

SELL**TP: Rs 2,658 | ▼ 17%****ESCORTS KUBOTA**

Automobiles

09 May 2025

Weakness persists despite signs of industry revival; SELL

- Q4 tractors' volume rose by 8% YoY (combined volume from JV partners), aided by industry growth, realisation stays flat with 1% fall
- Raw material cost escalation and flat realisation continue to keep pressure on margins, gross and EBITDA margins slip YoY
- We maintain our FY26/FY27 EBITDA estimates, revise EPS retain 20x P/E multiple and revise TP to Rs 2,658 (from Rs 2,533). Maintain SELL

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Volume weakness persists: ESCORTS amalgamated Escorts Kubota India and Kubota Agricultural Machinery India with Escorts Kubota. The performance has been adjusted since FY24 to reflect the performance of the amalgamated entity. Q4FY25 revenue from operations grew 6.3% YoY (-17% QoQ) to Rs 24.4bn, as tractor volumes grew by ~8% YoY (-18% QoQ) to ~26.6k units (-18% QoQ). Net realisation/vehicle was down 1% YoY (+1% QoQ) to Rs 0.91mn.

Only AM delivered growth, CE declined: Agri Machinery (AM) segment revenue grew by 11.1% YoY in Q4FY25 as tractors' volume grew by 7.6%; while EBIT margin was flattish at 11.2% vs 11.3% in Q4FY24. Construction Equipment (CE) continued to drag down, falling 10.3%/12% YoY/QoQ. Volumes dropped by 12.2% YoY while EBIT margin down to 9.1% vs 11% in Q4FY24. Railway equipment (RE) segment was discontinued (revenue/PBIT +20.2%/76.1% YoY).

Margin contracts on elevated cost structure: Raw material cost (inventory adjusted) inflated by 7% YoY (-21% QoQ) at Rs 17bn (up 60 bps to 69.4 as % of sales). Gross margin was weak at ~30.6% vs 31.2% YoY, due to the elevated cost of JV companies. EBITDA margin was at 11.8% in Q3FY25, declining YoY from 12.4% (improved QoQ), following the impairment impact and Kubota's import costs that were impacted by currency depreciation.

Amalgamation approved by NCLT: The amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has been approved by the National Company Law Tribunal (NCLT) and was filed with ROC on 1 September 2024.

Maintain SELL: ESCORTS's tractor realisation continues to be under pressure YoY, due to intense competition and unfavourable regional mix. ESCORTS has also lost domestic market share to the competition. The amalgamation impact on margins due to higher cost structure will stay. We maintain our EBITDA for FY26E/FY27E, but revise our EPS marginally higher to factor in lower tax impact and Other income benefits. We retain our SELL rating with revised TP of Rs 2,658 (from Rs 2,533). Our target P/E stays at 20x – a marginal premium to the stock's LT mean.

Key changes

Target	Rating
▲	◀ ▶

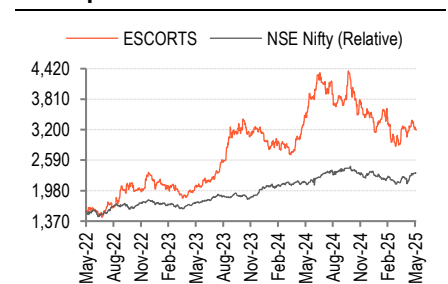
Ticker/Price	ESCORTS IN/Rs 3,195
Market cap	US\$ 4.9bn
Free float	63%
3M ADV	US\$ 5.7mn
52wk high/low	Rs 4,420/Rs 2,825
Promoter/FPI/DII	37%/22%/8%

Source: NSE | Price as of 8 May 2025

Key financials

Y/E 31 Mar	FY25P	FY26E	FY27E
Total revenue (Rs mn)	1,01,870	1,14,140	1,33,584
EBITDA (Rs mn)	11,778	13,632	16,555
Adj. net profit (Rs mn)	11,371	12,265	14,547
Adj. EPS (Rs)	101.6	109.6	130.0
Consensus EPS (Rs)	101.6	110.0	131.0
Adj. ROAE (%)	11.0	10.6	11.2
Adj. P/E (x)	31.4	29.1	24.6
EV/EBITDA (x)	34.7	29.9	24.2
Adj. EPS growth (%)	7.1	7.9	18.6

