

November 21, 2022

Analyst Meet Update

Key Financials - Consolidated

| Y/e Mar | 2019 | 2020 | 2021 | 2022 |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 61,698 | 56,884 | 68,576 | 70,530 |
| EBITDA (Rs. m) | 7,245 | 6,624 | 11,268 | 9,512 |
| Margin (%) | 11.7 | 11.6 | 16.4 | 13.5 |
| PAT (Rs. m) | 4,789 | 4,723 | 8,715 | 7,365 |
| EPS (Rs.) | 55.8 | 55.0 | 92.2 | 74.1 |
| Gr. (%) | 33.8 | -1.1 | 67.4 | -19.6 |
| DPS (Rs.) | 2.0 | 2.5 | 5.0 | 7.0 |
| Yield (%) | 0.1 | 0.1 | 0.2 | 0.3 |
| RoE (%) | 19.6 | 16.3 | 21.4 | 11.7 |
| RoCE (%) | 21.4 | 17.8 | 23.2 | 12.4 |
| EV/Sales (x) | 4.0 | 4.4 | 3.6 | 3.5 |
| EV/EBITDA (x) | 34.2 | 37.4 | 22.0 | 26.0 |
| PE (x) | 36.1 | 36.6 | 21.9 | 27.2 |
| P/BV (x) | 9.2 | 7.9 | 5.4 | 3.5 |

Key Data

ESCO.BO | ESCORTS IN

| | |
|---------------------|---------------------------|
| 52-W High / Low | Rs. 2,190 / Rs. 1,400 |
| Sensex / Nifty | 61,663 / 18,308 |
| Market Cap | Rs. 268.1bn / \$ 3,280.9m |
| Shares Outstanding | 131.9m |
| 3M Avg. Daily Value | Rs. 1,222.2m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 72.90 |
| Foreign | 4.81 |
| Domestic Institution | 7.78 |
| Public & Others | 13.24 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-------|------|------|
| Absolute | 1.3 | 23.1 | 11.8 |
| Relative | (3.1) | 10.3 | 8.5 |

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Escorts Kubota (ESCORTS IN)

Rating: Not Rated | CMP: Rs2,032 | TP: NA

EKL to take the big leap

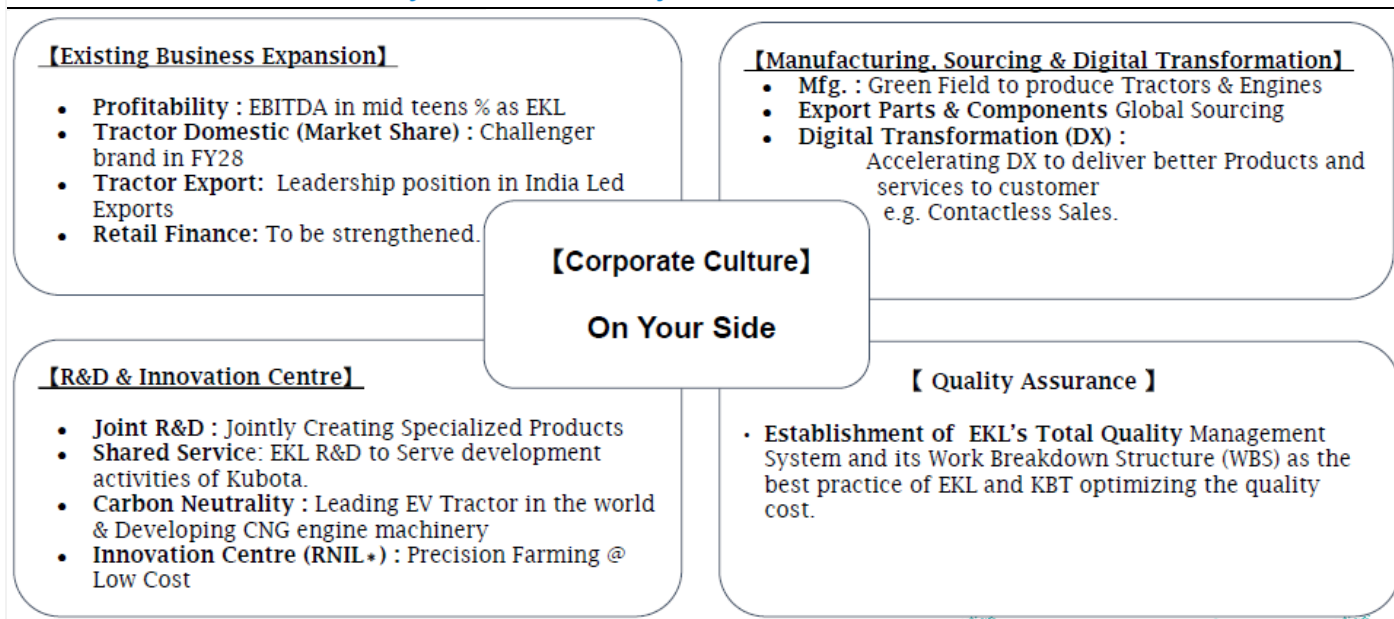
We attended Escorts Kubota Ltd's (EKL) Investor Day, where they announced their MTBP (i.e. Medium-term business plan). The company laid out aspirations for 2023-2028, where it plans to avail benefits from Escort's frugal manufacturing and Kubota's diversified global presence with high technology standards. This global strategic partnership aims at creating an exceptional commercial reach, in our view. The company also targets 2.5x revenue by FY28 (~Rs 91bn in FY22 for EKL+EKI+KAI), through expansion of existing product portfolio across segments and increased exports.

