Escorts Kubota Limited

May 15, 2024

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001	**National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
BSE – 500495	**NSE - ESCORTS**

Sub: Earning Call Transcript

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the conference call held on May 9, 2024, for discussing the earning performance of the quarter and financial year ended March 31, 2024, and the same has been uploaded on the Company's website at the below link:

https://www.escortskubota.com/investors/financials.html?view=list

The aforesaid transcript was uploaded on the Company's website at May 15, 2024 at 10:56 A.M.

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **Escorts Kubota Limited**

ARVIND KUMAR

Digitally signed by ARVIND KUMAR
Date: 2024.05.15 18:00:47 +05'30'

Arvind Kumar
Company Secretary

Encl.: As above

“Escorts Kubota Limited

Q4 FY ’24 Earnings Conference Call”

May 09, 2024

MANAGEMENT: **ESCORTS KUBOTA LIMITED**
MR. BHARAT MADAN – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER –
MR. NEERAJ MEHRA – CHIEF OFFICER, AGRI MACHINERY BUSINESS DIVISION (DOMESTIC SALES)
MR. SANJEEV BAJAJ – CHIEF OFFICER, CONSTRUCTION EQUIPMENT BUSINESS DIVISION
MR. ANKUR DEV – CHIEF OFFICER – RAILWAY EQUIPMENT BUSINESS DIVISION
MR. SANJEEV GARG – HEAD, FINANCE & TAX
MR. PRATEEK SINGHAL – INVESTOR RELATIONS AND ESG

MODERATOR: **MR. MUMUKSH MANDLESHA -- ANAND RATHI SHARES AND STOCKBROKERS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Escorts Kubota Limited Q4 FY '24 Earnings Conference Call hosted by Anand Rathi Shares and Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mumuksh Mandlesha from Anand Rathi Shares and Stock Brokers Limited. Thank you, and over to you, sir.

Mumuksh Mandlesha: Thank you, Steve. Good evening, on behalf of Anand Rathi Shares and Stock Brokers, I welcome you all for Escorts Kubota Limited Q4 FY '24 Earnings Conference Call. I also take this opportunity to welcome the management team from Escorts Kubota Limited. Today, we have with us; Mr. Bharat Madan, Whole-Time Director and Chief Financial Officer; Mr. Neeraj Mehra, Chief Officer, Agri Machinery Business Division, Domestic Sales; Mr. Sanjeev Bajaj, Chief Officer, Construction Equipment Business Division; Mr. Ankur Dev, Chief Officer, Railway Equipment Business Division; Mr. Sanjeev Garg, Head of Finance and Tax; and Mr. Prateek Singhal, Investor Relations and ESG.

We would start the call with a brief opening remark from the management followed by Q&A session. Before we start, I would like to add that some of the statements that company makes in today's call will be forward-looking nature and are subject to risks as outlined in the annual report and investor releases of the company.

I would request management for the opening remarks.

Prateek Singhal: Thank you, Mumuksh. Good evening, everyone, and thank you all for joining us today. A few highlights of the company's stand-alone performance for the fourth quarter ended March 2024 are as follows: Operating revenue was INR2082.5 crores, down by 4.6% Y-o-Y. Tractor volume as 21,253 units, down by 14.2% Y-o-Y.

Construction equipment volume at 1,798 units, up by 17.7% Y-o-Y, Railway equipment revenue at INR213.4 crores, down by 10.1% Y-o-Y. EBITDA for the quarter ended March 24, up by 12.8% at INR265.9 crores as against INR235.8 crores Y-o-Y. EBITDA margin at Q4 stands at 12.8%, up by 197 basis points Y-o-Y, mainly led by effective cost control, softening in commodity prices along with operating leverage in Construction Equipment division. PBT before exceptional item was INR323.7 crores, up by 19.3% Y-o-Y. Net profit came at INR242.1 crores, up by 30.5% Y-o-Y as against INR185.5 crores.

Some highlights of our stand-alone financial performance for the year ended March 2024 are as follows: Highest ever operating revenue at INR8,776.7 crores, up by 5.2% Y-o-Y, tractor volume at 95,858 units, down 7.2% Y-o-Y. Highest-ever construction equipment volume at 6,548 units, up 41.7% Y-o-Y, highest ever railway equipment revenue at INR950.4 crores, up 12.9% Y-o-Y. Highest ever EBITDA at INR1,168.8 crores, up by 49.8% Y-o-Y, margin at 13.3%, up by 396 basis points Y-o-Y.

PBT before exceptional item at INR1,389.8 crores, highest ever, up by 54.0% Y-o-Y. Highest net profit at INR1,037.2 crores, up by 70.9% Y-o-Y. PAT margins at 11.8%, up by 454 bps Y-o-Y.

CapEx for the year FY '24 was at INR175 crores. Book value per share as on 31 March '24 stands at INR833.8 per share. Net cash and investment as on 31st March '24 stand at more than INR6,000 crores. The Board of Directors have recommended a final dividend of dividend at 180%, i.e., INR18 per equity share for the financial year ended 31st March 2024, as against 70%, i.e., that INR7 per equity share in the previous fiscal.

On a consolidated basis, company financial performance for the year ended March 2024 is as follows: turnover up by 5% Y-o-Y at INR8,849.6 crores, EBITDA margin at 13.2% as against 9.2% Y-o-Y. Net profit up by 64.8% Y-o-Y at INR1,049.1 crores. Fiscal year '24 has been a significant milestone in our financial performance as we achieved our best ever results on both stand-alone and the consolidated basis.

