Escorts Kubota Limited

November 9, 2023

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 November 3, 2023, for discussing the earning performance of the quarter and half year ended September 30, 2023, and the same has been uploaded on the Company's website at the below link:

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

Kindly take the same on record.

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

SATYENDRA CHAUHAN
Digitally signed by SATYENDRA CHAUHAN
Date: 2023.11.09 18:41:43 +05'30'

Satyendra Chauhan
Company Secretary

Encl.: As above

"Escorts Kubota Limited Q2 FY24 Earnings Conference Call"

November 03, 2023

MANAGEMENT:	**MR. BHARAT MADAN – WHOLE-TIME DIRECTOR & CHIEF FINANCIAL OFFICER, ESCORTS KUBOTA LIMITED** **MR. NEERAJ MEHRA – HEAD, FARMTRAC & POWERTRAC SALES, ESCORTS KUBOTA LIMITED** **MR. SANJEEV BAJAJ – CHIEF OFFICER, EXECUTIVE CONSTRUCTION AND EQUIPMENT BUSINESS, ESCORTS KUBOTA LIMITED** **MR. ANKUR DEV – CHIEF OFFICER, RAILWAY EQUIPMENT BUSINESS, ESCORTS KUBOTA LIMITED** **MR. SANJEEV GARG - HEAD, FINANCE & TAX INVESTOR RELATIONS TEAM, ESCORTS KUBOTA LIMITED**
MODERATOR:	**MR. MITUL SHAH – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Escorts Kubota Limited Q2 FY24 Earnings Conference Call hosted by DAM Capital Advisor 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 '*' then '0' on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Mitul Shah from DAM Capital. Thank you and over to you, sir.

Mitul Shah: Thank you, Akshay. Good evening and on behalf of DAM Capital Advisors Limited, I welcome you all to Escorts Kubota Limited Q2 FY24 Results Earning 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 - Head Farmtrac and Powertrac Sales; Mr. Sanjeev Bajaj - Chief Officer, Executive Construction Equipment Business; Mr. Ankur Dev - Chief Officer, Railway Equipment Business; Mr. Sanjeev Garg - Head, Finance and Tax and Investor Relations team.

We would start the call with brief opening remarks from management followed by an interactive Q&A. Before we start, I would like to add that some of the statements that the Company makes in today's call will be forward-looking in nature and are subject to risk as outlined in annual reports and investor release of the Company.

At this point, I would request management to make his opening remarks. Over to you, sir.

Sanjeev Garg: Thank you, Mitul. Good evening, everyone and thank you all for joining us today.

A few highlights of Company's standalone performance for 2nd Quarter ended September 2023 are as follows:

Operating revenue at Rs. 2,046 crores, up 8.64% year-on-year. Tractor volumes at 22,024 units, down 7.1% year-on-year. Highest ever quarterly Construction Equipment volume at 1,577 units, up 72% year-on-year and the Railway equipment revenue at highest ever in Quarter 2 of Rs. 234 crores, up 28.8% year-on-year. EBITDA for the quarter ended September 23 up by 72.5% came at Rs. 263 crores as against Rs. 152.7 crores year-on-year. EBITDA margins at Quarter 2 stands at 12.9%, up by 476 basis points year-on-year. This is mainly led by operating leverage in construction and Railway business, improved realizations, better product mix and softening in the commodity prices.

Net profit, which is profit after tax, more than doubled to Rs. 235 crores as against Rs. 87.7 crores year-on-year. This is after adjusting the exceptional loss of Rs. 54.5 crores same period last quarter. Company continues to be net debt free with sufficient available liquidity for growth and capacity expansion.

Now, moving on to the few financial highlights for half year ended September 2023:

Operating revenue at Rs. 4,373.9 crores, up 12.2% year-on-year. Tractor volume at 48,606 units, down 3.8% year-on-year. Highest ever Construction Equipment volume at 2,950 units, up 56.7% year-on-year and highest ever Railway revenue at Rs. 532 crores, up 49.7%. Highest ever EBITDA at Rs. 590 crores up 66.6% and the margins are at 13.5%, up by 441 basis points year-on-year. Highest ever net profit at Rs. 518 crores, up 120% and margins at 11.8%, up 581 basis points and this is our highest ever half yearly financial performance so far in H1**.**

Now moving on to the segmental business performance:

Starting with the Agri business first:

The domestic tractor industry for the quarter ended September 23 was at 2.09 lakh tractors as compared to 2.2 lakh tractors in the corresponding quarter, down by 5.8%. This is due to the delayed festive season this year. Our domestic tractor volume is 20,473 tractors as against 21,396 tractors in the previous year, down by 4.3% as compared to the industry's drop of 5.8%. This has resulted in a marginal gain in our market share to 9.81% in Quarter 2 FY24 as against 9.66% in corresponding quarter. We will continue our channel expansion program to cover the white spaces for both PT and FT brands, primarily in our opportunity markets. Our total dealer counts in India at the end of September 23 quarter stood at 1230 plus.

