

## Strong Q4 EBITDA Margins Led by Growth in the CE Business

**Est. Vs. Actual for Q1FY25:** Revenue – **INLINE**; EBITDA – **BEAT**; PAT – **BEAT**  
**Change in Estimates post Q1FY25**

**FY25E/FY26E:** Revenue: -7.0%/-1.5%; EBITDA: -5.4%/-4.2%; PAT: -4.7%/3.1%.

### Recommendation Rationale

- **Agri-Business Outlook in India:** In Q1FY25, Escort's tractor segment experienced a 3.2% YoY decline in total volumes, compared to a 0.7% YoY growth in the industry volume as a whole. The domestic slowdown witnessed in H1FY25 is expected to be followed by a moderate recovery in H2FY25, driven by pent-up demand, government assistance, improved prices, festive season ahead and normal monsoon season.
- **Strong Construction Equipment Business:** Q1FY25 witnessed 3.5% YoY volume decline, however segmental revenue was up 2.7% to Rs 369.7 Cr led by better realisation and improved product mix. With governments thrust on increased infrastructure spending in the Union budget, we expect robust growth in this segment to continue.
- **Railway Division Outlook:** In Q1FY25 company has started supply of electric control panel to prominent metro organisation and has a healthy Rs 880 Cr orderbook as on Jun' 24 end. The management is confident to sustain the growth momentum during FY25/26E on account of long-term government orders for freight wagons, dedicated freight corridors, and demand for Vande Bharat coaches.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Post monsoons growth momentum in the domestic tractor industry and construction equipment business is expected to pick up gradually in the medium term. The management expects the Railways business to grow in double-digits with an order book of over Rs 880 Cr as of Jun'24 end.

**Current Valuation: 26x Sep26E EPS** (earlier 24x FY'26E EPS)

**Current TP: Rs 4,205/share** (Earlier TP: Rs 3,500/share)

**Recommendation:** With limited upside potential at CMP, we maintain our **HOLD** rating on the stock.

**Financial Performance:** Escorts Kubota Ltd. (Escort) reported revenue of Rs 2,310 Cr (down 2% YoY but up 10% QoQ), in line with our estimates. The company's EBITDA stood at Rs 325 Cr (down 2% YoY but up 25% QoQ), beating our estimates by 7%. EBITDA Margins (flat YoY and up ~164 bps QoQ) beat our estimates by 80 bps mainly on account of better realization, cost control, product mix and softening commodity prices. The company reported Adjusted PAT of ~Rs 293 Cr (up 1% YoY and 16% QoQ), beating our estimates by 4% largely following the EBITDA.

**Outlook:** We expect (1) Normal monsoons to support the rural economy and thereby aid tractor industry recovery in H2FY25 ; (2) infrastructure spending to improve gradually in the medium term and hence boost demand in the CE division; and (3) strong order book and commercialisation of new products to increase revenue for the Railway Equipment Division. With expected stability in commodity prices and a richer product mix (growth in export sales), EBITDA margins are expected to remain resilient going forward.

**Valuation & Recommendation:** In the backdrop of the company's positive long-term fundamentals, we value the stock at 26x Sep26EPS (earlier 24x FY26E EPS). However, synergy benefits with Kubota in Agri business is expected to take longer than earlier estimated due to slowdown in export markets like EU (we revise our FY25E earnings downward); also with the recent run up in share prices the valuation appears full and hence we cautiously maintain our **HOLD** rating on the stock with a limited upside potential of 2% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,310	10%	-2%	2,298	0.50%
EBITDA	325	25%	-2%	305	7%
EBITDA Margin	14.1%	164bps	3bps	13.3%	80bps
Net Profit	293	16%	1%	281	4%
EPS (Rs)*	27.0	16%	1%	26	4%

Source: Company, Axis Securities Research

(CMP as of 01<sup>st</sup> Aug' 24)

CMP (Rs)	3,443
Upside /Downside (%)	2%
High/Low (Rs)	4,410/2,530
Market cap (Cr)	45,813
Avg. daily vol. (6m)Shrs.	3,02,053
No. of shares (Cr)	11.05

### Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter Group	67.6	67.6	67.6
Institutions	15.3	15.6	16.8
Public UTI	15.2	14.9	13.8
Others	1.9	1.9	1.7
Total	100.0	100.0	100.0

### Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	10,097	12,077	13,275
EBITDA	1,376	1,850	2,043
Net Profit	1,275	1,659	1,832
EPS (Rs.)	115.4	150.1	165.8
PER (x)	35.9	27.6	25.0
EV/ EBITDA	31.3	23.3	20.6
P/BV	4.5	3.9	3.4
ROE (%)	13.1	15.0	14.4