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

Stock performance

Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY25	Q3FY25	Our view
Domestic volumes	<p>Domestic tractor volumes grew 6.0% YoY to 24.8k units, underperforming industry growth of 17.3% by 11.3%.</p> <p>ESCORTS underperformed the South and East regions on dealer legacy issues limiting capacity.</p> <p>Industry outlook for FY26 is positive; the industry likely to grow in high single digits.</p> <p>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</p>	<p>Management is looking at 14-15% growth in Q4FY25 and expects a healthy Q1FY26.</p> <p>ESCORTS' overall tractor volumes grew by 4.5% YoY against industry growth of 12.7% as major markets of ESCORTS (North and Central) grew by only 2.5%.</p> <p>Management expects domestic tractor growth for FY25 to be at 6-7%.</p>	<p>ESCORTS continues to lose market share consistently vs its larger peers (which have grown in volume) and will continue to face challenges. The company's steps to make its presence felt in the key growth region are in the right direction.</p>
Exports	<p>Export tractor volumes increased by 36.6% YoY to 1.8k units from 1.3k units in Q4FY24, outperforming industry export growth of 4.0%.</p> <p>Exports through the Kubota channel stood at ~72 % in Q4FY25. For FY25, the share stood at 40%.</p> <p>Mexico exports have begun via shared Kubota distributor and volumes are expected to show from Q1FY26.</p> <p>Kubota's strategy is to position India a global export hub for all range of tractors.</p>	<p>Tractor industry exported 22.1k tractors in Q3FY25 vs 21.3k/24.5k in Q3FY24/Q2FY25.</p> <p>ESCORTS' exports volume was 0.97k tractors in Q3FY25 vs 1.3k/1.2k tractors in Q3FY24/Q2FY25.</p> <p>Europe continues to be a major export market.</p>	<p>Formal amalgamation with Kubota will give ESCORTS a better foothold in export markets. YoY gain in volume against the industry direction adds comfort. However, its full impact will take another 4-6 quarters.</p>
Margins	<p>EBITDA margin was down to 11.8% by 66 bps YoY from 12.4%, but up 50bps QoQ from 11.3%.</p> <p>Margin pressure included</p> <p>~Rs 0.3bn impairment charge and Kubota's import costs impacted by currency depreciation.</p>	<p>EBITDA margin was at 11.4% in Q3FY25, improving QoQ from 10.3%. However, it declined YoY from 12%.</p> <p>Margins were affected due to production swing, 0.5% commodity inflation and discounts that were slightly higher on account of festive quarter.</p>	<p>Margins will be impacted due to the elevated cost structure of JV companies amalgamated with Escorts Kubota in the near term.</p> <p>Further, as the company engines are not allowed on Kubota platform, import cost will continue to pinch margins.</p> <p>Hiving off of the RE business will also continue to impact the show.</p>
Other segments	<p>Total CE volumes declined by 12.2% YoY to 1.7k units YoY, underperforming the industry's 8% decline.</p> <p>ESCORTS has completed the BS5 transition and liquidated the old inventory. Full price recovery is expected by September 2025.</p> <p>New BHL platform targeting domestic and international market was showcased at the Bharat mobility. Plans to have premium Kubota engine versions are in pipeline.</p> <p>Sale of Railway Equipment Division (RED) was delayed from 1st May to 1st of June due to pending approvals.</p> <p>Order book of RED stood at Rs 9 bn by the end of Q4FY25.</p>	<p>Construction equipment volume at 1,989 machines was down 0.9% YoY; but grew by 42.7% QoQ. ESCORTS expects a temporary impact due to price escalation from the transition to BS-5 standards.</p> <p>The Railway Equipment Division (RED) business revenue for Q3FY25 was at Rs 2bn, a decline of 2.2%/5.1% YoY/QoQ.</p> <p>Board approved the sale/transfer of RED division on a slump sale basis on 23 October 2024. RED business profitability is shown separately as discontinued operations.</p>	<p>The performance of segments other than tractors will improve.</p> <p>CE segment performance is likely to improve given the government's thrust on infrastructure. Crane and in mini escalator market, the company is No. 2 player. However, back loaders and compactors are a challenge due to growing export markets dominated by MNC companies and not a strong play for ESCORTS.</p> <p>However, hiving off the Railway Equipment business at below-par valuations will have an impact in the short term.</p>