On the Export side:

In Quarter 2 FY24, the industry was down 26.7% to 25.9K tractors as compared to 35.2K tractors in the corresponding quarter. Our export volume went down by 32.8% to 1,551 tractors as compared to 2,307 tractors in the corresponding quarter. Sales through Kubota's global network during the quarter ended September 23 contributed approx. 31% of our total export volume. Segment revenue came at Rs. 1,394.2 crores as compared to Rs. 1,454.9 crores in the corresponding quarter. EBIT margin for Agri machinery business was up by 381 basis points to 12.2% as compared to 8.4% in the corresponding quarter last year, led by improved price realizations and continued softening of the commodity prices. Going forward, all macroeconomic factors remain positive, and we expect the rise in demand momentum to continue for the remaining part of this fiscal year and the industry is likely to be plus minus 2% compared to last year.

Coming to the Construction Equipment business:

Our served industry, Backhoe loader and Pick & Carry crane and Compactors were up by 37.4% in Quarter 2, led by growth in Crane business by 73%, Compactor industry by 63% and Backhoe loader industry by 28%. Our total volumes of manufactured and traded products were up by 72% to highest ever quarter to volume of 1,577 machines as against 917 machines in the last year same quarter. Segment revenue came at Rs. 415.8 crores, our highest ever quarterly revenue and went up 71.9% as against Rs. 241.9 crores in corresponding quarter previous fiscal.

EBIT margins for the quarter ended September 23 went up to 10.2% as against -2.6% in the corresponding quarter led by operating leverage, better realization and improved product mix. Growth momentum continues across all product segments led by government thrust on faster execution of ongoing projects coupled with increase in bank credits in the sector and positive macroeconomic environment. Going forward, we expect current growth momentum to continue for the remaining part of the current fiscal.

Now coming to the Railway division:

Revenue for the 2nd Quarter went up by 28.8% to ever highest 2nd Quarterly revenue of Rs. 234.3 cross as against Rs. 182 crores in the corresponding. EBIT margin for the quarter ended September 23 went up by 383 basis points at 18.5% as against 14.5% in the corresponding period last year. Continuing our focus on expansion and diversification of the Railway product line, we successfully completed field trials for EMCBS, electric microprocessor-controlled brake systems and qualified as a development source in the last quarter. Order book for the division at the end of September 23 is approx. Rs. 870 crores.

Now, I request the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani**:** I had two questions, firstly, on the tractor industry demand outlook, if you can share some color on what we have seen in the Navaratra festive season and I think bulk of the festive from a tractor perspective should have been behind by now, right? So, what have we seen on the ground and any change in the way in the growth guidance that we were calling out for FY24, just some color on the industry outlook?

Neeraj Mehra: Gunjan, this is Neeraj this side. So, answering the first part of your question regarding how the Navaratra were, so the retails grow pretty good during the Navratra. Only at the fag end of the Navaratra, the retails dipped a little bit, so overall we were satisfied with our plans and overall retails that had happened. Coming to the second part of your question, no, the overall festive season is not yet over. The Big Bang festive season, Dhanteras and Diwali are still to come in and we are looking to some very aggressive numbers in those 2 and 3 days. The third part of your question as regards to the guidance for the quarter and for the year, so we believe quarter 3 would be slightly on the positive side, though October has been a bit negative, but I believe November would be positive raising on Dhanteras and Diwali sales and Quarter 4 to a certain extent should be more or less on a single digit marginal growth. Overall, for the year, as Sanjeev has already mentioned in his opening comments, we are looking at plus minus 2% for the current fiscal.

Gunjan Prithyani**:** Sir, just two follow ups there because the Navaratra is usually pretty bunched up demand buying period, so if you can share some numbers around what is the growth that we have seen versus last year? And Q4, are we still expecting our growth because I thought there is a shift in seasonality, shift in the three Navratras that fell together, there is a base effect which is there in Quarter 4, so do you still think that Quarter 4 can be a growth quarter?

Neeraj Mehra: So, again, coming to the first part of your question, retail was more or less similar to what they were last year, for us marginally a bit higher. As I have mentioned earlier, Navratra is not the end of the season, the Dhanteras and Diwali are pretty big, actually very big. So, we are banking on them, and it is not for this particular year, it has always been a similar kind of a thing. Yes, the overall growth has not been there because this particular period was on a very high base as compared to last year vis-a-vis Quarter 4, Quarter 4 is a high base, but not as high base as this festive season or Quarter 2, I should say. So, we are optimistic that Quarter 4 should be a very marginal growth of single digit growth.

