

EBITDA Margins to Remain Subdued in the Near Term
Est. Vs. Actual for Q2FY25: Revenue – NA* ; EBITDA – NA* ; PAT – NA*

(*NA: Due to accounting for the amalgamation of two subsidiaries, estimates are non-comparable.)

Change in Estimates post Q2FY25
FY25E/FY26E: Revenue: 10.9%/1.1%; EBITDA: -3.1%/-20.1%; PAT: -1.6%/-21.5%.

Recommendation Rationale

- Agri-Business Outlook in India:** In Q2FY25, Escort's tractor segment experienced a 1% YoY decline in total volumes (vs flat industry growth volumes). However, segment revenue was up 5% YoY, led by price hikes taken during the year. Export through the Kubota channel was ~20% in both Q2FY25 and H1FY25. The domestic slowdown witnessed in H1FY25 is expected to be followed by a moderate recovery in H2FY25, driven by pent-up demand, government assistance, higher reservoir levels, and better crop realization by the farming community.
- Construction Equipment (CE) Business:** Q2FY25 witnessed an 18.4% YoY volume decline (vs industry decline of 2% YoY), and segmental revenue was down 14% to Rs 380 Cr. This decline was mainly due to lower government spending on infra projects (on account of union elections), followed by heavy monsoons. We expect a gradual pickup in infrastructure activities post Q3FY25.
- Railway Division Outlook:** In Q2FY25, revenue declined by 10% YoY. On 23rd Oct'24, Escorts entered into a Business Transfer Agreement with Sona BLW Precision Forgings Limited (Sona Comstar) for transferring the existing Railway Equipment Business Division (RED) as a going concern, on a slump sale basis, for a lumpsum cash consideration of Rs 1,600 Cr. We estimate 12-15 months for regulatory clearance and hence have factored NIL revenue/PAT from the segment in FY27E onwards.

Sector Outlook: Positive
Company Outlook & Guidance: The domestic tractor industry and construction equipment business are expected to pick up gradually in the medium term. On account of the amalgamation of two subsidiaries (having poor operational metrics), we expect EBITDA margins to remain subdued in the near term (<12%).

Current Valuation: 28x FY27E EPS (earlier 26x FY'26E EPS)

Current TP: Rs 3,290/share (Earlier TP: Rs 4,205/share)

Recommendation: We maintain our **HOLD** rating on the stock.

Financial Performance: Escorts Kubota Ltd. (Escorts) reported revenue of Rs 2,488 Cr, flat YoY and down 11.7% QoQ, due to lower tractor/CE volumes and slower demand in the RED business in Q2FY25. The company's EBITDA stood at Rs 265 Cr, flat YoY and down 28% QoQ, with 10.6% EBITDA margins, flat YoY but down ~241 bps QoQ, mainly on account of negative operating leverage from amalgamating subsidiaries. The company reported an adjusted PAT of ~Rs 324 Cr, up 54% YoY and 7.5% QoQ, due to higher other income. (The reported numbers are non-comparable with our estimates due to the amalgamation of two subsidiaries.)

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,488	-12%	0%	NA*	NA*
EBITDA	265	-28%	0%	-	-
EBITDA Margin	10.6%	-241	-3	-	-
Net Profit	324	7%	54%	-	-
EPS (Rs)*	29.9	10%	57%	-	-

Source: Company, Axis Securities Research

 (CMP as of 07th November 2024)

CMP (Rs)	3,645
Upside /Downside (%)	(10%)
High/Low (Rs)	4,422/2,647
Market cap (Cr)	40,769
Avg. daily vol. (6m)Shrs.	29.696
No. of shares (Cr)	11.18

Shareholding (%)

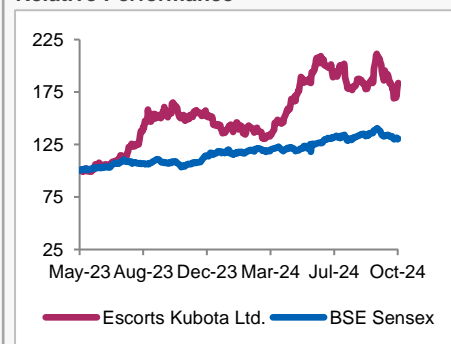
	Mar-24	Jun-24	Sep-24
Promoter Group	67.6	67.6	68.0
Institutions	5.8	6.4	6.3
Public UTI	7.9	8.6	8.4
Others	0.0	0.0	0.0
Total	18.7	17.3	17.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	11,195	12,208	12,420
EBITDA	1,334	1,478	1,437
Net Profit	1,254	1,302	1,299
EPS (Rs.)	113.5	117.8	117.5
PER (x)	32.1	30.9	31.0
EV/ EBITDA	28.5	25.1	24.9
P/BV	3.9	3.5	3.2
ROE (%)	12.9	12.0	10.7