EKL's major focus areas will be (1) improving market share in domestic as well as export markets, (2) jointly creating specialized products for the world, (3) ensuring quality assurance through Kubota Production System (KPS) and (4) strategic sourcing. At CMP, stock is trading at 23.6x FY24E (Bloomberg Estimate) PE. Not Rated.

- Agri-machinery segment:** EKL aspires to create a challenger's position in domestic tractor industry. It also aims for No.1 position in Combine Harvester and Rice Transplanter, besides being amongst Top-3 in Agri implements space. The company plans for (1) Brand expansion - 1.5-3x of portfolio expansion (2) Channel expansion – wherein dealers will now become multi-brand dealers and EKL aims dealer network expansion by 50%, (3) Winning market - by leveraging presence of Escorts and Kubota in different zones. (4) Retail finance - partnering with various banks/NBFCs and exploring opportunities to create a captive finance arm and (5) Digital transformation.
- Exports – 15-20% of sales by FY28:** EKL will focus on increasing export volumes, as India is a low-cost manufacturing base for global markets. It aspires to have leadership position in India-led tractor exports while creating strategic hub for global sourcing. This will be done through multi-brand strategy, channel expansion, product enhancement and parts supply to the global Kubota network.
- Construction equipment (CE) and Railway Division (RED):** (1) For CE business EKL aspires to be No. 1 in Material Handling, Pick & Carry Crane, and Mini Excavators through portfolio expansion and doubling of channel strength. Kubota is global leader in the Mini Excavator space. (2) RED is targeting ~3x revenue growth for next 6 years and leveraging opportunities in the Railway segment. Focus remains on diversifying customer base for risk mitigation.
- Capital allocation strategy:** EKL also aims to invest up to 5% of its net profit in R&D and innovation and 40% as shareholder return. It has planned for capex of Rs 35-40bn towards greenfield expansion, products, innovation and technology.

We believe that the strategic partnership between Escorts and Kubota will likely create synergies to help EKL create world-class technology driven products, better production system, and build large scale operations.