Gunjan Prithyani**:** My second question is on the exports, now of course the aspiration on exports is pretty high in terms of we leveraging on Kubota network and otherwise also we have been talking quite optimistically on exports, but when I look at the numbers right now, they are about 30%-35% down, so if you can give us some color on what is dragging the exports down and how should we see this ramping up over the next 12-18 months? Any change in terms of numbers that we should be keeping in mind for next year because it has just fallen off a lot?

Bharat Madan: Yes, Gunjan, this is Bharat Madan. So, on the export front this year, as you know, I think the markets in Europe, which is the major market for us for export has been under recessionary conditions, so we are not seeing the major trigger happening on the demand side over there. So, that is one of the reasons why we are seeing a slight dip which has happened in this volume. Second, there are also some issues on the product side, we had to the relay out of our production, other manufacturing factories, which also led to some dip in those numbers in the beginning of this year, so which delayed some of the number. So, this year looks like I think even compared to last year only the export will see a dip. This is an industry wise phenomenon, not just to Escorts, but I think over the industry for export is down about 26%-27% even though we are slightly down more because of these numbers which are going, Kubota has slightly fallen off this time, but on a full year basis, we expect I think slightly lower than maybe about 10% to 15% lower number this year compared to last year and for next year, we are looking at going up to maybe somewhere around 20% to 30% growth over the current year base. So, some of the development of product side is slightly delayed and we expect from maybe 25-26 will be where we will see a major growth momentum will pick up in the Company, but for next year still they will be better than current year which is looking like, but it may not be the kind of number which we are hoping will happen in initial planning.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Quick question on the demand output which you have shared plus minus 2% growth and then when we look at that number vis-à-vis first half decline, it implies almost 8%-8.5% growth for the second-half, so this 2% more of an indicative number, not necessarily that might actually play out, is that the way we are looking at it because our commentary for 3Q and 4Q doesn't match with this 2% growth number?

Neeraj Mehra: So, see, the current decline in Q2 in terms of industry does not actually present a complete and a comprehensive picture. Yes, there have been couple of factors that have resulted in the slight decline in the industry in Q2, one is the erratic rainfall that has happened and in lot of areas in the country, it has been deficient. The second part is we are working on a higher base compared to last year and the third part is that the festival season has actually moved on to quarter 3. It has staggered over 3 months. So, for example, September only had Vishwakarma Pooja, October only had Navratra and Dussehra and November will have Dhanteras and Diwali. November, we are very sure and very buoyant that November will be a decent growth industry and assuming December to be at a par industry, we are looking at about 2% growth in quarter 3. Now coming to Quarter 4, Quarter 4 is not a very high base compared to the previous year. That is one part. The second part is Quarter 4 to a certain extent would be the last quarter of this fiscal before we get into the next year and the next year is the major year for election time. So, we have a feeling that there might be some shops or this thing from the government side, which might help a bit of growth in the Quarter 4 industry. So, the base is not as high as Quarter 4 and secondly, there might be a certain stock building in March due to the Navratra falling in the early fortnight or the first fortnight of April, so that might take the industry slightly on a higher side.

Jinesh Gandhi: What are the trends that you are seeing for the commercial users or nonfarm usage of tractors? Are we seeing the pickup as expected or that is also lagging?

Neeraj Mehra: No, commercial usage is pretty decent that the government's focus or the major focus on the infra and construction activity, yes, the focus is there, currently more or less 35% of the overall sales, 30 to 35, it is just a ballpark figure is from commercial segment. So, the sales here are pretty decent.

Jinesh Gandhi: So, almost 30%-35%, any sense how this was last year, this 30%-35% number?

Neeraj Mehra: Should be more or less similar because governments focused in the last 12 to 18 months has remained on infrastructure and that has helped the overall growth of the industry as well as the commercial sector as well.

Jinesh Gandhi: And we haven't taken any price like in 2Q except for the June price hike right, is that correct in tractors?

Neeraj Mehra: No, we had taken a price hike in Quarter 2 as well.

Jinesh Gandhi: What was the quantum and when was it taken?

Bharat Madan: The cumulative price increase is roughly about 1.7% because we have taken one price increase in Q1 and second, we have taken in the middle of September.

Jinesh Gandhi: Both put together is 1.7%?

Bharat Madan: So, the full impact of that will come in the coming quarter. So, it is not fully visible in Q2.

Moderator: Thank you. The next question is from the line of Raghunandhan from Nuvama Institutional Equities. Please go ahead.

