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## Escorts Kubota targets Rs 22,500 crore revenue by FY2028, eyes No. 2 position in India's tractor market

The company is eyeing the No. 2 position in India and aims to be the largest tractor exporter. It plans to achieve this with a greenfield plant and expanding production by 76% to 300,000 units, leveraging Kubota's global presence and also become a strategic hub for global parts sourcing. The company has lined up a fresh capex of Rs 4,000 crore over the next five years (2023-2028).

By Shruti Mishra    📅 22 Nov 2022    👁 552 Views

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Escorts Kubota, India's third largest tractor manufacturer, is looking to farm growth speedily over the next five years. Its new Mid-Term Business Plan outlines the company's ambitious target of growing business by 2.5 times to Rs 22,500 crore (\$2.66 billion) in the next five years essentially by making India an export hub for affordable tractors.

To achieve this, the company has lined up fresh capex of Rs 4,000 crore over the next five years (2023-2028) to set up a new greenfield plant and augment capacities for engines and tractors along with product technology as well as sales and network expansion.

### Maximising synergies and a glo-cal approach

The company's future growth programme is characterised by a 'glo-cal' approach which factors both local and global operations. Escorts Kubota's Mid-Term Business Plan also outlines another strategic goal: to be the No. 2 tractor manufacturer in the highly competitive Indian market. This will mean it will transform into a strong challenger to domestic market leader Mahindra & Mahindra. If it achieves its goal, then it could corner a fifth of the Indian tractor market.

What's more, the company also aims to be the largest exporter of made-in-India tractors and also attain leadership in the domestic combined harvester and rice transplanter market by 2028.



*A ridger which helps in forming a furrough and a ridge. Escorts Kubota is targeting leadership in India's combined harvester and rice transplanter market.*

The company's bullishness about future growth stems from its confidence in benefiting from synergies – Escorts' frugal manufacturing and Japanese major Kubota's diversified global presence as well as best practices and state-of-the-art R&D facilities. The goal is to develop and deliver high-quality, cost-efficient tractors and farm machinery both in India and worldwide.

Within a year of joining hands with Kubota, the Faridabad-based farm equipment OEM has revamped its business strategy with a vision to make India a global hub of affordable manufacturing, a senior company official said.

Escorts Kubota generated a turnover of Rs 9,100 crore in FY2022, with 77% of its revenues coming from the tractor business, 14% from construction equipment and the remaining 9% from the railway division. "Within segments, we foresee 2.5x growth for the agri segment, construction equipment is expected to grow by 2x whereas the railway division is expected to grow by 3x by FY2028 on the back of new products under development," Escorts Kubota's management said in a recent conference call.

### **Ramping up production to 300,000 units**

On the production front, Escorts Kubota has outlined plans to sizeably expand its tractor and engine manufacturing capacity by over 76 percent by FY2028. By setting up a greenfield unit, capacity will stand augmented from the existing 170,000 units to about 300,000 units per annum, up 76%, in the next five years.

The expansion programme is in line with the company's aim to be a stronger player in tractors, challenging the market leader even as it is keen to be the No. 1 in combine harvester and rice transplanters, and the third largest in farm implements.



For the coming five-year period, Escorts Kubota is confident of achieving 1.5x to 3x growth in its portfolio expansion across all three tractor brands – Powertrac, Farmtrac and Kubota – with products between 15hp and 110hp. Subsequently, this will enhance the company's market share to 18-20 percent by FY2028 from the current 12 percent.

"The company's focus would revolve around growing market share in India through new product launches and channel expansion, attaining leadership position in exports via product developments, continuing with the ramp-up of other businesses, and improving profitability," said the Escorts Kubota management.

### **Gunning for export leadership**

For Escorts Kubota, exports are a low-hanging fruit and it aims to strengthen this domain by leveraging India's reasonably economical manufacturing cost. The company is targeting leadership in the tractor export market by FY2028, led by new product development and expansion of the distribution network through new channel partners. The company currently ships its tractors to Europe and has expanded its footprint to South Africa and Sri Lanka recently.

Four new high-volume markets – USA, Europe, Thailand and Brazil – are on the company's future growth radar. Much like the domestic market, the exports business could potentially increase 2-3x and account for about 15-20% of its revenues by FY2028. It goes without saying that Escorts Kubota will

leverage Kubota's strong presence in key markets such as North America and Europe, where it has about 1,200 and 3,00 dealers respectively.

### **Looking to be a strategic hub for global parts sourcing**

Underlining the issues of shrinking agricultural land due to increased urbanisation, the Escorts Kubota top brass highlighted that there is a huge necessity to increase the company's exports. "We plan to focus on increasing our export volumes as India is a low-cost manufacturing base for global markets. We also aspire to have a leadership position in India-led tractor exports, while creating a strategic hub for global sourcing," the management said on the analyst call. They added this will be done through a multi-brand strategy, channel expansion, product enhancement and parts supply to the global Kubota network.



The company management further highlighted that even a 5 percent shift in total buying of components sourcing globally to India would mean about US\$ 500 million (Rs 4,081 crore) worth of potential exports. This is another reason for Escorts Kubota's ambitious target of Rs 22,500 crore revenues by FY2028.



In Q2 FY2023 (April-September 2022), the company recorded its highest ever quarterly export volume – 2,307 tractors, up by 8.7 percent year-on-year. While industry volume declined 1 percent to 35,300 units (Q2 FY2022: 35,600 units). Notably, sales through Kubota's global network are also gradually increasing and in Q2 FY2023 contributed over 20 percent to Escorts Kubota's total export volume.

Highlighting its capital allocation strategy, Escorts Kubota said that it will be investing 5 percent of its net profit towards R&D and innovation, largely for new start-ups, going forward.

According to brokerage firms, the company 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," Prabhudas Liladher said in its note.

Following the revelation of the company's growth plans, the Escorts Kubota share price hit an all-time high of Rs 2,206.15, after surging by over 8.5 percent on BSE intraday during Monday's trading session. It ended the day at Rs 2,186, having surged by 22 percent in the past year and over 34 percent in the last six months.