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-7.0%	-1.5%
EBITDA	-5.4%	4.2%
PAT	-4.7%	3.1%

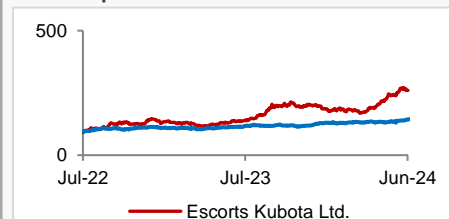
### ESG disclosure Score\*\*

Environmental Disclosure	64.1
Social Disclosure Score	42.4
Governance Disclosure Score	84.9
Total ESG Disclosure Score	63.8
<b>Sector Avg</b>	<b>45.6</b>

Source: Bloomberg, Scale: 0,1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

### Relative performance



Source: Ace equity, Axis Securities

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## Key Concall Highlights

- **Agri Machinery Business:** In Q1FY25, EKL's total tractor sales volume stood at 25,720 units (down 3.2% but up 21% QoQ). Segment revenue came at Rs 1,676.0 Cr marginally up as against Rs 1,666.80 Cr in corresponding quarter and Rs 1,390.7 Cr in sequential quarter. EBIT margin for the quarter ended June 2024 came at 13.2% as against 13.4% in corresponding quarter and 11.2% in sequential quarter.
- **Construction Equipment:** For Q1FY25, Construction Equipment's sales volume stood at 1,325 units as against 1,373 units in corresponding quarter and 1,798 units in sequential quarter. Segment revenue went up by 2.6% to Rs 369.7 Cr as against Rs 360.1 crore in corresponding quarter and Rs 476.6 crore in sequential quarter. EBIT margin for the Q1FY25 were up to 10.4% as against 7.6% in corresponding quarter and 10.7% in sequential quarter.
- **Railway Equipment Division:** The company reported quarterly revenue in Q1FY25 of Rs 244.7 Cr vs Rs 299.7 Cr in Q1FY24 (Rs 213.4 Cr in Q4FY24). EBIT margin came at 20.5% as against 20.9% for the corresponding quarter and 16.9% in sequential quarter. The order book stands at ~Rs 880 Cr as of Jun'24 (Rs 950 Cr in Mar'24 end), and the company expects double-digit revenue going ahead with higher margins.
- **Exports:** Exports through Kubota channel contributed 21% of total exports, down from 30% highs mainly due to slowdown in the European market which forms 60% of the total exports mix. The slowdown in EU is mainly on account of increased inflation, destocking at dealer levels and subdued demand. The management expects demand to pick up by end of FY25.

## Key Risks to our Estimates and TP

- Lower demand scenario which may hamper the off-take of vehicles, impacting our sales volumes growth forecasts.
- Adverse macroeconomic situations continue in countries like the EU and the US which is delaying exports pick up.

## Change in Estimates

	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	10,097	12,077	13,275	10,860	12,266	N.A.	-7.0%	-1.5%	N.A.
EBITDA	1,376	1,850	2,043	1,455	1,775	N.A.	-5.4%	4.2%	N.A.
PAT	1,275	1,659	1,832	1,337	1,609	N.A.	-4.7%	3.1%	N.A.