Raghunandan: Sir, firstly on the tractor side, on the demand triggers ahead as you indicated that the government support may play out in the coming month and also the non-tractor, non-agri sales are also quite healthy, how do you see the demand condition Q3-Q4 and the standard positive growth for FY25 through early days, do you expect tractor industry to see growth of days 6%-7%, which would be the industry mean growth?

Neeraj Mehra: So, I have already commented on Q3 and Q4 and I think it is a bit premature to comment as of now on financial year 25. We will wait and watch how the next 2-3 months pan out and probably during the next call we can give you a better perspective for financial year 25.

Raghunandhan: On the Railway side, last quarter we had shared an expectation of 16% to 17% full year margin, but given the performance in the first half, would you see a better number for the full year and what is supporting this margin upgrade?

Ankur Dev: This side, Ankur Dev here. So, basically this good margin comes from 2-3 factors. One is that we are having a better product mix. As we mentioned in the last call, we are having good revenue from spare parts sales also and obviously we saw some softening of the commodities in the quarter 1. So, all this is resulting into these kinds of margins.

Raghunandhan: And to Bharat sir, sir on the Company's vision, can you highlight status of certain key items? A, amalgamation of Kubota Agri when is the approval expected, B, in terms of entering into new export market, what is the status or when do we enter markets like US and Brazil and C, on export of component to meet the Kubota's global requirements, any progress there?

Bharat Madan: So, I will just respond to the first question. I think it shows about your amalgamation that you would agree. So, we haven't got the order from NCLT asking us to go ahead with convening the meeting of shareholders and creditors for both the companies. So, on the 2nd of December, the meetings are scheduled to be held. So, after these meetings, we get the approval, then there is the second version, which will be filed with NCLT, which will happen by middle of December and after that you can say, roughly, in Q4, we expect the order from NCLT should come in for approving the merger. So, hopefully before the end of this fiscal year, we should have this merger completed.

Raghunandhan: On entering into new export markets, US?

Bharat Madan: From the US market, as I mentioned in the beginning, so there is some delay on the product side because the kind of product side they are looking at, we need to develop those products right now. There are some changes which have been done by the R&D team, but we had a visit from the US team recently this month only and they have a lot of expectation likely from India, which was a very positive sign and they are looking at India being a big sourcing base for them too to be able to compete in that market with a lot of **Koreans** demand which is coming up in US market and they are competing with those established players, so they need support from India, especially from Escort side, vendors are providing those products to them. So, they have shown good interest and for us also in our mid-term business plan, the US was one of the bigger markets where we expect the exports will start picking up. So, I think like you mentioned, may not be next year, so next year we won't expect US will be able to open, the product development will take some time, but at FY26 is the time and we think the export to US will also start and that will be a big driver for us in terms of the volume.

Raghunandan: And component exports, any progress on product development validation?

Bharat Madan: Yes, so the work there has only started. So, we expect adding some movement will happen within this fiscal in Q4. I think the thing will start, but the team is already in place, and they are working on the suppliers and Kubota team in terms of the requirements, so hopefully we will see the numbers will start coming in from next year itself?

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

Abhishek: Sir, you are looking for the merger Kubota Agriculture Machinery India Private Limited, which is a low margin business, so how do you see that turnaround in the margin and how much the current localization in that business?

Bharat Madan: See, there are two JVs which we are looking at merging into this Company. So, one is the manufacturing JV, which is EKI, Escorts Kubota India Private Limited and second is the sales Company, which is Kubota Agriculture India Private Limited, so both of these will get merged into Escorts, but the idea was to have a single entity structure in India which will do all the business for both the JV partners for the local promoters as well as for Kubota. So, that is one of the key drivers. I think the localization, right now the sales JV is importing some of the tractors and farm equipment which we are not manufacturing like growing harvesters, transplanters and some of the other smaller tractors. And in the manufacturing JV, also the major thing which is still being imported is the engine, which we are getting from Kubota, which is the plan to localize now. So, once we go with the Greenfield facility where the Kubota engine will be one of the initial things which we intend to localize, but that will be a major cost reduction item in the overall margin front for those JV. So, initially when you merge this Company, obviously since they are still more or less breakeven or minimal negative operation, but I think gradually the idea is to optimize on the cost structure and then look at the ways where we can improve the margin and bring them to the same level as where the Escorts stand. So, that really will happen with the plan which we shared in the mid-term business plan. I think when the merger gets completed, then the synergies on integration will start coming in.

Abhishek: And sir, in previous con-calls, we were talking about some contact manufacturing business, some Kubota global, so when can we expect this sort of business for as per Kubota?

Bharat Madan: For finished products?

Abhishek: Yes?