Exhibit 1: MTBP focuses on five key areas for the next 5 years 2023-2028



Source: Company, PL

Existing business- 2.5x sales with higher margins

Exhibit 2: Mid-term Business Plan - Aspirations

| (₹ Crore) | FY2022 (Actual) EKL + EKI + KAI | FY2028 EKL Aspiration |
|----------------------------------|------------------------------------|--------------------------|
| Revenue (Rs. Crore) | 9,068 | > 2.5X |
| Export Revenue to Total Revenue% | ~6.4% | 15~20% |
| Operating profit (EBIDTA %) | 10.8% | Mid Teens |
| ROCE | ~17% | 25%~30% |
| ROE | ~13% | >18% |

Source: Company, PL

EKL wants to create a challenger's position and be on No.1 position in Combine Harvester and Rice Transplanter, besides being amongst Top-3 in implements space. Accordingly, it has planned for brand & product enhancement, channels expansion, market share gains, retail financing and digital transformation.

- Brand & Product Enhancement** – 1.5-3x of portfolio expansion across brands
- Channel Expansion** – To be a key enabler. Currently, Escorts has 1100+ dealers and KBT has 300+ dealers. Now, dealers are becoming multi-brand owners. Dealer network expansion is 1.5x.
- Winning Market** – Currently, Escorts has strong presence in Northern and Eastern markets, whereas Kubota has built its network in South and West. EKL will now leverage presence of Escorts and Kubota in different zones. Also, Kubota brand has its strength in wetland application production, whereas Farmtrac and Powertrac are largely in dry land and haulage products.
- Retail Finance** – EKL will partner with various banks and NBFCs. In future, the company might also explore opportunities to create a captive finance arm.

- **Digital transformation** will take place through an online platform, contactless sales and other applications.

R&D and innovation Centre

- The company has comprehensive range of models catering to various needs of customers. It also has a strong product portfolio for exports market.