Source: Company, Axis Securities Research

**Q1FY25 Results Review**

YE March (Rs. Cr)	Q1FY25	Axis Sec Estimates	Axis Sec Var (%)	Q4FY24	% Change (QoQ)	Q1FY24	% Change (YoY)
<b>Sales Volume (units)</b>							
Tractors domestic	24,759			19,912	24.3%	25,226	-1.9%
Tractors export	961			1,341	-28.3%	1,356	-29.1%
Total Tractors	25,720			21,253	21.0%	26,582	-3.2%
Construction Equipments	1,325			1,798	-26.3%	1,373	-3.5%
<b>Sales</b>	<b>2,310</b>	<b>2,298</b>	<b>0.5%</b>	<b>2,094</b>	<b>10.3%</b>	<b>2,355</b>	<b>-1.9%</b>
Other Op. Inc	0	0		0.0		0.0	
<b>Total Revenue</b>	<b>2,310</b>	<b>2,298</b>	<b>0.5%</b>	<b>2,094</b>	<b>10.3%</b>	<b>2,355</b>	<b>-1.9%</b>
<b>Expenditure</b>							
Net Raw Material	1,573	1,574	-0.1%	1,424	10.5%	1,645	-4.3%
Other Exp	247	252	-2.3%	248	-0.4%	228	8.0%
Personnel	165	166	-1.1%	161	2.2%	151	8.8%
Total Expenditure	1,985	1,993	-0.4%	1,833	8.3%	2,024	-2.0%
<b>EBIDTA</b>	<b>325</b>	<b>305</b>	<b>6.6%</b>	<b>261</b>	<b>24.8%</b>	<b>331</b>	<b>-1.7%</b>
<b>EBITDA Margins</b>	<b>14.1%</b>	<b>13.3%</b>	<b>80</b>	<b>12.4%</b>	<b>164</b>	<b>14.1%</b>	<b>3</b>
Less: Depreciation	43	45	-3.3%	44	-1.6%	40	7.8%
EBIT	282	260	8.3%	216	30.3%	291	-3.0%
Interest	2	4	-41.9%	4	-46.2%	3	-37.6%
Oth. Inc.	106	118	-9.8%	106	0.8%	94	12.8%
<b>Profit Before Extraordinary Items and Tax</b>	<b>386</b>	<b>375</b>	<b>3.1%</b>	<b>318</b>	<b>21.4%</b>	<b>382</b>	<b>1.2%</b>
Less: Exceptional Item	0	0		0		0	
Share Of Profit/Loss on Investments	5	0		15		4.67	
PBT	391	375	4.5%	333	17.6%	386	1.3%
Tax	98	94	4.8%	81		96	
<b>PAT</b>	<b>293</b>	<b>281</b>	<b>4.3%</b>	<b>252</b>	<b>16.4%</b>	<b>290</b>	<b>1.1%</b>
Share of profit of Associates	0	0		0		0	
<b>Adjusted PAT</b>	<b>293</b>	<b>281</b>	<b>4.3%</b>	<b>252</b>	<b>16.4%</b>	<b>290</b>	<b>1.1%</b>
Weighted No Of Equity Shares(Crs)	10.8	10.8		10.8		10.8	
Reported EPS (Rs.)	27.0	25.9	4.3%	22.4	20.6%	26.7	1.2%
Adjusted EPS (Rs.)	27.0	25.9	4.3%	23.2	16.4%	26.7	1.2%
<b>Ratios</b>							
GM	31.9%	31.5%	38	32.0%	-8	30.2%	171
EBITDA Margin	14.1%	13.3%	80	12.4%	164	14.1%	3
PBT	16.9%	16.3%	64	15.9%	105	16.4%	53
PAT	12.7%	12.2%	47	12.0%	66	12.3%	38

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net revenues	8,850	10,097	12,077	13,275
Operating expenses	7,683	8,721	10,228	11,232
<b>EBIDTA</b>	1,167	1,376	1,850	2,043
<b>EBITDA margin (%)</b>	13.2	13.6	15.3	15.4
Other income	399	487	518	556
Interest	14	11	10	10
Depreciation	167	171	169	169
Profit Before Tax	1,385	1,680	2,190	2,421
Tax	352	422	547	605
<b>Reported Net Profit</b>	1,049	1,275	1,659	1,832
Net Margin (%)	11.9	12.6	13.7	13.8
<b>Adjusted Net Profit</b>	1,049	1,275	1,659	1,832

Source: Company, Axis Securities research

### Balance Sheet

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Equity capital	111	111	111	111
Reserves & surplus	9,066	10,244	11,805	13,540
<b>Net Worth</b>	<b>9,176</b>	<b>10,354</b>	<b>11,916</b>	<b>13,651</b>
Minority Interest	(4)	(4)	(4)	(4)
Total Loans	62	80	80	80
Other LT Liabilities & Provisions	45	45	45	45
Deferred tax liability	115	42	44	46
<b>Total Liabilities and Equity</b>	<b>9,395</b>	<b>10,518</b>	<b>12,081</b>	<b>13,818</b>
Gross block	3,187	3,342	3,487	3,631
Depreciation	1,411	1,582	1,751	1,920
Net block	1,812	1,795	1,770	1,746
Capital WIP	116	106	106	106
Investments & Other LT assets	3,450	1,108	1,156	1,204
Inventory	1,218	1,459	1,745	1,918
Debtors	1,173	1,413	1,690	1,858
Cash & Bank Bal	1,179	2,684	2,655	3,680
Loans & Advances	2,302	4,185	5,477	6,009
Current Assets	5,872	9,741	11,568	13,464
Sundry Creditors	1,208	1,437	1,685	1,851
Other Current Liability	550	532	532	532
Current Liability & Provisions	115	281	319	336
Net current assets	4,000	7,491	9,031	10,745
Misc Assets	18	18	18	18
<b>Total Assets</b>	<b>9,395</b>	<b>10,518</b>	<b>12,081</b>	<b>13,818</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
EBIT	1,398	1,691	2,199	2,430
Depreciation & Amortisation	167	171	169	169
Interest paid(-)	(14)	(11)	(10)	(10)
Tax paid(-)	(352)	(422)	(547)	(605)
EOI	(73)	22	29	30
<b>Operating Cash Flow</b>	<b>1,127</b>	<b>1,452</b>	<b>1,841</b>	<b>2,014</b>
Change in Working Capital	173	(85)	(277)	(158)
<b>Cash flow from Operations</b>	<b>1,300</b>	<b>1,367</b>	<b>1,563</b>	<b>1,856</b>
Capex	(130)	(144)	(144)	(144)
Investments	(444)	466	(1,339)	(579)
<b>Cash flow from Investing</b>	<b>(574)</b>	<b>322</b>	<b>(1,484)</b>	<b>(723)</b>
Change in borrowing	(12)	(0)	-	-
Others	70	(73)	2	2
Dividends Paid (-)	(76)	(111)	(111)	(111)
<b>Cash Flow from Financial Activities</b>	<b>(18)</b>	<b>(183)</b>	<b>(109)</b>	<b>(109)</b>
Change in Cash	707	1,505	(29)	1,024
Opening cash	472	1,179	2,684	2,655
Closing cash	1,179	2,684	2,655	3,680

