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# Escorts Kubota Rating: sell; Strong order book to drive growth

*Company aspires to attain good position in India-led tractor exports.*



The company aspires to attain leadership position in India-led tractor exports.



In a recent analyst meet, Escorts Kubota's management outlined to analysts its strategy for the next five years. The company targets to increase revenues by 2.5X FY2022 levels by FY2028 and improve Ebitda margin to mid-teens by FY2028 from 10.8%. These targets are based on market share gains in the tractor segment, significant growth in the export segment and strong growth visibility in the railways business due to a strong order book and increased government spends. SELL stays.

In its Vision 2028, the company intends to grow its revenues by >2.5X over FY2022-28, implying a revenue CAGR of 16%. In terms of segments, the company intends to grow tractor segment revenues by 2.5X and railway segment revenues by 3X over FY2022-28. Exports will continue to remain a key focus area for the company and it targets to improve its export to 15-20% in FY2028 from 6.4% in FY2022.

The company aspires to reach a challenger position in terms of market share in the domestic tractor segment, mainly led by (i) brand & product enhancement – right positioning of Powertrac, Farmtrac and Kubota brands to cover all segments, (ii) channel expansion with extensive focus on South and West India, (iii) partnering with various banks and NBFCs to bring down the cost of ownership, and (iv) digital transformation to enhance customer experience. Key enablers for domestic tractor industry would be (i) increasing trend towards mechanization due to scarcity of labour, (ii) ease of credit availability and (iii) shorter replacement cycle. The company also aspires to become the top player in combine harvester and rice transplanter and Top-3 player in the farm implement business.

The company aspires to attain leadership position in India-led tractor exports. With a strong order book, we expect railway segment revenues to see double-digit CAGR over FY2022-24E. However, we believe that the performance of tractor segment will be key driver for the stock, which we expect to remain under pressure.