Moving on to the segmental business performance, starting with the Agri Machinery business. In FY '24, the total tractor industry volume, domestic plus export decreased to 9.74 lakh unit, a 9% decline from the previous ever highest of 10.7 lakh. Our total tractor volumes show a decrease of 7.2% to 95,858 tractors compared to 103,290 tractors in the previous fiscal.

The domestic tractor industry in FY '24 went down by 7.4% to 8.76 lakhs, down from a record high of 9.45 lakhs in the previous year. This decline was attributed to factors such as festive ship, erratic uneven and deficient rainfall, as well as lower water level in the reservoir, leading to delay crop harvest and sowing and lower output.

Our domestic tractor volumes saw a decrease of 5.3% to 90,239 tractors as compared to 95,266 tractors in the previous year. Despite this decline, our market share increased to 10.3% from 10.1% in the previous fiscal. Additionally, our market share for the quarter ended March '24 increased to 11.6%, a 69-basis point rise from 10.9% in the same period last year.

On the export side, during the fiscal FY '24, the industry was down around 21.4% to 0.98 lakh tractors as compared to 1.24 lakh tractors in the previous fiscal. Our export volume, however, went down by 30% to 5,619 tractors as against 8,024 tractors in the previous fiscal. Sales through Kubota Global network during the year contributed more than 38% of the total export as against 30% in the last year.

The segment revenue for the year-end ended March 2024 was at INR6,110.1 crores, slightly lower than the previous year revenue of INR6,316.1 crores. However, the EBITDA margin improved to 12.7%, up from 9.3% in the previous year. This increase was primarily due to more favorable product mix, better price utilization, effective cost control measures and a decrease in the commodity prices.

In the first few months of the fiscal '25, we might expect a slight decrease in the domestic tractor industry due to the ongoing election, low reservoir water levels, reduced haulage activity and a moderate rabi output. For the full year, however, we expect the domestic sector industry to do well and may register lower mid-single-digit growth, led by the near to our normal monsoon this year.

We are optimistic about the growth potential for our export market with Kubota Global Network and component export as we continue to expand into new markets, improve efficiency and broaden our product portfolio.We are confident that the demand for our mechanized products will continue to grow worldwide.

Coming to the Construction Equipment business, our served industry of crane, backhoe loader and compactor was up by 29% as compared to FY '23, led by growth in the crane industry of 52%, backhoe loader by 23% and the compactor industry by 42%. Our total volume of manufacturing and traded products went up by 41.7% to ever highest 6,548 machines as against 4,629 machines in the previous fiscal.

Segment revenue went up by 45% at INR1,709.7 crores as against INR1,179.0 crores in the previous year. EBIT margin went up by 640 bps to 9.3% as against 2.9% in the previous fiscal. The ongoing election have temporarily impacted industry momentum, but we remain optimistic that the demand will increase following the election, the government focus on infrastructure development will support this growth. We anticipate demand to esclate further in the fiscal year '25 as we may go forward.

Coming on to the Railway division. The revenue for the year ended March '24 went up by 12.9% to our ever highest yearly revenue of INR950.4 crores as against INR841.9 crores in the previous year. The EBIT margin for the year ended March '24 improved by 510 basis points to 18.9% compared to 13.8% in the previous fiscal, driven by a more favorable product mix, showcasing our commitment to enhance profitability and financial performance.

Division launched 3 new products in FY '24, which include electrical control panels and brake pad for Metro coach and damper for Vande Bharat Coach. Electrical Control panel is a new product category and was supplied for the first time in the last fiscal. At the end of March '24, the division order book stood at a robust level of approximately INR950 crores. By maintaining a steady fast commitment to product diversification and expansion into new export market, we anticipate that the Railway Equipment business segment will sustain its double-digit growth trajectory throughout the fiscal year '25

Now I will request a more later to open the floor for Q&A.

Moderator: The first question is from the line of Hitesh Goel from CLSA.

Hitesh Goel: So, my question is on this construction equipment division, right? We have never seen such kind of margins in history. And this is true for not only you but the industry also, right? We've seen a significant increase in margin in this year, right? So, can you please explain what has happened? Is it product mix or there is capacity on the supply side, which is helping pricing power? Can you give us more color why these margins are so high now in Construction?

Bharat Madan: Yes, I think it's a mix of all 3 factors. One, obviously, the industry has grown very well. This is the record industry this year FY '24 for the Construction Equipment segment also largely driven by the infrastructure project, which has been pushed by the government. Second, because the cost pressure, which was there earlier on the Construction Equipment space, obviously, now commodity prices have softened. And most of those cost increases were passed on to the market. So that means the realizations in the product category have been much better and the commodity prices continue to now remain soft compared to what we've seen in the last 5, 6 quarters.

So that impact has been fully passed on, even though impact of the initial emission changes which happened in this segment about 1.5 years ago that has also been passed on fully and absorbed by the market. So, FY '23 actually has seen a decline because of all these factors, but FY '24 saw a certain pickup, good pick up. So that's why adding combination of all these sectors now are leading to a good mix and better realizations and obviously the better margins across the industry.

Hitesh Goel: Just a follow-up there. So previously, there were a lot of imports from China because -- which was impacting the margins as well, right? So, there has been there a reduction in imports some policy has come through which a domestic industry is making good margins?