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	10.9%	1.1%	-6.4%
EBITDA	-3.1%	-20.1%	-29.7%
PAT	-1.6%	-21.5%	-29.1%

Relative Performance


Source: Ace Equity, Axis Securities

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Outlook

We expect (1) The industry to gradually recover in H2FY25 ; (2) Infrastructure spending to improve gradually in the medium term and hence boost demand in the CE division; and (3) With expected stability in commodity prices and a richer product mix (growth in export sales), EBITDA margins are expected to remain resilient in the long run.

Valuation & Recommendation

In the backdrop of the company's positive long-term fundamentals – strong cash flow generating capabilities and greenfield expansion projects – we value the stock at 28x FY27 EPS (earlier 26x Sep26E EPS). However, synergy benefits with Kubota in the Agribusiness are expected to take longer than earlier estimated due to a slowdown in international markets. Additionally, discontinuing profits from RED in FY27 onwards (we revise our FY27E earnings downward), the valuation appears full. Hence, **we cautiously maintain our HOLD rating on the stock with a TP of Rs 3,290, implying a downside risk of up to 10% from the CMP.**

Key Concall Highlights

Agri Machinery Business

- In Q2FY25, EKL's total tractor sales volume stood at 25,995 units (down 0.9% YoY and down 14.4% QoQ). Q2FY25 revenue came in at Rs 1,884.2 Cr, compared to Rs 1,789.4 Cr in the corresponding quarter and Rs 2,171.7 Cr in the sequential quarter. EBIT margin was 9.1%, compared to 9.3% in the corresponding quarter and 11.7% in the sequential quarter. For H1FY25, tractor volume was 56,365 units, compared to 58,494 units in the corresponding period last year. Segment revenue stood at Rs 4,055.9 Cr, compared to Rs 3,911.7 Cr in the corresponding period last year. EBIT margin for the first half of the current fiscal was 10.5%, compared to 10.6% in the corresponding period last fiscal.

Construction Equipment

- For Q2FY25, construction equipment sales volume stood at 1,394 units, compared to 1,709 units in the corresponding quarter and 1,382 units in the sequential quarter. Segment revenue declined by 13.7% to Rs 379.7 Cr, down 0.2% QoQ (Rs 440.2 Cr in Q1). Revenue for H1FY25 was down by 6.9% YoY. The EBIT margin for Q2FY25 was 9.3%, down QoQ and YoY, while the EBIT margin for H1FY25 was 9.8%. For H1FY25, construction equipment volumes were 2,776 units, compared to 3,175 units in the corresponding period last year. Segment revenue stood at Rs 760.6 Cr, compared to Rs 816.9 Cr in the corresponding period last year. EBIT margin for the first half of the current fiscal was up at 9.8%, compared to 8.8% in the corresponding period last fiscal.

Railway Equipment Division

- For Q2FY25, railway equipment segment revenue came in at Rs 211.2 Cr, compared to Rs 234.3 Cr in the corresponding quarter and Rs 244.7 Cr in the sequential quarter. EBIT margin for the quarter ended September 2024 was 15.2%, compared to 18.5% in the corresponding quarter last year and 20.5% in the sequential quarter. For H1FY25, revenue from railway equipment was Rs 455.9 Cr, compared to Rs 532.1 Cr in the corresponding period last year. EBIT margin for the first half of the current fiscal was 18.0%, compared to 19.8% in the corresponding period last fiscal.

Exports

- Exports through the Kubota channel contributed 20% of total exports for both Q2FY25 and H1FY25, down from a high of 30%, mainly due to a slowdown in the European market, which forms 60% of the total export mix. The slowdown in the EU is primarily due to increased inflation, destocking at dealer levels, and subdued demand.