Bharat Madan: So, like you mentioned, it is not going to be a contract manufacturing, but it will be sourcing arrangement which they will source the Indian products from Escorts Kubota and like you mentioned it will be going to the US market, European market, African market and also to some of the countries in Asia where Kubota needs those products, so we are always exporting the Kubota. If you look at our export numbers, even now it is roughly 30% exports are happening to Kubota network only and that number will only continue to grow in future as we develop our product as we mentioned earlier and we start our open export in the US market, which will happen from FY26, so numbers will keep continuing to go up.

Abhishek: So, any business, can we expect post FY26 only or can it be possible for FY25 as well?

Bharat Madan: So, like I mentioned Europe, we are already exporting. So, even now this year also, we exported roughly 30% sale has happened to Europe, which is through Kubota network only and that will continue to happen even next year. So, the US will be new market for us because we exited that market way back in 2008 and after that we had not entered that market. So, now we intend to enter that market through Kubota only, which will happen in FY26 from the product requirement which they have is ready at our end.

Abhishek: And my last question on the inventory side, how much is the current inventory at the dealer level and what is the industry level in inventory on tractor segment?

Neeraj Mehra: Currently, at the dealer level, we are at about 4.5 to 5 weeks, which is going to come down in November end. At this point of time, it is for me to comment on the industry figures, it is a bit difficult, but I believe our stock levels with the dealers are at a pretty decent level and these we intend to win them further by the end of this month once the season tapers down.

Abhishek: Sir, the inventory is at a higher level, can we see some sort of the discounting pressure in the coming days?

Nehra Mehra: See discounting because of high inventory is not a regular phenomenon. Higher discounts normally happen during the peak season time. So, once the season gets over, the discounting levels also are brought to normal regular levels. So, I don't see this as a one-off scenario wherein additional discounts are to be given to reduce the inventories. It is a peak season phenomenon for everyone for almost all the industries and the discounts are brought to regular levels once the season tapers down.

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

Chirag Jain: Sir, just wanted to check on the broader thought process for setting up the capital financing on all these years we have been operating with independent financier, so how this would help us in terms of financing our market share gain in the domestic market probably if you can share some idea around that?

Bharat Madan: So, this is one of the issues which has been raised, so I think pointed again that all most of the manufacturers, OEMs in India have their own captive finance arm and we were the only one who are not having that arm. And if you recall, we had this tie-up with DLL earlier, DLL India, which was earlier working as an exclusive captive finance provider for our Company, and it worked for about 4-5 years and during that period we actually had our peak market share which went up by almost 2% when those financing solutions were available. So, idea is to obviously help in the overall market growth. So, there are certain areas where the current financing options are not available, if we don't get from the other financiers and second the turnaround time is not really what we require it to be, so that puts some pressure on the working capital and as a result we feel we are losing some of the customer base which we should not be doing. So, this captive finance arm will definitely be going to help us in reducing the turnaround time and also in terms of helping us in our expiration of market share growth going forward. So, right now, I think the board has already approved the setting up of the Company and then we will go to RBI and apply for the NBFC license in the process of servicing that Company. So, hopefully by end of this quarter, we will be ready with the Company and next quarter in Q4, we should be making application to RBI before getting this license.

Chirag Jain: And would this be restricted only to our tractors or apart from our tractors, it can say finance, other product segment as well because most of the other captive financing arm, when they started as a pure captive arm, but over the years?

Bharat Madan: No, so this is meant only for captive financing. So, this will be for tractors, farm equipment as well as Construction Equipment, so basically the product category in which Company is operating and will be doing only our brands, no outside brand.

Chirag Jain: Second thing in terms of the overall competitive scenario, could you throw some light, what we understand that let us say, Mahindra or Swaraj who are market leaders, we are getting quite aggressive especially on the Swaraj brand and same is the case with Mahindra also with their Oja brand of tractors, so how the overall competitive landscape is shaping up from the next let us say 2-3 years perspective, any thoughts around that?

Neeraj Mehra: This competitive scenario has been there for quite a few years. It is nothing new here. So, yes, the brands that you mentioned have come in with some new product lines which has given them some god impetus, both in terms of volume and market share. In the coming months, we as well are looking at some product launches in both the brands, especially on the Farmtrac front. So, we feel that as we go forward, these new launches will actually, and these are top of the line launches with some change in the overall look of the tractor as well as the features. So, we feel as we go forward, this will help us compete in the major segments of the industry as well as in the major markets where these applications or these brands are prevalent.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Sir, can you talk about the reasons why we are seeing the strong growth in the Construction Equipment segment and particularly what is driving the crane segment to do much better? And how do you see the FY25 growth particularly post the election as there may be slight slowdown on the CAPEX side from government?