Bharat Madan: Sanjeev, you want to respond. Okay. Maybe Sanjeev got disconnected now. So, we're not really seeing the Chinese import more on the high-end segment, especially when we are dealing with this higher RT cranes and larger cranes, major imports are happening from China. So, in the Pick & Carry segment, which is our main category there, we've not seen the impact coming from the Chinese players right now.

So that impact hasn't been there. It's more on the earthmoving side where we are not a very large player as of now. So, our market share is only about 1% to 2% range, So, that is not really a significant impact for us. The Pick & Carry segment, if you look at the overall industry segmentation has seen the maximum growth and within the Construction Equipment space this year, that's where I think the benefit has been coming to us and the competition in this industry.

Moderator: The next question is from the line of Gunjan P. from Bank of America.

Gunjan Prithyani: I had two questions. Firstly, on the industry guidance of low to mid-single-digit growth and also calling out first half will be slightly negative. I just want to understand the -- what is it that we are seeing on the ground that gives us confidence that second half can actually sort of translate into 10% plus growth. I mean, to get to low to mid-single digits, we would need double-digit growth in second half. So, if anything you can share in terms of on ground that you're picking up, which gives us the confidence on this growth guide for fiscal '25?

Neeraj Mehra: Good evening, Gunjan. This is Neeraj this side. So primarily, see, it's a bit premature to give guidance for the entire year at this point of time. The industry at now is a bit subdued, owing to the various factors that have been shared in the opening comments. But the positive part is that the forecast or the guidance for the rainfall is pretty good. It's positive. The two or three agencies will give this guidance. They have given a very positive outlook to this thing. So, the first quarter will be subdued. We feel that the industry might pick up post August, September onwards.

Gunjan Prithyani: Okay. So basically, the guide is more hinging on the fact that there will be normal monsoons or better than normal monsoons. At this point of time, you are not gauging any bottoming out of sentiment in terms of tractor purchases?

Neeraj Mehra: See, yes, the primary reason is the positive outlook on the rainfalls. Also, we are not on a low base. If you look at the last four, five-year industry base, 9.75 for last year was a decent enough base. So, we do not see any bottoming out per se as of now.

Gunjan Prithyani: Okay. And there's no channel inventory issue, right? I mean, is there anything to call out that channel inventory is above normal because the festive didn't go as well as the industry anticipated?

Neeraj Mehra: So, the channel issues primarily from EKL's perspective are well in control. Our channels are, from our perspective, probably lower than what the industry levels are.

Gunjan Prithyani: And can you quantify that? Like where would industry be or you be?

Neeraj Mehra: So, I can quantify for myself. Our stock levels or inventory levels are at a level of between 37 to 39 days.

Gunjan Prithyani: Okay. Got it. The second question I have is on the margins. I mean, the quarter-on-quarter contraction that I see in the Agri Machinery segment seems a bit steep, like I do see the volume decline quarter-on-quarter, but still just operating leverage by itself I feel will not probably explain the downtick. So, anything else that's reflected in terms of the EBIT margin in Agri Machinery. And if you can also share thoughts on how we should be thinking about fiscal '25 margins? Are there any levers to keep in mind? There was a price hike, which was announced recently. So some of those moving parts on the margins?

Bharat Madan: So Gunjan, essentially, this was the operating leverage impact only but the volume drop has been significant and also there's some production drop because of which some variances come into play with overhead absorption in this quarter. But going forward, we don't expect any major issue. If you look at the full year margins for tractor business also, which has been closer to 13%, so we expect -- I think the margin should be actually recovering slightly from this level. And we should be able to be in 13% to 14% range, which has been the range we've been guiding now for the full year basis.

Gunjan Prithyani: And what led to the price hike, Bharat? Is there any cost pressure that we're seeing?

Bharat Madan: So there is some inflation which we saw last quarter. So there is also some increase in, obviously, the overhead costs. So the end of the early inflation has been fully passed on to the market. And there's also a reaction which was visible in the market from the competition. So we have been following the competition on that front which is why we also take a minor hike. So it's not a significant increase. So it's a very small nominal increase has been taken from 1st of May, which will likely take care of your overheads increases, which we project for next year.

Gunjan Prithyani: Okay, got it. Thank you so much. I'll join back the queue.

Moderator: The next question is from the line of Mr. Mumuksh Mandlesha from Anand Rathi Shares & Stock Brokers. Please go ahead.

Mumuksh Mandlesha: I just want to check; we are setting about a large plant in Rajasthan. So can you share some plans for this new plant? What would be the investment size, what kind of capacity you are seeing and how we see the ramp-up of the plant? And also, we had guided about INR40 billion of capex for the whole vision plan. So will that number also change because of the larger plant we are thinking about?

Bharat Madan: Yes. So we are actually still in discussion with the state government for acquisition of land. So we are in the process of -- given the expression of interest to them, even though the deal has not been concluded with them, we are still negotiating on the fiscal incentives what the state can offer to us. So only after the land acquisition gets completed, I think we will be getting more formal indication on the project cost because obviously there's been inflation. We've been talking about this for the last now almost a year in shortlisting this thing. So some impact may happen.

So the guidance of about INR40 billion is broader number as of now because obviously, we will build over capacities in phases. So we intend to build our, double our tractor capacity there. We also intend to build our engine plant. We also intend to build gradually construction equipment plant in the same location. So this will happen, I think, over the period of four to five years. So overall, I think project size will be large. But as of now, I think we're still in the very initial phase. So hopefully, in this year, we should be able to complete the land acquisition and some work will start on the construction side in this place.