Exhibit 3: Comprehensive range of products for domestic and export markets



Source: Company, PL

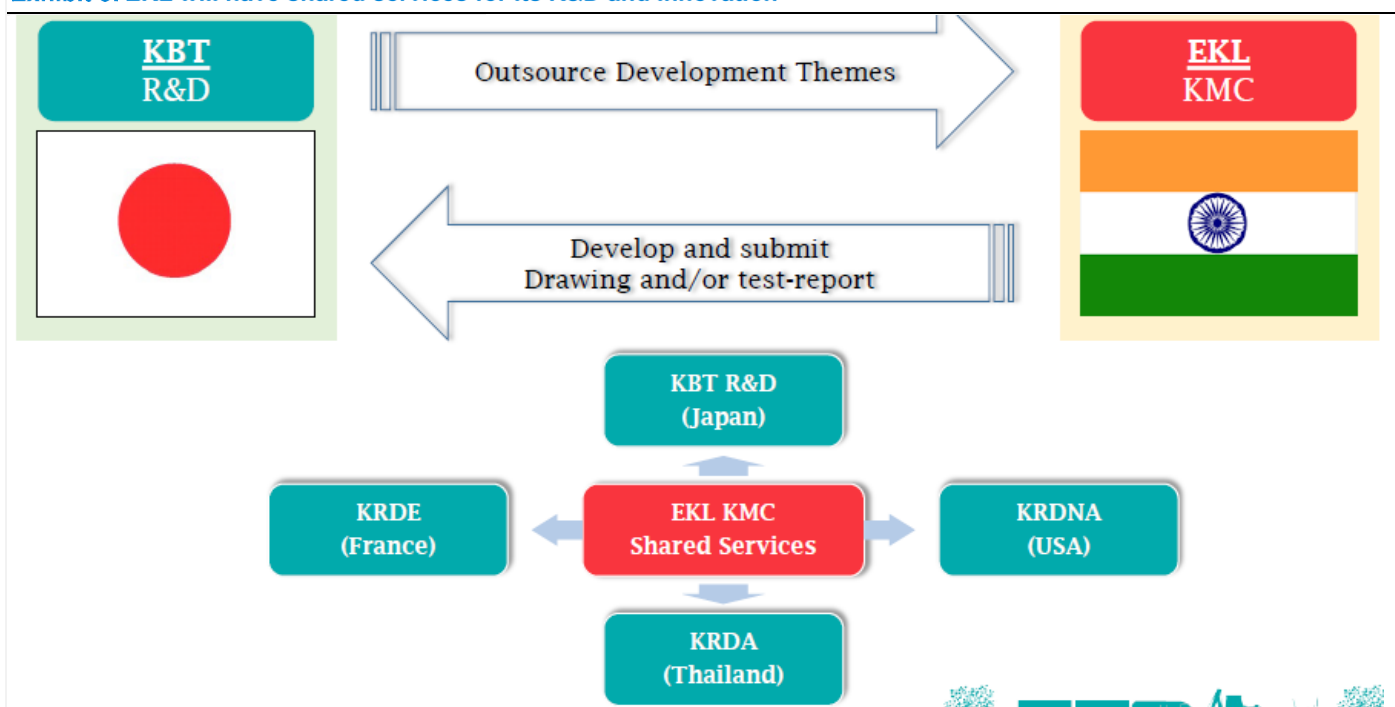
Exhibit 4: Farm solution product range



Source: Company, PL

- EKL along with KBT will create strategic development base for affordable products and leading innovations. Both will jointly manufacture specialized products for the world. The company will be part of Kubota's global R&D center.

Exhibit 5: EKL will have shared services for its R&D and innovation



Source: Company, PL

80% capacity expansion, more component outsourcing

- The company currently has 5 manufacturing facilities and targets for one more by 2028, which will take capacity for tractors and engines from ~1.7 lakhs units to ~3 lakhs units. This will be a greenfield project.
- Management highlighted, even a 5% shift in total buying of components sourcing globally to India would mean about USD 500 million worth of potential exports. Its aspiration for FY28 captures a part of this potential.
- Kubota's worldwide buying value of components is about \$ 8.7 billion. It is currently sourcing components mainly from China, Thailand and certain parts from India. With this joint partnership Kubota now targets to increase its manufacturing from India by securing supply volume for KBT businesses, reducing existing cost and using strong EKL supplier network.