Parameter	Q4FY25	Q3FY25	Our view
Regulations	<p>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.</p> <p>TREM IV norms, which were initially set to take effect from 1st April, are expected to be delayed with no official update.</p>	<p>During Q3FY25, ESCORTS launched a range of five new emission standard compliant products.</p> <p>Products moving from BS3 to BS5 will lead to a cost increase of 10% for customers, whereas products moving from BS4 to BS5 will lead to a 5-6% cost increase.</p>	<p>ESCORTS has a lower presence in the high-end tractor segment and will see limited pricing impact from new norms.</p>
Capex	<p>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.</p> <p>Post-acquisition, the greenfield plant will take 24-36 months to operationalise, targeting late FY28 or FY29 for production.</p>	<p>Capacity utilisation of tractors was at 60% and that of construction equipment at 95%.</p> <p>Greenfield project delay from the UP government due to pending land acquisition from farmers.</p>	<p>Ongoing capex is likely to be commissioned by FY28/29. Any meaningful reflection on the volume is visible only post the availability of extra capacity.</p>
Merger	<p>The merger continues to drag margin by ~2% as Kubota's import cost and currency depreciation weighs in.</p> <p>Merger synergies likely to kick in, in a time of 2-3 years.</p>	<p>Management expects marginal improvement in margins next year over the current year and continues to work on cost reduction measures.</p>	<p>In the medium term, margins are likely to be under pressure.</p> <p>Clarity, particularly on exports business, is likely to emerge in the next two years, following a complete branding revamp.</p>
Other Information	<p>ESCORTS maintained a channel inventory of 4-5 weeks at the end of Q4FY25.</p> <p>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.</p> <p>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.</p>	<p>The board approved sale of land at Faridabad for consideration of Rs 1.10 bn to Sona Comstar.</p> <p>Channel inventory levels now at 4 weeks' worth of dealer stocks.</p>	<p>Channel inventory is now at a reasonable level, but discounting structure hits performance.</p> <p>Balance sheet strength is reasonably healthy, though greenfield investments pace is clearly lacking.</p> <p>Investment in the finance arm is at a nascent stage and will take atleast two years for the business to gain meaningful size.</p>

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Consolidated)

(Rs mn)	Q3FY25	3QFY24	YoY (%)	Q2FY25	QoQ (%)	3QFY25E
Volume	26,633	24,747	7.6	32,556	(18.2)	26,633
Avg. Realisation per Vehicle	9,17,989	9,29,672	(1.3)	9,05,523	1.4	9,23,633
Net Revenues	24,449	23,007	6.3	29,480	(17.1)	24,599
Total Income (A)	24,449	23,007	6.3	29,480	(17.1)	24,599
Operating Expenses						
Raw materials consumed	16,959	15,831	7.1	21,527	(21.2)	17,330
Employee Expenses	2,042	1,764	15.7	2,032	0.5	2,034
Other Expenses	2,573	2,556	0.6	2,594	(0.8)	2,411
Total Expenditure (B)	21,574	20,151	7.1	26,153	(17.5)	21,775
EBITDA (A-B)	2,875	2,856	0.7	3,327	(13.6)	2,824
Other Income	1,325	1,062	24.7	1,099	20.6	1,100
Depreciation	620	592	4.6	615	0.7	695
EBIT	3,580	3,325	7.7	3,811	(6.0)	3,229
Finance Costs	51	117	(55.9)	35	45.2	39
PBT after excep items	3,509	3,207	9.4	4,098	(14.4)	3,190
Tax expense	793	773	2.6	892	(11.1)	813
Reported PAT	2,716	2,434	11.6	3,206	(15.3)	2,377
Adjusted PAT	2,736	2,436	12.3	2,884	(5.1)	2,377
EPS (Rs)	24.5	22.0	10.9	25.8	(5.1)	21.2
Key Ratios (%)			(bps)		(bps)	
Gross Margin	30.6	31.2	(56)	27.0	366	29.5
EBITDA Margin	11.8	12.4	(65)	11.3	47	11.5
EBIT Margin	14.6	14.5	19	12.9	172	13.1
PBT Margin	14.4	13.9	49	12.8	163	13.0
Tax Rate	22.6	24.1	(150)	21.8	84	25.5
Adj PAT Margin	11.2	10.6	60	9.8	141	9.7