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	11,195	12,208	12,420	10,097	12,077	13,275	10.9%	1.1%	-6.4%
EBITDA	1,334	1,478	1,437	1,376	1,850	2,043	-3.1%	-20.1%	-29.7%
PAT	1,254	1,302	1,299	1,275	1,659	1,832	-1.6%	-21.5%	-29.1%

Source: Company, Axis Securities Research

Q2FY25 Results Review

YE March (Rs Cr)	Q2FY25	Axis Sec Estimates	Axis Sec Var (%)	Q1FY25	% Change (QoQ)	Q2FY24	% Change (YoY)
Sales Volume (units)							
Total Tractors	25,995	25,995	-	30,370	-14.4%	26,241	-0.9%
Construction Equipment	1,315	1,315	-	1,325	-0.8%	1,577	-16.6%
Sales	2,488	NA*	NA*	2,818	-11.7%	2,478	0.4%
Other Op. Inc	0	-	-	0.0		0.0	
Total Revenue	2,488	-	-	2,818	-11.7%	2,478	0.4%
Expenditure		-	-				
Net Raw Material	1,722	-	-	1,976	-12.9%	1,734	-0.7%
Other Exp	296	-	-	283	4.6%	283	4.5%
Personnel	206	-	-	191	7.5%	197	4.7%
Total Expenditure	2,224	-	-	2,451	-9.3%	2,214	0.5%
EBIDTA	265	-	-	368	-28.0%	264	0.2%
EBITDA Margins	10.6%	-	-	13.0%	-241	10.7%	-3
Less: Depreciation	64	-	-	62	3.4%	58	9.3%
EBIT	201	-	-	306	-34.3%	206	-2.4%
Interest	10	-	-	11	-8.5%	9	4.1%
Oth. Inc.	116	-	-	103	12.7%	94	23.9%
Profit Before Extraordinary Items and Tax	307	-	-	398	-22.9%	290	5.9%
Less: Exceptional Item	0	-	-	0		0	
Share Of Profit/Loss on Investments	0	-	-	0		0.03	
PBT	307	-	-	398	-22.8%	290	5.8%
Tax	-17	-	-	96		80	
PAT	324	-	-	302	7.5%	210	54.0%
Share of profit of Associates	0	-	-	0		0	
Adjusted PAT	324	-	-	302	7.5%	210	54.0%
Weighted No Of Equity Shares(Crs)	10.8	-	-	11.1		11.1	
Reported EPS (Rs.)	29.9	-	-	26.5	12.9%	19.0	57.0%
Adjusted EPS (Rs.)	29.9	-	-	27.3	9.6%	19.0	57.0%
Ratios							
GM	30.8%	-	-	29.9%	92	30.0%	77
EBITDA Margin	10.6%	-	-	13.0%	-241	10.7%	-3
PBT	12.3%	-	-	14.1%	-178	11.7%	63
PAT	13.0%	-	-	10.7%	232	8.5%	453

Source: Company, Axis Securities Research

*NA: Due to accounting for the amalgamation of two subsidiaries estimates are non-comparable

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net revenues	8,850	11,195	12,208	12,420
Operating expenses	7,683	9,861	10,731	10,983
EBIDTA	1,167	1,334	1,478	1,437
EBITDA margin (%)	13.2	11.9	12.1	11.6
Other income	399	481	512	549
Interest	14	26	10	10
Depreciation	167	267	266	266
Profit Before Tax	1,385	1,521	1,714	1,710
Tax	352	283	429	428
Reported Net Profit	1,049	1,254	1,302	1,299
Net Margin (%)	11.9	11.2	10.7	10.5
Adjusted Net Profit	1,049	1,254	1,302	1,299

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	10,223	11,428	12,630
Net Worth	9,176	10,334	11,539	12,741
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
Total Liabilities and Equity	9,395	10,497	11,704	12,907
Gross block	3,187	3,342	3,487	3,631
Depreciation	1,411	1,678	1,945	2,211
Net block	1,812	1,699	1,577	1,455
Capital WIP	116	106	106	106
Investments & Other LT assets	3,450	1,108	1,156	1,204
Inventory	1,218	1,617	1,764	1,794
Debtors	1,173	1,567	1,709	1,738
Cash & Bank Bal	1,179	2,324	3,281	4,552
Loans & Advances	2,302	4,455	4,678	4,666
Current Assets	5,872	9,963	11,431	12,750
Sundry Creditors	1,208	1,625	1,768	1,810
Other Current Liability	550	532	532	532
Current Liability & Provisions	115	240	283	283
Net current assets	4,000	7,566	8,847	10,125
Misc Assets	18	18	18	18
Total Assets	9,395	10,497	11,704	12,908