Mumuksh Mandlesha: Got it, sir. Sir, can you update on the progress of the NBFC setup and just want to understand how is the finance ability in the market? Are you seeing any stress due to some weakness in the demand or the monsoon challenges?

Bharat Madan: Okay. I'll respond to the first part of the question. On the NBFC side, we had made an application to Reserve Bank of India for getting a license. We made this application sometime in March. So we are still in touch with RBI. We got some queries back from them, and we responded to them. And typical time from RBI for giving a license is anywhere within six to eight months. So we hope we are able to get the license within this fiscal year, and we should be able to start our operation. Meanwhile, all the backend activities for readying our backend IT system, everything is getting ready. So that will want to be ready by the time we get the license so that we can start the operation well in time. I think on the second part, maybe I'll ask Neeraj to respond to that.

Neeraj Mehra: So overall, there isn't much of an issue on the retail side. What normally happens is post a peak season, finances normally withdraw the temporary limits in terms of trade advances and all that they offer, working capital limits to the channel partners. And that is the reason there was some tightness post December for a couple of months. Also, the finances were a little bit watchful in the states where the industry was dipping slightly. But overall, the finance issue is pretty comfortable and we don't see any challenge on the retail finance side as we go forward.

Mumuksh Mandlesha: Got it, sir. And lastly, Madan, sir, can you update on the JV financial performance for FY'24, sir?

Bharat Madan: So JV, I think our consolidated results include the portion of our share as a minority interest. So I think, overall, for the full year, and obviously, they were positive. So luckily, the last quarter was good for both the JVs and the full year was not as good, but the last quarter, I think the activity picked up. The margins were good, I think across both the JVs. And actually, if you look at the last quarter alone, our consolidated result will actually see an improvement in the margin if we combine the JVs. But obviously, that won't be the sustainable number in the immediate quarter because that was the peak season when the harvester sale was quite good and very good margin profile there.

So overall, I think like we mentioned, it will be close to roughly about INR2,000 crores of top line, which we get added. And initially, it will be a margin dilutive merger. So we are still in the process and the thing is pending with NCLT. So I think as soon as we get that order, we'll make it effective. So hopefully, we are hoping we get this within this first quarter but let's be keeping our fingers crossed let's see when we get this.

Moderator: The next question is from the line of Raghunandhan N. L. from Nuvama Research.

Raghunandhan N. L.: Congratulations on strong FY '24. So firstly, to Neeraj sir, for FY '25, given a positive outlook for the tractor industry. Within that, how do you see the outlook for various regions? My checks indicate that North, Central and West regions are likely to do better and South is likely to see a decline. Would you agree with this? And would this put Escorts at a favorable position as our strong markets are expected to do better?

Neeraj Mehra: So thank you for the question, Raghu. So you are right in what you have actually shared. Yes, the South and to a certain extent, the Western part of the country, would be under pressure from the industry perspective. Though the industry drop has been substantial last year. So the drop because of the low reservoir levels and also from the rainfall perspective, might not be as steep as was in the last fiscal year. But yes, in comparison, North, Central would be much better off.

Raghunandhan N. L.: And given that these are our strong markets, we should get an advantage here. And also on the new product development in tractors, considering own efforts, Kubota support, what are the focus areas? And can we expect launches in FY '25, any area for any thoughts you can share here?

Neeraj Mehra: First, on the industry part and our strength areas. See yes, North has traditionally been our strong pocket. And -- but over the last couple of years, we have lost market share there. So our focus remains in the North as we go forward in this fiscal year. Also, I had mentioned in the last call as well, that our second focus actually is now West. West is a booming industry. And despite the fact that Maharashtra dropped in terms of industry -- overall, West industry, contributed to about 20% of the total all-India industry.

South has declined substantially and remains at 15%. So yes, you are right, to a certain extent, it's a favorable position for us as we go forward. Coming to the product launches, yes, we have a certain series of product launches lined up during the course of the year. I believe it will not be prudent enough for me to speak early on those launches as of now. But yes, there are certain white spaces in our product line, and these launches will actually help us cover those white spaces.

Raghunandhan N. L.: Got it, sir. Thank you. To Bharat sir. Sir, for FY '25, can you share what would be your capex plan? And how would you see the breakup of this capex?

Bharat Madan: See, next year, our initial plan is to do about INR300 crores of cash flow this year. Now this is obviously excluding the greenfield project, which will come up. So that will be additional. So depending on what stage we end up this year with -- on the project, it's only land acquisition or going beyond that. So that will be over and above this. But for the pure normal capex, it's roughly about INR300 crores. Now most of this will be in three categories.

One is on the product side. Roughly one third will get spent on the product development side. One third of the spend is actually on the building infrastructure in the factories. It's more on the sustainability front, both on renewable energy and rain water harvesting and also on the conversion of our diesel gensets to gas gensets, which is a government directive being in NCR, we're not allowed to use the diesel gensets now. We are gradually converting all the gensets into gas based gensets. So these will be the major categories and there will be some capex, which we make low construction and real business group. So basically, the balance capex, which will happen. So broadly, this is the sort of you know split which will be there.

Raghunandhan N. L.: And in the JV, sir, like the effort is there on increasing gradually the localization part for Kubota tractors, would there be any meaningful capex there?