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

Valuation Methodology

ESCORTS tractor realisation continues to be under pressure YoY, due to intense competition and unfavourable regional mix. ESCORTS has also lost domestic market share to the competition.

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.

We maintain our EBITDA for FY26E/FY27E, but revise our EPS marginally higher to factor in lower tax impact and other income benefits. We retain our SELL rating with revised TP of Rs 2,658 (from Rs 2,533). 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	FY26E	FY27E	FY26E	FY27E
Revenue	1,14,140	1,33,584	1,14,140	1,33,584	0.0	0.0
EBITDA	13,632	16,555	13,632	16,555	0.0	0.0
Adj PAT	12,265	14,547	11,965	14,266	2.5	2.0
Adj EPS (Rs)	109.6	130.0	108.0	129.0	1.5	0.8

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24A	FY25E	FY26E	FY27E
Volumes (nos)	1,03,569	1,12,627	1,22,764	1,33,813
Blended Realisation (Rs)	6,41,776	6,61,029	6,89,123	7,20,133
EBITDA (Rs mn)	11,667	11,778	13,632	16,555
EBITDA margin (%)	13.3	13.9	13.5	13.5
Adj. PAT (Rs mn)	10,491	11,371	12,265	14,547
EPS (Rs)	94.9	101.6	109.6	130.0

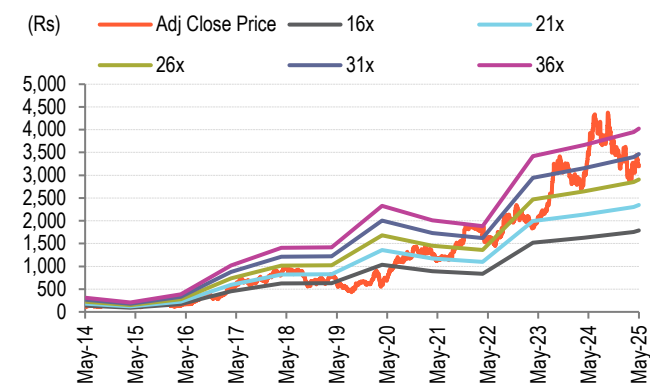
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Escorts Kubota	ESCORTS IN	SELL	2,658	109.6	130.0	11.2	11.9
VST Tillers Tractors	VSTT IN	SELL	3,267	144.9	168.4	11.6	12.2
Mahindra & Mahindra	MM IN	BUY	3,689	127.3	142.1	22.5	20.9

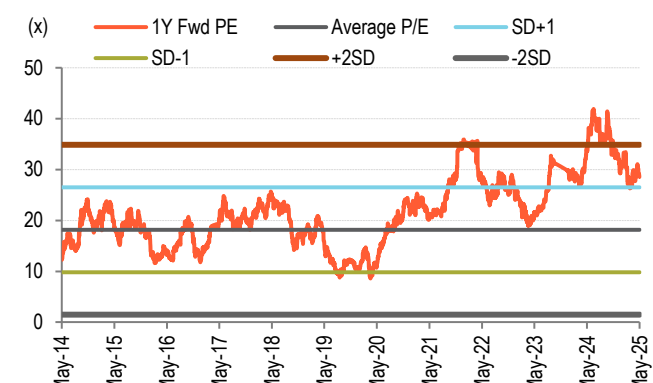
Source: BOBCAPS Research

Fig 6 – P/E band: We value ESCORTS at 20x FY27E P/E based on core business earnings