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March (Rs Cr)	FY24	FY25E	FY26E	FY27E
EBIT	1,398	1,547	1,724	1,720
Depreciation & Amortisation	167	267	266	266
Interest paid(-)	(14)	(26)	(10)	(10)
Tax paid(-)	(352)	(283)	(429)	(428)
EOI	(73)	22	29	30
Operating Cash Flow	1,127	1,527	1,581	1,578
Change in Working Capital	173	(251)	(101)	(19)
Cash flow from Operations	1,300	1,276	1,480	1,559
Capex	(130)	(144)	(144)	(144)
Investments	(444)	197	(271)	(35)
Cash flow from Investing	(574)	52	(415)	(180)
Change in borrowing	(12)	(0)	-	-
Others	70	(73)	2	2
Dividends Paid (-)	(76)	(111)	(111)	(111)
Cash Flow from Financial Activities	(18)	(183)	(109)	(109)
Change in Cash	707	1,145	956	1,271
Opening cash	472	1,179	2,324	3,281
Closing cash	1,179	2,324	3,281	4,552

Source: Company, Axis Securities research

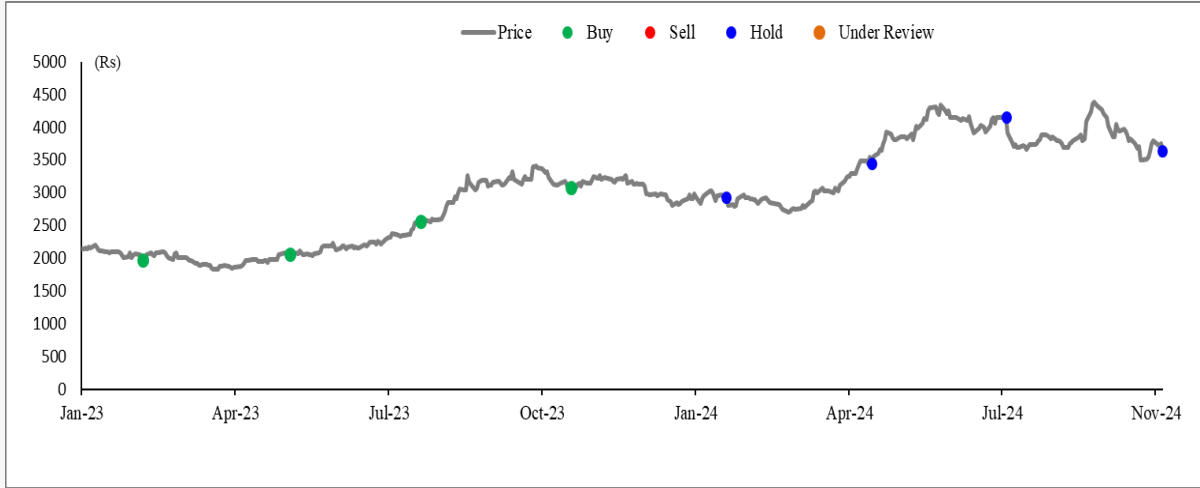
Ratio Analysis

(%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Revenue Growth	5.0	26.5	9.0	1.7
EBITDA Margin (%)	13.2	11.9	12.1	11.6
Net Profit Margin (%)	11.9	11.2	10.7	10.5
ROCE (%)	14.9	14.7	14.7	13.3
ROE (%)	12.0	12.9	12.0	10.7
EPS (Rs.)	96.6	113.5	117.8	117.5
PER (x)	28.7	32.1	30.9	31.0
P/BV (x)	3.3	3.9	3.5	3.2
EV/ EBITDA (x)	24.8	28.5	25.1	24.9
Fixed Assets Turnover Ratio (x)	1.0	1.1	1.1	1.0
Debt / Equity (x)	0.0	0.0	0.0	0.0
EV/ Sales (x)	3.3	3.4	3.0	2.9

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
08-Nov-24	HOLD	3,290	Result Update

Source: Axis Securities Research

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