Bharat Madan: So major capex is only on the work side, even in the JV right now because the localization, which has to happen is essentially for the engine, which is the major part, and that will happen along with the greenfield project. The engine line, which we are setting up right now for our existing product portfolio, which is for Powertrac and Farmtrac will be coming up in this year, which is also part of our capex plan for this year. Some capex will happen this year, but I think the major one will happen the year after on this engine line.

Raghunandhan N. L.: What should be the land acquisition cost, sir, at Rajasthan?

Bharat Madan: Well, like I said, it's still being negotiated, but the ballpark number, what we are getting is close to INR400-odd crores.

Raghunandhan N. L.: Got it, sir. And first, like on the Agri exports, if you can talk about the efforts on network management, integration with Kubota, new product development, homologation status. And do you see that by end of FY '25, you'll be in a position to enter U.S., brazil? Any updates there?

Bharat Madan: Yes. So they are slightly products under development, and we expect by third quarter, the development should get completed, and we are expecting good numbers to come from Kubota now, especially on those products which we are specifically making to them and that should actually help us in driving the export volumes. Likely this year, we'll see more growth maybe probably in the export volume side than on the domestic side.

Raghunandhan N. L.: Got it. So you wouldn't see that the boost in exports will go to next year. You are saying this year itself; we should see the benefits starting to flow through.

Bharat Madan: The reason being the base has gone down. If you look at our last year numbers, so we had reduced -- we've gone down on export by almost 30%, so which is why the base is low. So if you grow by 25%, 30% this year, we'll probably come back to the same level what we were in FY '23. So essentially, to your question, I think, yes, the major growth will actually start coming from FY '26 on export number. FY '25, we'll still see the growth in terms of it does personally look very high. But given that the base which has been corrected now for last year, so we don't think it will be a very significant increase. So maybe FY '26 full year benefit will really start flowing from there.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: What could be the production for the JV capital capacity of 50,000? Would it be operating at 60%, 70% utilization or lower?

Bharat Madan: So in the JV, we are doing 2 activities. One is their own tractors, which they're making for Kubota brand, which last year was, I think, close to 18,000, 20,000 tractors made for these, which is only 40% utilization. Then they're also doing job work for Escorts. They are making the Farmtrac range of tractors in that factory, which essentially is a job work activity. So you say roughly 50%-odd utilization this year. But going forward, that number will continue to grow.

Jinesh Gandhi: Okay. So effectively, for our Indian operation overall, this next couple of years, we have enough capacity, 130 Escorts 50 in the JV, so is there a plan to push back Rajasthan plan I mean if we start to work next year, it will take a couple of years for it to come.

Bharat Madan: No. I think if you look at the capacity wise, it costs was at about 120,000, 150,000 of the JV. So combined capacity is 170,000, so if you look at our existing number, Kubota has sold roughly 18,000 - 20,000 tractors last year and we sold roughly 95,000 this year on the year before, we were at 105,000. So combined numbers will still be today about 130-odd thousands. So there's not much scope. So if you see slight industry growth and maybe some market share movements, so that capacity will not be enough.

So if you were to start planning for capacity increase with, we started doing now because it will take some time. The lead time will be roughly about 3 years for the project to go live. So when they look at how will end up. And if the export numbers also start going up. So that will be another issue, I think, which we need to address.

So we think tractor capacity addition is something which will happen, and that has happened because this will also give us more growth going forward even on the tractor export with most of the tractor export from Kubota will happen on the factory and also to prepare for any potential increase in the industry going forward, which we should be able to address.

Jinesh Gandhi: Sure, So Rajasthan plant is actually coming in FY '27 '28.

Bharat Madan: Yes, that's right.

Jinesh Gandhi: Okay. And secondly, on the engine capex, which is being done. So what's the kind of capex and capacity that we've come up for that?

Bharat Madan: The new greenfield field or the existing one you're saying?

Jinesh Gandhi: Both existing and greenfield. Existing is what the capacity and greenfield is what kind of addition are we doing?

Bharat Madan: So existing plant will take care of the requirement for our total -- both the brands, Powertrac and Farmtrac, also the requirement for our engine business. So it'll be roughly 150,000, 160,000 capacity line, which will come up here. And then the greenfield will be more for Farmtrac and Kubota engines, which will be additional.

Jinesh Gandhi: Okay. That is adding 50,000 or more in terms of engine capacity?

Bharat Madan: No, double because tractors being double, engine will also get doubled.

Jinesh Gandhi: Got it. And that's part of that INR4,500 crores capex, which been talked about Rajasthan.

Bharat Madan: Yes, that's right.

Moderator: Thank you. The next question is from the line of Mitul Shah from DAM Capital. Please go ahead.

Mitul Shah: My question is on the…

Moderator: Sorry to interrupt you sir. I would request you to please use your handset while speaking.

Mitul Shah: Yes. Am I audible?

Bharat Madan: Yes. Now we can hear you, Mitul.

Mitul Shah: My question is on tractor growth and market share, which in earlier comments, we highlighted that the industry probably would be doing better on the North and Central side and we have stronger position, so we may get benefited from that in terms of market share gain. However, considering this FY '24 for itself, industry decline of 7.2% North and Central put together, there is a marginal growth.

On the other end, we declined despite our stronger markets growing or there is a meaningful market share loss in those regions. So for next year, when the South base itself is very low and there is almost -- it is 25% below the peak level, so when we are saying normal monsoons, South should revive more strongly and which is even challenging market for us. So market share maintaining itself would be a challenge. So what is our strategy to maintain that or increase.