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – P/E 1YF: Correction in the stock 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)	FY23A	FY24A	FY25P	FY26E	FY27E
Total revenue	84,287	88,496	1,01,870	1,14,140	1,33,584
EBITDA	7,775	11,667	11,778	13,632	16,555
Depreciation	1,399	1,669	2,426	1,923	2,060
EBIT	9,084	13,984	13,936	16,428	19,451
Net interest inc./(exp.)	(133)	(137)	(270)	(290)	(310)
Other inc./(exp.)	2,809	3,986	4,584	4,719	4,957
Exceptional items	(531)	0	(271)	0	0
EBT	8,346	14,010	13,395	16,138	19,141
Income taxes	1,979	3,519	2,295	3,873	4,594
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,367	10,491	11,100	12,265	14,547
Adjustments	531	0	271	0	0
Adjusted net profit	6,897	10,491	11,371	12,265	14,547

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25P	FY26E	FY27E
Accounts payables	13,427	12,746	12,757	6,920	7,224
Other current liabilities	3,485	5,409	11,766	21,448	25,929
Provisions	1,466	1,599	2,063	1,934	2,128
Debt funds	0	42	0	47	49
Other liabilities	0	0	0	0	0
Equity capital	1,319	1,105	1,119	1,119	1,119
Reserves & surplus	80,509	90,619	1,02,683	1,14,526	1,28,402
Shareholders' fund	81,829	91,724	1,03,801	1,15,645	1,29,521
Total liab. and equities	1,00,206	1,11,520	1,30,387	1,45,994	1,64,851
Cash and cash eq.	4,719	11,790	11,140	21,733	25,603
Accounts receivables	11,797	11,732	13,798	13,603	15,371
Inventories	12,177	12,181	13,439	14,072	16,103
Other current assets	5,291	4,528	14,235	5,479	6,027
Investments	47,667	52,199	56,410	72,229	82,229
Net fixed assets	18,621	18,308	17,982	18,459	18,999
CWIP	694	1,163	3,209	800	900
Intangible assets	734	754	754	754	754
Deferred tax assets, net	(1,492)	(1,135)	(580)	(1,135)	(1,135)
Other assets	0	0	0	0	0
Total assets	1,00,206	1,11,520	1,30,387	1,45,994	1,64,851

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25P	FY26E	FY27E
Cash flow from operations	863	10,236	2,744	21,213	11,972
Capital expenditures	(2,260)	(1,846)	(4,146)	9	(2,700)
Change in investments	692	(4,532)	(4,211)	(15,819)	(10,000)
Other investing cash flows	2,809	3,986	4,584	4,719	4,957
Cash flow from investing	1,240	(2,393)	(3,773)	(11,091)	(7,743)
Equities issued/Others	242	(1,824)	1,339	285	0
Debt raised/repaid	0	42	(42)	47	2
Interest expenses	(133)	(137)	(270)	(290)	(310)
Dividends paid	(763)	(763)	(671)	(671)	(671)
Other financing cash flows	185	1,637	(556)	555	0
Cash flow from financing	(469)	(1,046)	(200)	(74)	(979)
Chg in cash & cash eq.	1,635	6,797	(1,230)	10,048	3,250
Closing cash & cash eq.	4,719	11,790	11,140	21,733	25,603