Quality assurance

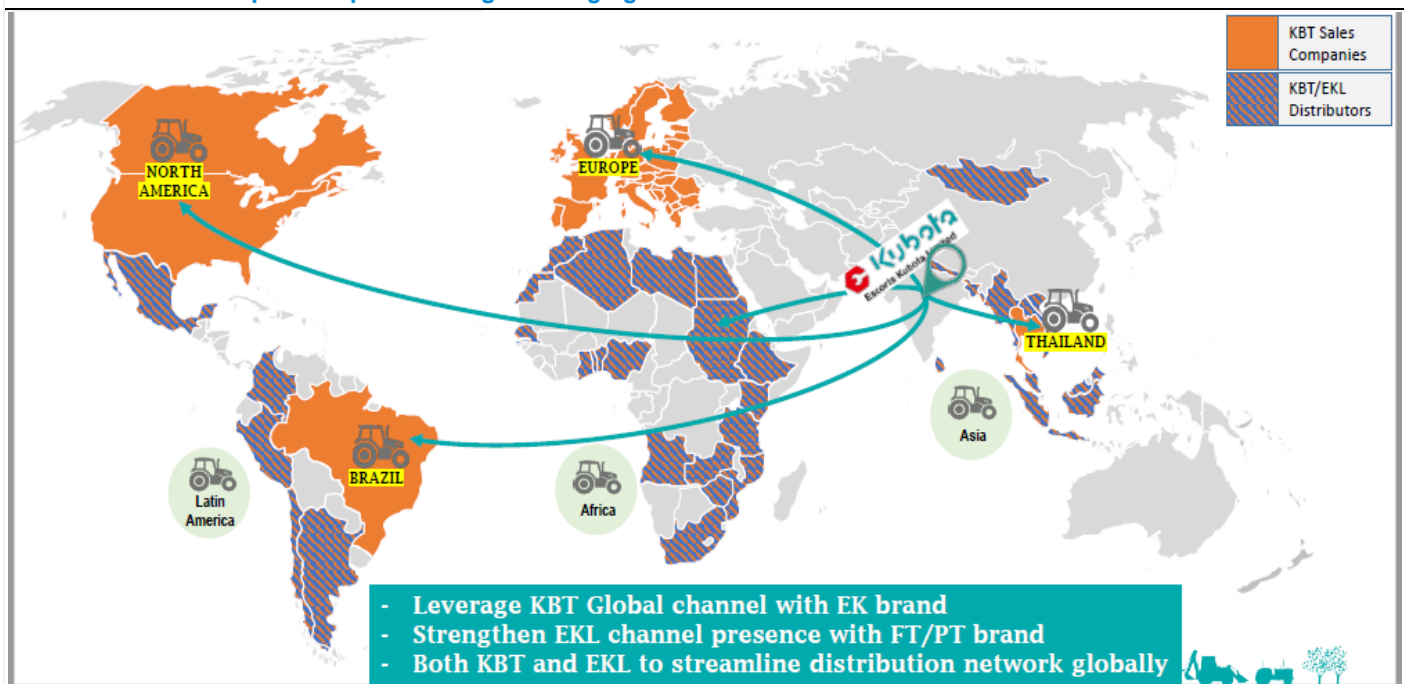
- To establish total quality management system. EKL will adopt Kubota Production System (KPS) to ensure best quality products, customer satisfaction, cost optimization and sustainability.
- KPS will aid in (1) end-to-end deployment of Total Quality Management principles, (2) streamlined manufacturing processes and smart facilities, (3) improving efficiency and productivity across value chain, (4) supplier development and capability enhancement, and (5) sustainable manufacturing processes to reduce waste and minimize environmental impacts.

Exports – EKL to be low cost mfg. hub

Given issues of shrinking agricultural land due to increased urbanization, the country is in huge necessity to increase its exports. Also considering growing world population, food security has become an important parameter.

- EKL plans to focus on increasing its export volumes, as India is a low-cost manufacturing base for global markets.
- It aspires to have leadership position in India-led tractor exports, while creating a strategic hub for global sourcing. This will be done through multi-brand strategy, channel expansion, product enhancement and parts supply to global Kubota network.
- It will expand Farmtrac and Powertrac brands via EKL Channel & E-KUBOTA Brand via KBT global channel. EKL aims at doubling its export offerings.
- The company will also work towards strengthening EV portfolio for mature markets and expanding its product range up to 110 HP.

Exhibit 6: Channel expansion plans through leveraging KBT channel



Source: Company, PL

Construction equipment segment

- EKL aspires to be No. 1 in Material Handling, Pick & Carry Crane and also in Mini Excavators.
- The company aims to double its market share in this segment through portfolio expansion and doubling of channel strength. Kubota is global leader in the Mini Excavator space.