Neeraj Mehra: So thank you for the question, Mitul. So I'll put some figures in perspective, okay? So first of all, in terms of North and West, if you combine together, there has been a marginal growth in the market share. Overall, if you look at Zone wise, our highest growth in financial year '24 has been in the western part of the country. In North, if you go back a couple of years, we have been consistently dropping. And this is the year we have to a very large extent, curtailed that drop. The drop is actually very miniscule, which has been consistently going on for the last 3 to 4 years.

So from our perspective, we look at both these things from a very positive perspective. Coming to the south part, South industry at this point of time is only 15% of the total all-India industry. The 4 big states combined together. So for example, if you take Tamil Nadu, Telangana and AP, industry put together is less than the industry of Gujarat for financial year '24.

So our -- even if the industry grows in South, the industry overall volumes will not be very, very substantial. So as I had mentioned in my earlier call as well, and I reiterate that point, our focus will be in the northern part of the country. Where this year onwards intend to gain, we have done a lot of corrections. The corrections are almost complete. So we see a clear-cut path for growth as we go forward in North, plus, as we have gained in the western part of the country, our strategy is very clear on what we need to do both in Maharashtra and Gujarat. So the focus will be in 2 zones, the northern part of the country and the western part of the country.

Mitul Shah: Sir, then on the market sales side, even in case of Kubota also, market share from 3% is consistently now below 2% or around 2% since last almost 12 months. So any specific reason?

Neeraj Mehra: So Kubota primarily the volumes, the majority of their volumes are primarily from 2 states. The Southern part of the country, that is Karnataka and Maharashtra. And you already know that the drop in the southern part and Maharashtra has been substantial. So one of the reasons -- one of the key reasons of Kubota getting hit in terms of market share is primarily because of the steep drop in the industry. Yes, if the industry in Maharashtra and South grows, one of the key beneficiaries going forward will be Kubota.

Moderator: Thank you. The next question is from the line of Abhishek Jain. Please go ahead.

Abhishek Jain: Sir, if you can give some colors on the revenue of Escorts Kubota India Private Limited and Kubota Agriculture Machinery Private. Limited. in FY '24?

Prateek Singhal: Sorry, Abhishek, can you repeat your question? We lost in between?

Abhishek Jain: Are you able to hear me?

Prateek Singhal: Yes, we can hear you now. Can you repeat your questions?

Abhishek Jain: So sir, can you give some color on the revenue of Escorts Kubota India Private Limited and Kubota Agriculture Machinery Private. Limited. in FY '24?

Bharat Madan: The revenue?

Abhishek Jain: Yes.

Bharat Madan: Yes. I mentioned, I think 1 of the earlier questions. So it's roughly around INR2,000 crores between these two JVs which obviously post-margin will get it added to our top line.

Abhishek Jain: And how is the margin structure of this -- as you said that there is improvement on margin on quarter-on-quarter basis, but it is down on an annual basis. So what is the current margin and what is your target for the next 2 years in this margin expansion?

Bharat Madan: See the combined impact of the margin for both the JVs was more or less breakeven. Even though the last quarter like you mentioned has been good for them. So if you look at our consolidated numbers we're showing increase in the PBT because of this minority interest which, is I think about INR15-odd crores. So the last quarter both the JVs put together did almost INR40 crores, INR45 crores of PBT which is quite good in this particular quarter.

So going forward we expect the margin will improve. That is what the purpose of the merger is also when the integration starts happening, the cost rationalization will happen. There's a lot of overlap which exist today when the separate entities are being operated. So those will be getting addressed gradually.

And then the major lever like we mentioned was on the localization of component which today are getting imported in both these JVs. So once the localization starts happening then you will see the major benefits start coming. So end objective is we should be able to clearly bring down -- bring the margins for these JVs up to the same level where we exist today in Escorts on a standalone basis. So that's our purpose, that's our objective for the next 3 years to 4 years. So that's why I think in the midterm business plan which we indicated on a combined entity basis we are looking at maintaining the similar margin profile but exist today in Escorts Kubota.

Abhishek Jain: And major localization would be for the engine parts localization to Greenfield projects?

Bharat Madan: It's not just engine even the products which are getting imported today and they are getting sold in India and he has to also localize those products. So I think those are compared tractors which we are today importing from Japan or Thailand they will get localized gradually. So right now they have a well limited number of models we are making in the manufacturing JV. The other things we are still importing. So once that localization happens so that will also improve the margin profile for these JVs.

Abhishek Jain: Okay sir. Thanks sir. That's all from my side.

Moderator: Thank you. The next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Thanks for the opportunity. I have a question regarding the Pick & Carry segment. So the Pick & Carry crane volume in the industry and for us have grown significantly. So just wanted to have your outlook for it going forward? And if you could highlight the market share that we have in the segment and how are you planning to improve those market share?

Sanjeev Bajaj: Yes. Thank you, Karan. This is Sanjeev Bajaj. So this industry, of course, has done well over a small base of previous years. So -- so this year we've seen this industry particularly growing at about 53%. And we do about 40% market share in this segment. And most of the volumes for us comes from the high-end segment of the Pick & Carry crane which are we believe is the future of these cranes and generally go for captive usage and generally are deployed in the larger projects. And of course these are better margin products also.

So we believe that going forward in the next few months there might be a little bit of pressure on the industry because of the elections and a slight slowdown might be visible and also due to the monsoons. But after the monsoons, I think the demand will pick up. And so this year the growth may not look very, very attractive because the base already is very high last year.