Sanjeev Bajaj: This is Sanjeev Bajaj. So, first part of your question, this current year, the growth is largely coming from the speed of the project and the government's urgency on completing a lot of infrastructure projects and their commitment to fund these projects and it is driving both because of the government agency and at the same time there is a performance linked incentive for contractors also to finish the job in time and you get rewarded. So, this is fueling the overall growth in Construction Equipment. We see that for the current year will look similar to what we have seen in the first half of the year and it will continue to be at the same growth phase and the only catch here is that next year we are going to get into elections and also there is emission norm change which is originally slated from April, but it is also expected to get deferred. So, there is a bit of uncertainty in terms of where it will pan out. So, maybe for next year, the best time to estimate would be when we get closer to Q4 of this financial year, but for the current year, it looks like on the macro demand side, there is no change going to happen and it will continue to have the same growth which we have seen in the first half of the year.

Mumuksh Mandlesha: And sir, can you talk about the farm implement growth plans for the Company for next few years?

Bharat Madan: Yes, as you know, Escorts' standalone basis right now we are not a very strong player in the farm equipment segment, but this Kubota JV, which is getting merged into Escorts, so they got a strong business on the harvester and transplanter side. So, even though we are in the process of developing some products and there are some good orders which we expect will start coming in Escorts also from next year, I think post-merger, it will become a sizeable business for us and there is also a good intent from the management side to grow that business further. So, today, I think the sales JV in Kubota are close to Rs. 300 crores of topline coming from the farm equipment side and Escorts is still small at ordering Rs. 50-Rs. 60 crores sort of topline and it should be there, but combined business will obviously be strong, and they intend to grow and get into the new category as well. So, I think if you look at our mid-term business plan, there is a good aspiration to grow that business, maybe to Rs. 1,000 cores sort of topline in overall business, so it is a very good potential into that category.

Mumuksh Mandlesha: Sir, how do you see the raw material cost going ahead due to increasing steel prices?

Bharat Madan: So, as of now, I think the first 6 months we did not see much pressure, so softening only which happened, although of late we have seen some impact started coming in and especially in the Construction Equipment, we have seen some impact which has happened now. So, obviously, if there is a strengthening of prices, it will have an impact, but we don't expect inflation will be to the extent what we have seen in the last 2 years. So, right now, the position where we are sitting across all businesses, I think we have been able to pass on and the entire inflation has been fully absorbed now and it has all been passed onto the market. So, I think as of now most of us, all businesses are sitting on a clean slate. So, if some more inflation comes in, obviously we have to see the market and see if we can pass it on to the market, but we don't see it will be a major pressure looking at the market dynamics right now.

Moderator: Thank you. The next question is from the line of Jaimin Desai from Emkay Global. Please go ahead.

Jaimin Desai: Firstly, I wanted to check on the Construction Equipment segment margins, very strong performance there in this quarter, wanted to know what are the factors driving it and how do you see the sustainability of these levels of margins?

Sanjeev Bajaj: Sanjeev Bajaj, this side. So, the margin aspect of the business has been good this year and primarily whatever price increases we have taken at the start of the year, recovery has been very good primarily because of higher demand in the market, so price stabilization has been good. Also on the commodity side, first 6 months did not see any increase, in fact there was a slight deflation, although there is a bit of inflation which is looking like coming last 1 to 1.5 months, but we will see that in the current demand cycle, we should be able to pass it on. It will not impact the overall margins going forward for rest of the year also.

Jaimin Desai: So, broadly you can maintain the current level of margins right above early double-digit growth?

Sanjeev Bajaj: We should look at it from an H1 perspective because quarter-on-quarter there will be variation because the volumes are very different. On an H1 basis, we should be able to continue till the end of the year. That is what it looks like.

Jaimin Desai: And with respect to the Railway equipment division, can you provide medium-term outlook on both growth as well as margin trajectories on that business?

Ankur Dev: Ankur Dev this side. So, as we have mentioned in our previous calls also, we are continuously launching new products and we are trying to get into products for the new type of rolling stock which Indian Railway is coming up with mainly the Vande Bharat trains. So, with the launch of these new products, we feel that we will be able to maintain the double-digit growth in the current year as well as the near future also. In terms of margins, we believe that we should be able to maintain the margins plus minus 100 or 200 basis points from the current levels.

Jaimin Desai: And just last question, if I can squeeze in, is there any update on the timeline for the emission norms implementation in the below 50 HP tractor category and what would be the ballpark cost increase that we can expect whenever it is increasing?