Exhibit 7: Plans to expand product offering and innovation



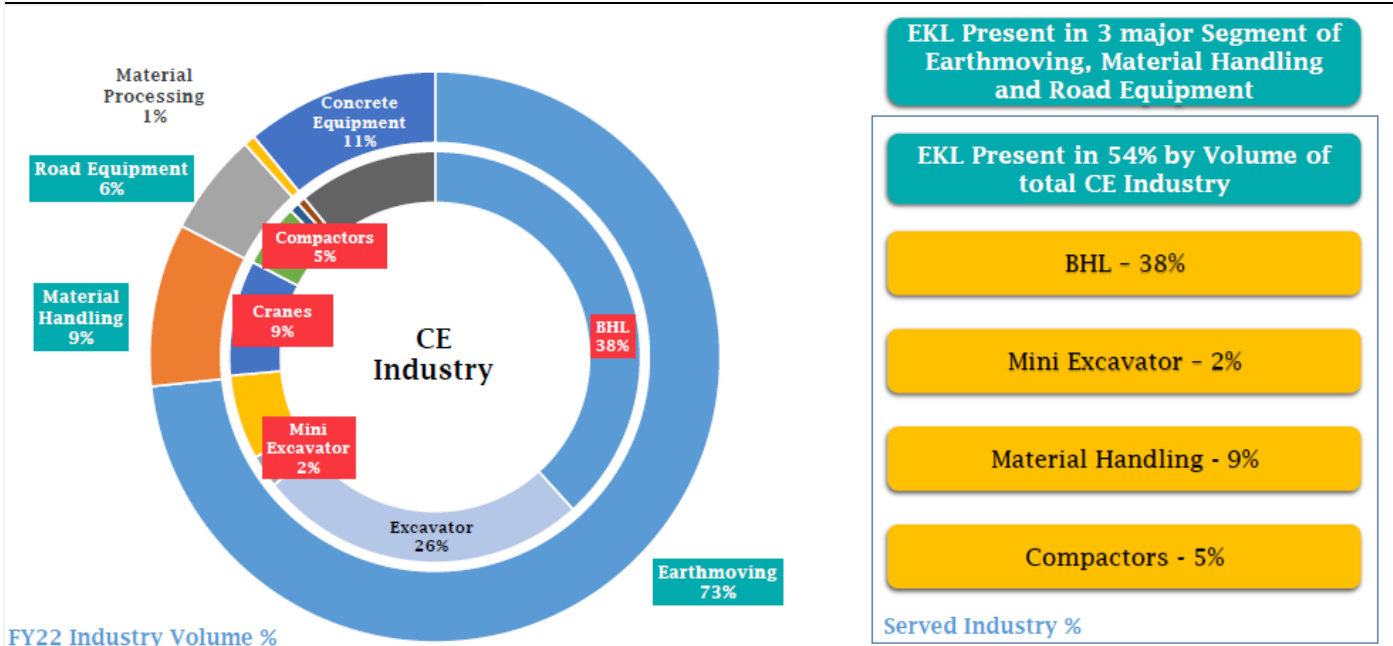
New technology Models with Better Features, More Productive & Connected Machines

Safety, GPS, Remote monitoring, Theft prevention, Fleet management etc.

Hybrid & Alternative Fuel

Source: Company, PL

Exhibit 8: Construction equipment industry



Source: Company, PL

Railway Equipment Division (RED)