But nevertheless, it will still be -- there will be high demand as far as the end user is concerned because of the large number of projects which are announced and the capex investment of government is again 10% higher than last year. So we believe that the demand will continue, maybe a little delayed because of this short-term election impact.

What we are doing to grow the business is we are playing very well in the segment which is the future high-end segment of the Pick & Carry crane. We -- our customer loyalty is quite high in that segment and we also are doing a lot of micro marketing in the various segments, project wise as well as industry wide to grow our market share for that. So we have been able to sustain close to 40% market share plus minus few decimal places, but going forward we have plans to improve it and as the industry moves favorable towards the high-end crane it will help us to grow market share also.

Karan Sanwal: That was very helpful. And the other question would be if you could highlight the major reasons for the degrowth in the agri equipment industry?

Neeraj Mehra: So the question was degrowth in the agri equipment industry?

Karan Sanwal: Yes. Industry as a whole.

Neeraj Mehra: Okay. So -- The -- I think the same has been actually well articulated in the opening comments. I'll reiterate that. So the primary reason was erratic and deficient rainfalls in the majority of the states. Also because of the low rainfalls the reservoir levels were pretty less. So Rabi crop is primarily dependent on the reservoir crops and kharif on the rainfall. So that is one key reason. Apart from that, one main reason was that the commercial activity, the commercial haulage segment and the mining segment were also the Brick kiln industry were also pretty slow. So these were the two primary reasons for -- due to which the agri segment was a bit down.

Karan Sanwal: Understood. And one last question just we have done a few channel sanctions we have come to know that we have seen any decrease in our distributor number of distributors, if you could confirm or is it the peak?

Bharat Madan: No. So the number of distributors or the dealers what we call them has not reduced.

Moderator: The next question is from the line of Sonal Gupta from HSBC Asset Management India. Please go ahead.

Sonal Gupta: Good evening. Thanks for taking my question. Just one question from my side. Essentially, on the railway equipment like we've been saying we have a strong order book. We started the year very strongly, but then last two quarters we've been showing a year-on-year decline despite a good order book. So could you just highlight what exactly is happening there?

Ankur Dev: So in railway industry actually based on tenders and the supply schedules are defined by railway based on the stock availability, the production plans which they have. So obviously the order execution is as per the purchase order conditions and the schedule is mentioned there. So obviously there will be some variation quarter-on-quarter. But if we see on a full year basis, we have achieved a double-digit growth. So we are sure that this kind of variation could be there quarter-on-quarter. But obviously we anticipate that we will continue this growth momentum and we will continue to grow with double digit.

Sonal Gupta: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Thank you for the opportunity. Just one question. When we talked about the midterm plan, I think about 1.5 years, 2 years back one of the biggest levers is going to be supply of parts to

Kubota Global and that was supposed to be a very big opportunity. Can you give an update on where we stand there and how we plan to ramp up over the next 3 years, 4 years?

Bharat Madan: So the export will start this year. So we have already put the team into place, and they are working with the suppliers on this. So the agreement also getting signed with Kubota now on this particular aspect. So there are two parts. One is the JV is already exporting -- both the JVs are exporting right now to Kubota group companies. So obviously post-merger, those exports will also come into the EKL books. And lastly, the direct export from EKL will also start from this year. So the activity will start. Obviously, it will get ramped up gradually as the vendor development happens and those ports developed in India.

Moderator: The next question is from the line of Gunjan from Bank of America.

Gunjan Prithyani: I just had a quick one on the farm implement business. What's the revenue on that in fiscal '24. And we were also talking about a lot of work in terms of market development and relooking at our product portfolio. So if you can sort of share some thoughts on the business development on farm implement side?

Bharat Madan: So Gunjan, obviously, this year, we have seen growth in the implement business within EKL too, even though it's a very small part of the portfolio right now, because we only deal essentially in cultivators, rotovators. So the major part will come from the JVs because they have larger range, but they're dealing in harvesters and transplanters, whether value-wise, it's a much bigger chunk.

So I think on the combined business side, we'll still be, I think, maybe INR300 crores to INR400 crores sort of range, even though if you look at stand-alone implement business for us this year, so you've done much better than last year even on the cultivator front. And I think that's one other growth lever for us, which will continue along the tractor business.

Gunjan Prithyani: Okay. And what is the overall market size? I mean is there this shift that you're seeing happening more towards because every tractor company, I mean, including your peers are talking about building this business, taking it from unorganized to organized, looking at affordable launches. Is there a change that you are noticing, acceptance you're seeing on the farm implement side more broader three, four year view, I'm trying to understand on this part of the business?

Bharat Madan: Well, we're not at the market data right now with me. Maybe we can share that separately with the other business that looks after this implement business. But like I mentioned, the focus is obviously on integrating the channel because if you look at most of these implement manufactures who are non-tractor OEM manufacturers, they got their own distribution setup, which is quite strong. So the tractors OEM don't have much patience into this business, even though our penetration right now, I think, is still about 5%, 6% only in the implement space looking at our tractor population and what we sell in India.

So that is still to grow. So still the major share remains with the non-tractor OEMs. But I think everyone is trying to increase that pie and especially with the changes happening and the emission norms. So most of the self-propelled machines are seeing transition to the OEM space now because the engines are getting expensive and for non-tractor OEMs, it's become difficult to continue to sustain that sort of business.