Neeraj Mehra: This is Neeraj this side. So, these would be actually the TREM-5 norms, and the current scheduled formal launch is from April 24, but what had actually happened was the TREM-4 norms had got delayed by about 18 months or so and it takes time for the various upgraded technologies to get established in the market. So, from TREM-5 perspective there is, I believe, a discussion going on if the TREM-5 norms can be extended further from April 24. Coming to the cost impact, the cost impact would be substantial. At this point of time, it is very difficult to comment on that, but I think it will be in the sub-50 HP tractors the increase would be 1.25 lakhs for TREM-5 because on those set of tractors we will be moving from TREM-3 to TREM-5. TREM-4 set of tractors which are above 50, the increase would not be that substantial. So, this is just a ballpark figure.

Jaimin Desai: Sorry, sir, I lost your voice there for a second, can you repeat the number in terms of cost increase?

Neeraj Mehra: It is pretty early to comment on the numbers, but what the numbers that I had shared was that in the sub50 HP segment, those are currently TREM-3 tractors, so from TREM-3, we will be moving to TREM-5. So, the increase would be substantial in the case of tractors which are 50 HP and above the increase would be less because an increase has already been taken and passed on with effect from January 23. So, in the case of sub-50 HP tractors, the increase could be above Rs. 1.25 lakhs.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motiwal Oswal. Please go ahead.

Jinesh Gandhi: My question is on the broader CAPEX at a console level, first half you had invested just about Rs. 51 crores in CAPEX, would we expect CAPEX for the full year FY24 and potentially for FY25 given our growth plans?

Bharat Madan: So, Jinesh FY24, initially we have indicated it will be Rs. 300-Rs. 350 crores, but the first 6 months we have not seen much of the CAPEX in terms of cash flow and the commitments have been given for those CAPEX, but the cash flow hasn't happened, and we don't expect it will be to that extent even on a full year basis. So, maybe it will be somewhere in the range of Rs. 200 to Rs. 225 crores actual cash outflow, which will happen, so most of the cash flow will be carried forward to next year, to next fiscal.

Jinesh Gandhi: And next fiscal we could see bunching up and could be close to about Rs. 400-Rs. 450 crores?

Bharat Madan: Yes, next fiscal will be higher, so they will give the guidance as our internal budgets are approved.

Jinesh Gandhi: And secondly on the Railway side, so we used to share this data on new product contribution to revenues, how it could have trended in 2Q? Would that have come down to support margins or any direction or any number which you can share on that?

Bharat Madan: Sorry, contribution to revenue for Railway products?

Jinesh Gandhi: New product contribution to overall revenue?

Ankur Dev: Ankur Dev this side. So, yes, so new products' contribution to the overall revenue is on the higher side and as we have mentioned, it is more than 50% as we are continuously launching new products and Railways is also building up the new rolling stock. So, obviously all those falls in the new products category,

Bharat Madan: yes, it is more likely conventional products are going down. Yes, it is almost stagnant now, so no growth is happening. So, all growth which is coming is all coming from the new product category?

Moderator: Thank you. The next question is from the line of Raghunandhan from Nuvama Institutional Equities. Please go ahead.

Raghunandhan: Firstly, to Neeraj sir, sir, can you talk about those new products in Farmtrac, you said specific applications, they should cater to, and would that be focusing on the opportunity markets? What are the applications which are being prioritized? Would it be like the below 30 HP or the paddy specialist, some color if you can share there?

Neeraj Mehra: So, at this point of time, it will not be very prudent to give too much detail, but in FT, altogether, a new range is in the offering. These will actually be very high-end technology advanced products, which will actually be targeting emerging specialized applications, for example, an application like a Creeper application. So, it is altogether a new series, and this would be in the 50 HP and above category. Also, we are looking at some introductions in both the brands, Farmtrac as well as Powertrac in the utility segment as well. So, from a Farmtrac perspective, the differentiators will actually be game changer and both in terms of technology and when you talk of technology, it is about hydraulic, it is about transmission, it is overall vehicle, and the second part is also about the styling and the looks.

Raghunandhan: And my second question was on Construction Equipment, sir, you alluded to the emission on change in April, if you can talk a little bit more about it and I understand there could be a deferral if you can just give some color on what does the norm change and what could be the price increase?

Sanjeev Bajaj: We have two ranges of products and there are two emission norms prevailing right now on the products. So, there are 50 HP and below and higher than 50 HP, so 50 HP and below is still on BS3 level and 50 HP and above is on BS4 level, so it is slated to go to all to BS5 level from April 24. So, this was the original plan which there are discussions with ICEMA and other entities with the government in order to defer it; however, there is yet to have any official confirmation on it, but there is only one discussion. Now products which are moving from BS3 straightaway to BS5, the impact could be anywhere between 6% to 8%, although it is too early to estimate, but for a customer probably it could be say around 8% to 10% whereas the products which are moving from BS4 to BS5, the impact will be much lower, maybe about 4% to 5% only or even lower, but these are very early estimates because most of the manufacturers they are yet to showcase the final version of those variants and also the most of the manufacturers they are into the testing stage of these variants, so the final cost flow in the final market pricing is yet to be decided and also will be dependent on when actually the deferment happens when actually the product slated to be launched.