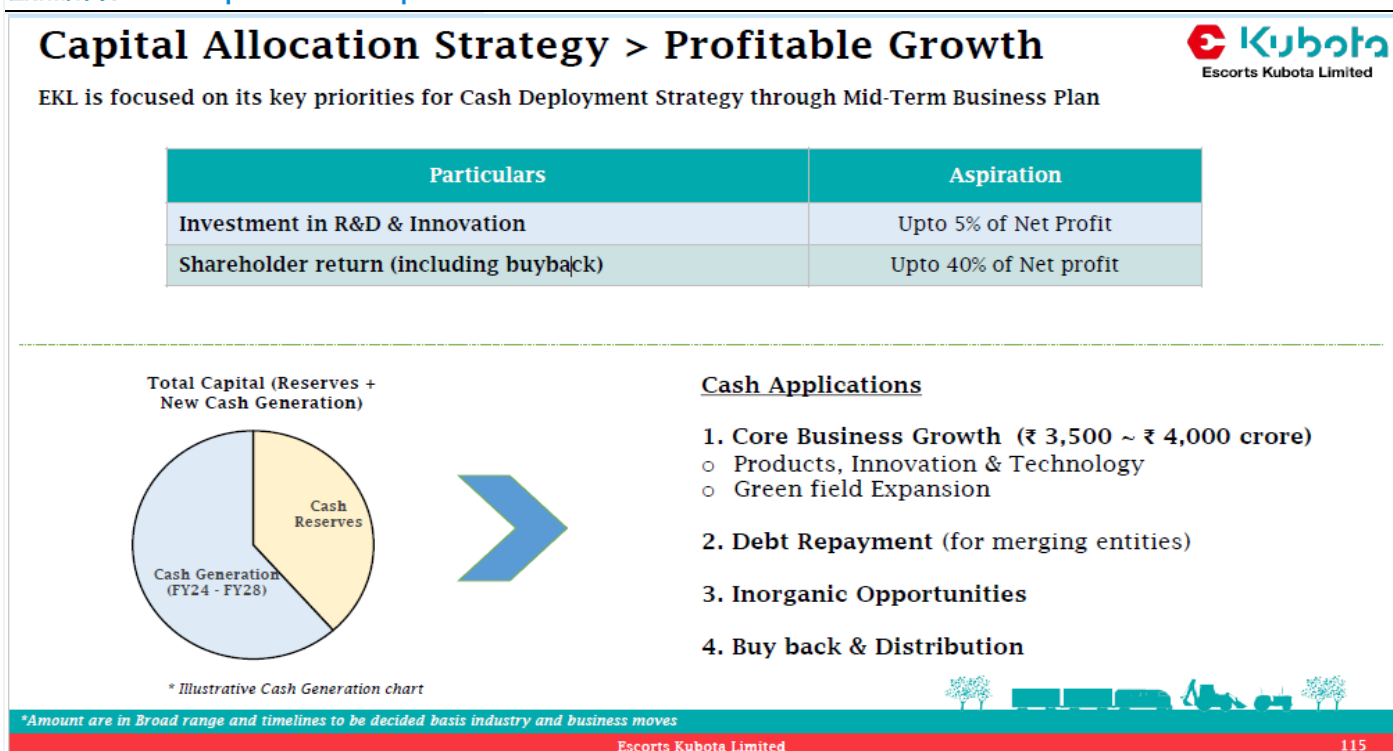
Over last 6-7 years, Escorts' RED delivered revenue CAGR of ~20%. In FY22, it recorded ~33% revenue growth. As of Sep-22, it has order book of Rs 9bn.

- This growth is majorly driven by expanding product offerings, exports and faster commercialization of products.
- RED is targeting ~3x revenue growth for next 6 years and leveraging opportunities in the Railway segment.
- EKL will not only focus on product localization, but also higher-margin products
- Focus also remains on diversifying customer base for risk mitigation.

Capital allocation strategy

- EKL plans to invest upto 5% of its net profit in R&D & innovation and 40% for shareholders return.
- The company has planned for capex of Rs 35-40bn towards greenfield expansion, products, innovation and technology.
- Currently EKL has liquidity position of Rs 50bn and remains debt free.

Exhibit 9: EKL's capital allocation plan



Source: Company, PL

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|------------------------|------------|---------|------------------|
| 1 | Ashok Leyland | BUY | 200 | 148 |
| 2 | Bajaj Auto | Hold | 3,865 | 3,571 |
| 3 | Bharat Forge | BUY | 950 | 859 |
| 4 | CEAT | Accumulate | 1,775 | 1,617 |
| 5 | Eicher Motors | BUY | 4,190 | 3,701 |
| 6 | Endurance Technologies | BUY | 1,600 | 1,394 |
| 7 | Exide Industries | UR | - | 157 |
| 8 | Hero Motocorp | BUY | 3,175 | 2,598 |
| 9 | InterGlobe Aviation | Accumulate | 2,015 | 1,798 |
| 10 | Mahindra & Mahindra | BUY | 1,500 | 1,287 |
| 11 | Maruti Suzuki | BUY | 10,230 | 9,493 |
| 12 | Tata Motors | BUY | 520 | 433 |
| 13 | TVS Motors | BUY | 1,275 | 1,114 |

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| | |
|--------------------------|-----------------------------------|
| Buy | : >15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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