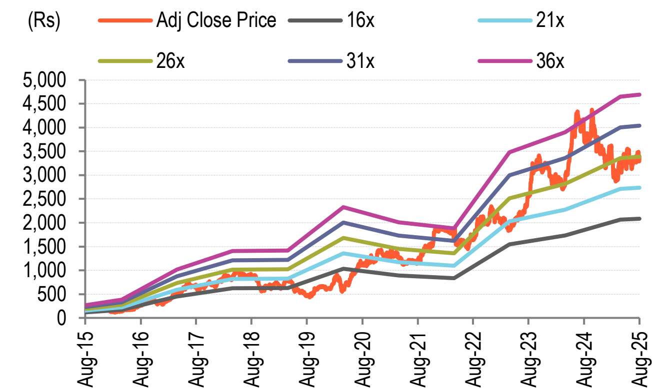
Source: BOBCAPS Research; FY28 earnings are newly introduced

Fig 4 – Key assumptions

	FY25	FY26E	FY27E	FY28E
Volumes (nos)	1,12,627	1,22,764	1,33,813	1,45,521
Blended Realisation (Rs)	6,61,029	6,89,123	7,20,133	7,48,939
EBITDA (Rs mn)	11,653	13,450	16,205	18,809
EBITDA margin (%)	13.9	13.5	13.5	13.5
Adj. PAT (Rs mn)	11,268	12,127	14,281	15,612
EPS (Rs)	100.7	108.4	127.6	139.5

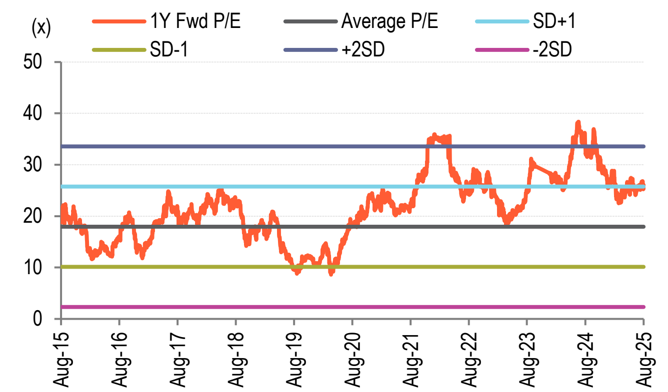
Source: Company, BOBCAPS Research

Fig 5 – P/E band: We value ESCORTS at 20x FY27E P/E based on core business earnings



Source: Company, Bloomberg, BOBCAPS Research

Fig 6 – P/E 1YF: Correction in the valuations is to align with its earnings and is justified



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates:

- Faster-than-expected revival in domestic volumes in targeted regions
- Faster-than-anticipated margin revival owing to earnings-accretive price hikes
- Quicker easing of commodity prices than anticipated.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	**88,496**	**1,02,439**	**1,14,140**	**1,31,812**	**1,50,816**
EBITDA	11,667	11,653	13,450	16,205	18,809
Depreciation	1,669	2,437	1,923	2,060	2,214
EBIT	13,984	13,830	16,246	19,101	21,008
Net interest inc./(exp.)	(137)	(292)	(290)	(310)	(330)
Other inc./(exp.)	3,986	4,613	4,719	4,957	4,413
Exceptional items	0	(28)	0	0	0
EBT	14,010	13,510	15,956	18,791	20,678
Income taxes	3,519	2,270	3,829	4,510	5,066
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**10,491**	**11,241**	**12,127**	**14,281**	**15,612**
Adjustments	0	28	0	0	0
Adjusted net profit	**10,491**	**11,268**	**12,127**	**14,281**	**15,612**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	12,746	12,794	6,957	7,242	8,344
Other current liabilities	5,409	11,889	21,411	25,483	29,071
Provisions	1,599	2,073	1,934	2,128	2,341
Debt funds	42	23	47	49	52
Other liabilities	0	0	0	0	0
Equity capital	1,105	1,119	1,119	1,119	1,119
Reserves & surplus	90,619	1,02,510	1,15,001	1,28,969	1,44,267
Shareholders' fund	91,724	1,03,629	1,16,120	1,30,088	1,45,386
Total liab. and equities	**1,11,520**	**1,30,408**	**1,46,469**	**1,64,990**	**1,85,194**
Cash and cash eq.	11,790	11,241	20,018	24,269	27,106
Accounts receivables	11,732	13,318	13,603	15,167	17,354
Inventories	12,181	13,990	14,072	15,890	17,767
Other current assets	4,528	14,288	5,479	6,027	6,629
Investments	52,199	56,052	72,229	82,229	92,229
Net fixed assets	18,308	17,972	18,449	18,989	21,989
CWIP	1,163	3,331	3,000	2,800	2,500
Intangible assets	754	754	754	754	754
Deferred tax assets, net	(1,135)	(538)	(1,135)	(1,135)	(1,135)
Other assets	0	0	0	0	0
Total assets	**1,11,520**	**1,30,408**	**1,46,469**	**1,64,990**	**1,85,194**