So we hope -- I think going forward, this will become a sizable business for us, and we will also be trying to expand the portfolio there, like I said, going to the players, which is another big category and it's going to bail us, etcetera. So expanding the category beyond what we are doing today. So overall, I think there will be a lot of focus within Kubota Group also. They got a separate vertical for the implement space. It's a sizable business for them. So we expect the similar story should get repeated in India too.

Moderator: The next question is from the line of Abhishek Jain from Alfaccurate Advisors Private Limited. Please go ahead.

Abhishek Jain: Sir how you are looking synergy benefit to the channel of Kubota plus Escorts both. Have you started to sale a product of Kubota to from the Escorts channel?

Neeraj Mehra: So we have not started that yet, but we are exploring that possibility and the synergies between the channel as well as the products. So yes, that is in the pipeline. But to answer to your question directly, no, we have not yet started that.

Abhishek Jain: And how much benefit you are looking in FY '25 because right now that Kubota total market share is just 2.5% or 3%. So can we see a significant volume jump on that this synergy benefit because that -- as you already said that Kubota project is only in the two states majorly. So once this will be -- this product will be sold through the many Escorts changes, can you see that volume jump would be around 35,000 to 40,000 in the coming year?

Neeraj Mehra: See, Abhishek, I'll correct you a little bit. I did not say that they sell only in two states. I said that majority of their volumes are in two states. So their market share could be 2.5% on an India basis. But in the states where they are present, the market share is higher. And in a couple of states, their market share is even higher than our two brands, Powertrac and Farmtrac. So yes, when I said that there will be synergies and answering to an earlier question as well on how do we grow in South?

So Kubota is one lever through which we can take advantage and grow in South. And similarly, Kubota, we are stronger in the northern part of the country. So similarly, Kubota brand can take that advantage in the northern part of the country. So geographical advantage in all the three brands will get accumulated as we go forward.

Abhishek Jain: So what kind of the market share are you targeting combinedly in the next two years because of this synergy benefit.

Neeraj Mehra: So it's very difficult to comment at this point of time. Once this synergy starts happening, and we get some results over the next couple of quarters, it will be better to quantify at that point of time.

Abhishek Jain: Okay, sir. And my last question on this component and -- Railway and Construction Equipment business, what -- will the margin be sustainable?

Ankur Dev: Yes, So from a railway perspective, I would like to mention that EBIT margin, what we have achieved in financial year '24, we see that in the coming period, it will be within the range of 100 basis points, plus/minus, considering as we will be launching new products. So there could be some impact of that, but it will be in the range of 100 basis points, plus/minus, so what we have seen in financial year '24.

Abhishek Jain: And this construction equipment business.

Sanjeev Bajaj: Yes. On construction equipment, also, we see this 9.3% EBIT is sustainable, and we should be able to do similar numbers for the coming years.

Abhishek Jain: And one more question that what kind of the revenue you can assuming from the component business? Have you talked about INR300 crores kind of the revenue -- incremental revenue will come through export. For next two years, what kind of the numbers we can take?

Bharat Madan: We had indicated in our midterm basis plan, the potential with this business has. Obviously, the major portion will depend on how much and how quickly the localization of the product happens in India. because essentially, if you localize their products in India, only those components will get exported from India, will also be a good margin profile. So the potential is huge because we also looking at a China plus one strategy in China, they are doing sourcing of close to USD1 billion currently for the production requirement in Japan and they intend to shift the significant part to India, I think as we're going along.

So the growth will be obviously significant. So I can't really tell you year-by-year, how much will happen, but it's more internal to us. but we already indicated the potential, which is there in the midterm business plan. So we'll suggest you'll be guided with that.

Moderator: The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, I had two questions. Firstly, earlier in the call, you spoke about expectation of export or tractor export volume recovery. So is it dependent on the demand in those markets? Or we will be replacing some of the supply source for Kubota and hence, it's fairly safe to assume that we can see strong volume recovery in '25.

Bharat Madan: Yes. So I think is essentially the second part. So we'll be replacing some of the product, which will be sourced from India. They are facing competition from India, China and Korea in certain pockets, and they need products which are approval and cost effective and can compete with those product portfolios. So this is something which is what we are trying to do. And that's why for them Indian market is very important and does the sourcing for meeting the global requirement.

On the recovery front, I think it's too early to say. Right now, the markets still continue to be under recession, both in U.S. as well as in Europe. So we can't really say that will be the major driver, but I think it will be the product which are introducing to supplement their portfolio right now to meet that competition, I think, which is what is going to drive the volume growth for us.

Ashish Jain: Right, right. Sir, secondly, on the farm equipment business, can you just clarify, sir, today, whatever -- whether Kubota or Escorts is doing is all in the nature of trading or we are also manufacturing either of these products in India?

Bharat Madan: So right now, it's all trading. Even though we're exporting some of the component for harvesters from India through the JV. And basally we'll localize those components, and we'll also continue to export them. But I think on a full product basis, we are mostly trading in this activity or doing a contract manufacturing with the third party.

Ashish Jain: And that's true even for the JV farm equipment revenues, right?

Bharat Madan: Yes.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to the management for closing comments.

Prateek Singhal Thank you, ladies and gentlemen, for being present on this call. For any feedback or queries, feel free to write us to a investor.relations@escortskubota.com. Thank you very much and have a good evening.

Moderator: On behalf of Anand Rathi Share and Stock Brokers, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.