Raghunandhan: Lastly, again to Neeraj sir, sir, if you can talk about that Escorts' Farmtrac, Powertrac dealers were offered a chance to set up Kubota dealerships in terms of working towards cross selling, so any progress there and how are you looking at the synergy or cross selling opportunity?

Neeraj Mehra: See you mentioned it correctly, there is a huge opportunity in cross selling. Kubota products have their own strengths and so do Powertrac and Farmtrac brands. So, we are working on this model on how the current set of dealers, they ought to actually have the bandwidth to sell the additional set of tractors. So, over a period of time, we might look at this cross-selling aspect of the tractor business, but as of now, it is pretty early days.

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

Mitul Shah: Sir, I have question on last one- or two-months performance during ongoing festival, in terms of region wise color if you can indicate that which are the geographies are still continue growing healthy and which geographies are indicating some weakness because of the monsoon deficit or drought like situation, especially in South and West?

Neeraj Mehra: Mitul, South has actually degrown from a festive perspective and so has the eastern market. There has been some growth in the northern markets. West has been a mixed bag, whereas Maharashtra has dropped considerably in terms of volumes. Gujarat has been a surprise package wherein the industry has done well. Also, Gujarat industry has risen on the subsidy aspect of the business. That is one market across the country which has risen well on the subsidy business. So, it is a mixed bag. West, Gujarat has grown, Maharashtra has degrown, East market has degrown, Southern markets have degrown, Central and the Northern markets have grown. UP to a certain extent is the biggest market in the country, but UP to a certain extent has been at par. It is neither degrown nor grown.

Mitul Shah: As in going forward in next 6 months where we are indicating plus minus 2% for full year, so what we are assuming in terms of geography wise performance post this drought situation in Telangana and Karnataka particularly? And lastly, follow up on to this that as these northern market is growing then since we have much higher market share in those market, can Escorts grow disproportionately or can it outperform the industry?

Neeraj Mehra: So, you are very right. We are very sure that Q3, I have already shared before, also that Q3 will be ending the industry at about approximately 2% to 3% growth. November will be the main driver of the industry growth because of this extended season and extended festive season. Coming to Quarter 4, which I have already shared, we are looking at a very marginal growth in Quarter 4 on account of a lower base compared to last year. Now, on the second part of the question in terms of Escorts' market share and Escorts being stronger in the northern markets and the central markets, you are actually right, if you look at not the last couple of months, but the H1 performance, Escorts overall from the release figure has grown by about 0.3% market share in H1. Market share in the auto industry, especially tractors is a bit sticky and over the last 6 months, only three major players have grown in market share and EKL is one of them. Our focus this year has primarily been on the retail side and our retail market share is substantially has grown higher than the release market share. So, yes, quarter 3 and Quarter 4 traditionally are higher market share quarters and yes, you are right, we have that aspiration to outperform the industry in quarter 3 as well as Quarter 4.

Mitul Shah: Lastly, what was the inventory at the beginning of festival and what is target for end of November post festival?

Neeraj Mehra: I can comment on the EKL inventory. So, at the beginning of the festival, we had taken it up to about 5 to 5.5 weeks, we intend to bring it down to about 4 weeks at the end of November.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take last question from Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: One last question on the Railway business side, so we have seen a continuous decline in order book from almost Rs. 1,100 crore to Rs. 870 crore, is this primary reflection of lower tendering pace from the Railway side or is there something else over here?

Bharat Madan: So, Jinesh, these are the outstanding orders and as you know, the pace of execution has increased. If you look at the numbers also last two quarters, the growth has been almost close to 50%. So, your pace of execution of the orders has increased. As I said, your outstanding order book has gone down, but we keep getting those orders continuously and also executing it faster, so that will be leading to the increased turnover, but the order book may not look very healthy because the execution has increased, but otherwise there is a very strong visibility into the order flows.

Jinesh Gandhi: So, orders have come back to normal levels to pre-COVID, is giving the pace of ordering?

Bharat Madan: Yes, that is right.

Moderator: Thank you. Ladies and gentlemen, which was the last question for today. I would now like to hand the conference over to the management for closing comments.

Bharat Madan: So, thank you, ladies and gentlemen for being present on this call. For any feedback and or queries, please feel free to write in to us at investor.relation@escortskubota.com. Thank you very much and wish you all and your family a very happy and prosperous festive season and New Year. Thank you. Good evening.

Moderator: Thank you. On behalf of DAM Capital Advisor Limited, that concludes this conference. Thank you for joining us and you may not disconnect your lines.