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	**10,236**	**2,647**	**21,028**	**11,695**	**13,319**
Capital expenditures	(1,846)	(4,268)	(2,069)	(2,400)	(4,914)
Change in investments	(4,532)	(3,853)	(16,177)	(10,000)	(10,000)
Other investing cash flows	3,986	4,613	4,719	4,957	4,413
Cash flow from investing	**(2,393)**	**(3,508)**	**(13,527)**	**(7,443)**	**(10,502)**
Equities issued/Others	(1,824)	950	674	0	0
Debt raised/repaid	42	(20)	25	2	3
Interest expenses	(137)	(292)	(290)	(310)	(330)
Dividends paid	(763)	(313)	(313)	(313)	(313)
Other financing cash flows	1,637	(597)	597	0	0
Cash flow from financing	**(1,046)**	**(272)**	**692**	**(621)**	**(640)**
Chg in cash & cash eq.	**6,797**	**(1,132)**	**8,193**	**3,631**	**2,177**
Closing cash & cash eq.	**11,790**	**11,241**	**20,018**	**24,269**	**27,106**

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	94.9	100.7	108.4	127.6	139.5
Adjusted EPS	94.9	100.7	108.4	127.6	139.5
Dividend per share	6.9	2.8	2.8	2.8	2.8
Book value per share	830.5	926.6	1,038.2	1,163.1	1,299.8

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	5.1	4.2	3.8	3.3	2.8
EV/EBITDA	38.5	37.4	32.2	26.5	22.3
Adjusted P/E	35.7	33.7	31.3	26.6	24.3
P/BV	4.1	3.7	3.3	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	74.9	83.4	76.0	76.0	75.5
Interest burden (PBT/EBIT)	100.2	97.7	98.2	98.4	98.4
EBIT margin (EBIT/Revenue)	15.8	13.5	14.2	14.5	13.9
Asset turnover (Rev./Avg TA)	102.0	104.8	103.8	107.0	109.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	12.1	11.5	11.0	11.6	11.3

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	5.0	15.8	11.4	15.5	14.4
EBITDA	50.1	(0.1)	15.4	20.5	16.1
Adjusted EPS	81.6	6.1	7.6	17.8	9.3
Profitability & Return ratios (%)					
EBITDA margin	13.2	11.4	11.8	12.3	12.5
EBIT margin	15.8	13.5	14.2	14.5	13.9
Adjusted profit margin	11.9	11.0	10.6	10.8	10.4
Adjusted ROAE	11.4	10.9	10.4	11.0	10.7
ROCE	12.1	11.8	11.2	11.8	11.5
Working capital days (days)					
Receivables	49	45	43	40	39
Inventory	50	47	45	41	41
Payables	78	64	47	29	28
Ratios (x)					
Gross asset turnover	0.4	0.3	0.3	0.3	0.3
Current ratio	2.0	2.0	1.8	1.8	1.7
Net interest coverage ratio	(101.9)	(47.4)	(56.0)	(61.6)	(63.7)
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%

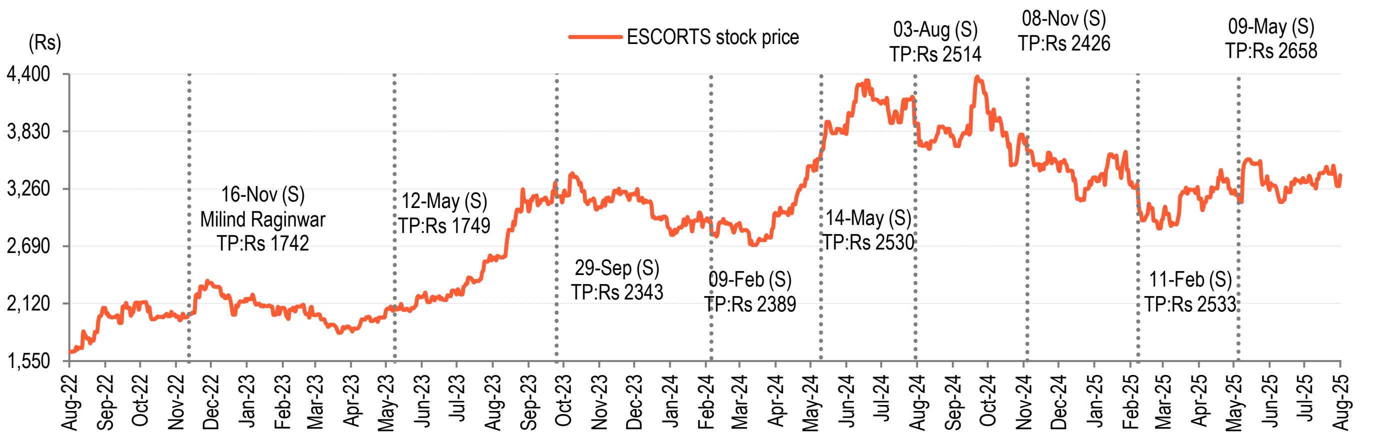
HOLD – Expected return from -6% to +15%

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 KUBOTA (ESCORTS IN)



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

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