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25P	FY26E	FY27E
Reported EPS	52.3	94.9	101.6	109.6	130.0
Adjusted EPS	52.3	94.9	101.6	109.6	130.0
Dividend per share	5.8	6.9	6.0	6.0	6.0
Book value per share	620.5	830.5	927.8	1,034.0	1,158.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25P	FY26E	FY27E
EV/Sales	4.9	4.8	4.0	3.6	3.0
EV/EBITDA	53.2	36.3	34.7	29.9	24.2
Adjusted P/E	61.1	33.7	31.4	29.1	24.6
P/BV	5.1	3.8	3.4	3.1	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25P	FY26E	FY27E
Tax burden (Net profit/PBT)	82.6	74.9	84.9	76.0	76.0
Interest burden (PBT/EBIT)	91.9	100.2	96.1	98.2	98.4
EBIT margin (EBIT/Revenue)	10.8	15.8	13.7	14.4	14.6
Asset turnover (Rev./Avg TA)	106.8	102.0	104.2	104.0	108.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	8.7	12.1	11.6	11.2	11.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25P	FY26E	FY27E
YoY growth (%)					
Revenue	16.4	5.0	15.1	12.0	17.0
EBITDA	(18.3)	50.1	1.0	15.7	21.4
Adjusted EPS	(6.4)	81.6	7.1	7.9	18.6
Profitability & Return ratios (%)					
EBITDA margin	9.2	13.2	11.6	11.9	12.4
EBIT margin	10.8	15.8	13.7	14.4	14.6
Adjusted profit margin	8.2	11.9	11.2	10.7	10.9
Adjusted ROAE	8.4	11.4	11.0	10.6	11.2
ROCE	8.8	12.1	11.8	11.4	12.1

Working capital days (days)

Receivables	43	49	46	44	40
Inventory	45	50	46	44	41
Payables	69	78	64	47	29

Ratios (x)

Gross asset turnover	0.4	0.4	0.3	0.3	0.3
Current ratio	1.8	2.0	2.0	1.8	1.8
Net interest coverage ratio	(68.5)	(101.9)	(51.6)	(56.6)	(62.7)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY24 and FY25 numbers are not comparable due to amalgamation.

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Brand Name: **BOBCAPS**

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CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

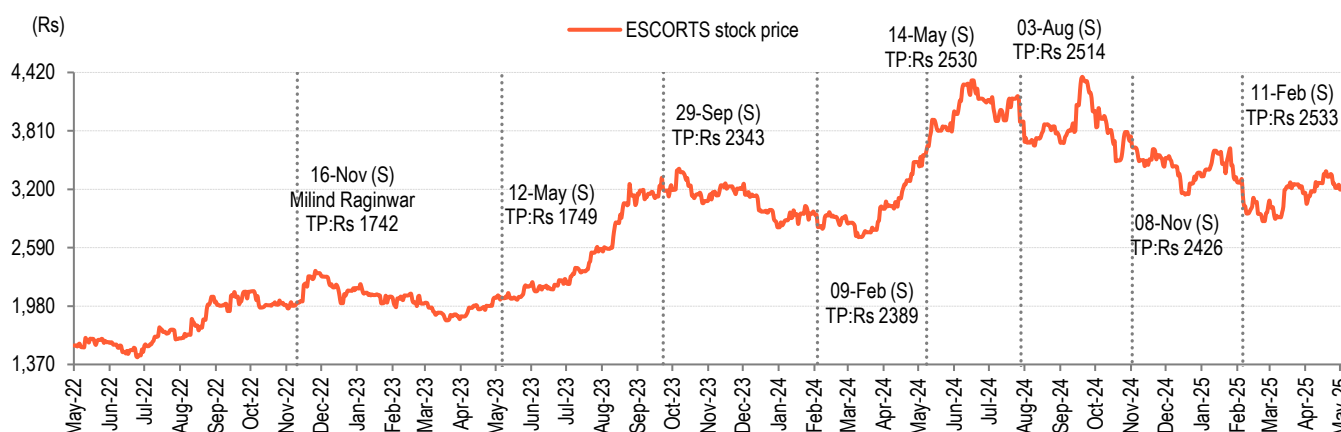
HOLD – Expected return from -6% to +15%

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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