Source: Company, Axis Securities research

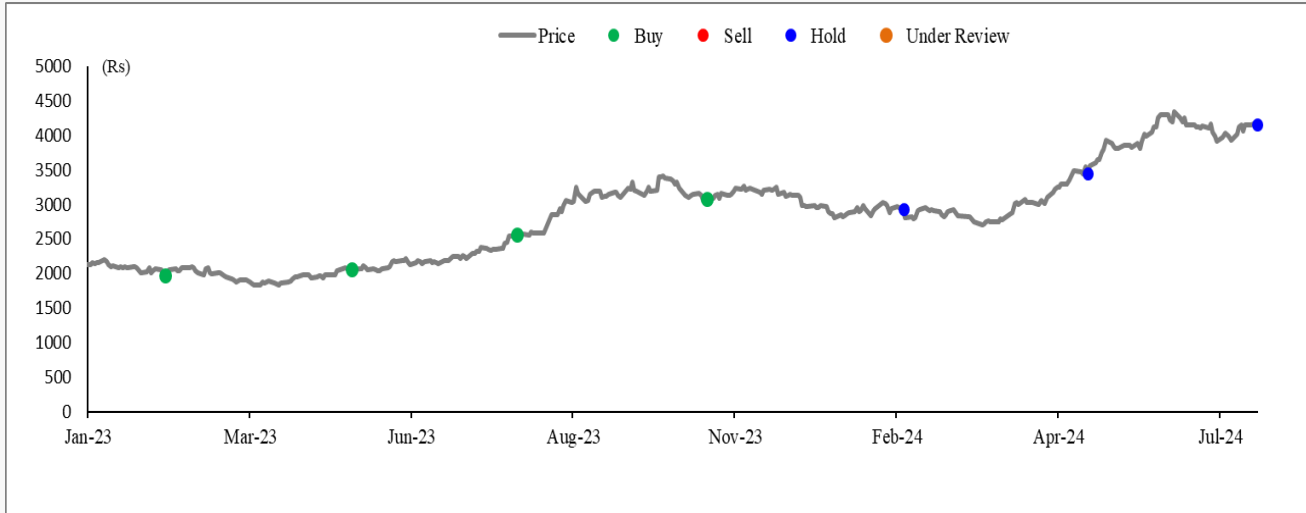
**Ratio Analysis**

(%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Revenue Growth	5.0	14.1	19.6	9.9
EBITDA Margin (%)	13.2	13.6	15.3	15.4
Net Profit Margin (%)	11.9	12.6	13.7	13.8
ROCE (%)	14.9	16.1	18.2	17.6
ROE (%)	12.0	13.1	15.0	14.4
EPS (Rs.)	96.6	115.4	150.1	165.8
PER (x)	28.7	35.9	27.6	25.0
P/BV (x)	3.3	4.5	3.9	3.4
EV/ EBITDA (x)	24.8	31.4	23.4	20.7
Fixed Assets Turnover Ratio (x)	1.0	1.0	1.1	1.0
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	3.3	4.3	3.6	3.2

Source: Company, Axis Securities Research

## Escorts Kubota Ltd Recommendation History



Date	Reco	TP	Research
09-Feb-23	BUY	2,200	Result Update
11-May-23	BUY	2,310	Result Update
02-Aug-23	BUY	2,910	Result Update
06-Nov-23	BUY	3,400	Result Update
09-Feb-24	BUY	2,310	Result Update
10-May-24	HOLD	3,500	Result Update
02-Aug-24	HOLD	4,205	Result Update

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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