Escorts Kubota Limited

August 06, 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 August 01, 2024, for discussing the earning performance of the quarter ended June 30, 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 on August 06, 2024 at 01:08 P.M.

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **Escorts Kubota Limited**
ARVIND KUMAR
Digitally signed by ARVIND KUMAR
Date: 2024.08.06 16:15:08 +05'30'
**Arvind Kumar**
**Company Secretary**

Encl.: As above

# "Escorts Kubota Limited
# Q1 FY '25 Earnings Conference Call"
# August 01, 2024

**MANAGEMENT:** **MR. BHARAT MADAN – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – ESCORTS KUBOTA LIMITED**
**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 & ESG**

**MODERATOR:** **MR. SAKSHAM KAUSHAL – PHILLIPCAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Escorts Kubota Limited Q1 FY '25 Conference Call hosted by PhillipCapital India Private 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saksham Kaushal from PhillipCapital.

**Saksham Kaushal**: Thank you, Sumit. Good evening. On behalf of PhillipCapital, I welcome you all for Escorts Kubota Limited's Q1 FY '25 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, Executive Construction Equipment, Business Division; Mr. Ankur Dev, Chief Officer, Railway Equipment Business Division; Mr. Sanjeev Garg, Head Finance and Tax; and Mr. Prateek Singhal, Investor Relations and ESG. We will start the call with brief opening remarks from the management, followed by Q&A.

Before we start, I would like to add that some of the statements made by the company in today's call will be forward-looking in nature and are subjected to risks as outlined in the annual report and investor releases of the company.

Over to the management for their opening remarks. Thank you.

**Prateek Singhal:** Thank you, Saksham. Good evening, everyone, and thank you all for joining us today. Few highlights of the company's stand-alone financial performance for quarter ended June '24 are as follows; operating revenue at INR 2,292.5 crores, down by 1.5% Y-o-Y; tractor volume at 25,720 tractors, down 3.2% Y-o-Y; construction equipment volume at 1,325 machines, down 3.5% Y-o-Y; railway equipment revenue at INR 244.7 crores, down by 18% Y-o-Y; EBITDA at INR 327.1 crores, up as against INR 326.9 crores Y-o-Y. EBITDA margin now stands at 14.3%, up 22 basis points Y-o-Y, mainly led by better product mix and price realization, effective cost control and softening in the commodity prices; PBT at INR 388.1 crores, up by 2.5% Y-o-Y. Highest ever net profit PAT at INR 289.6 crores, up by 2.4% Y-o-Y.

On a consolidated basis, company financial performance for the quarter ended June '24 is as follows; total revenue at INR 2,416.2 crores as against INR 2,449.5 crores Y-o-Y; EBITDA at INR 325.3 crores with margin of 14.1%; net profit at INR 293.1 crores, up by 1.1% as against INR 289.9 crores Y-o-Y.

Moving on to the segmental business performance, starting with Agri Machinery business. In Q1 FY '25, total tractor industry volume, domestic plus exports, was at 2.87 lakh tractors as against 2.85 lakh tractor in the corresponding quarter. Our total volume was at 25,720 tractors as against 26,582 tractors in the corresponding quarter.

On the domestic front, the tractor industry in Q1 FY '25 at 2.62 lakhs tractor was almost at par with respect to the corresponding quarter, and our domestic tractor volume stood at 24,759 tractors as against 25,226 tractors in the corresponding quarter. On the export front, the tractor industry in Q1 FY '25 at 24,600 tractors as against 24,200 tractors in the corresponding quarter. Our export volume came at 961 tractors as against 1,356 tractors in the corresponding quarter, impacted primarily due to challenging in our key market of Europe, which are experiencing recessionary conditions and higher interest rates, thus leading to inventory correction across continent. During the quarter, sales to Kubota Global Network account for approximately 21% of the total export.

Segmental revenue was up by 0.6% to INR1,676 crores as against INR1,666.8 crores in the corresponding quarter. EBIT margin for Agri Machinery business were at 13.2% as against 13.4% in the corresponding quarter and added against 11.2% in the sequential quarter.

Moving forward into FY '25, we anticipate that the domestic tractor industry may experience mid-single-digit growth. This growth will be driven by various factors, such as increased monsoon coverage, government assistance, improved Crop prices, enhanced liquidity and expanded access to the credit.

Coming on to the Construction Equipment business, in Q1 FY '25, our serve industry volume for cranes, backhoe loader and compactors saw a modest increase of 1.5% as against corresponding quarter last year. This growth was primarily driven by compactors industry which experienced growth of roughly around 17%.

Our total volume of manufactured and traded products was at 1,325 machines as against 1,373 machines in the corresponding quarter. Segmental revenue went up by 2.7% to INR369.7 crores as against INR360.1 crores in the corresponding quarter.

EBIT margin for the Construction Equipment business in the quarter ended June '24 went up to 10.4% as against 7.6% in the corresponding quarter, led by better realization and improved product mix. Construction activities on the ground are currently slow on account of timely and good monsoon progressing in the country and due to formalization and stabilization of the government post-election. However, with the government continuing thrust on infrastructure development, we anticipate demand to improve post monsoon season.

Moving on to the Railway division. Revenue for the quarter ended June '24 at INR244.7 crores as against INR297.7 crores in the corresponding quarter. EBIT margin for the quarter ended June '24 came at 20.5%. During the quarter, we successfully supplied the first-ever electric control panel order to prominent metro organizations. Additionally, we successfully completed the refurbishment of the train project with DMRC. Our order book for the division at the end of June '24 is at approximately INR880-odd crores.

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

**Moderator:** Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Raghunandhan N. L. from Nuvama Research. Please go ahead.

**Raghunandhan N. L:** Thank you, sir for the opportunity. First question was on domestic tractor industry growth. The start has been reasonably good, as you alluded to in the opening remarks. North region, Central region, West region seem to be seeing growth and the rainfall progress has also been positive. And even in the South region, the worst seems to be behind. So I'm just trying to understand how you see the trends in the coming quarters. And do you see the trigger for upgrading the full year estimates? And also, if you can talk about how you think about market share of Escorts for the full year and your focus on new products?

**Neeraj Mehra:** Hi. Good evening, Raghu, this is Neeraj Mehra. On the industry front, the industry has, to a certain extent, been at par with respect to last year, against the normal thought of the drop that almost everyone was expecting. So this is a very positive sign. This is primarily due to the fact that all the forecast of about normal monsoons, have made the rural sentiments pretty positive. Also, the kharif swing exceeded last year's levels by about 7-odd percent. Also, the government initiative in terms of raising the MSP of kharif crops has helped improve the positive sentiment.

Now it is a bit premature to comment on the entire year on how the industry will progress, but as of now, we see that about -- we're looking at about 5% or so, 5% to 6% of industry growth for the entire year. We'll see how the industry pans out over the next two months. And then more prudent call can be taken.

On the TIV side, at a zonal level, it was very surprising to see the Eastern part of the country. That is basically the rice bowl or what we call our opportunity markets. The industry growth was pretty substantial over there, close to about 40%. South, the industry drop still persists. It's come down to 20%. It was higher last year. It's come down to 20%, and this continuous drop in South has actually reduced the contribution of the Southern markets to 12%.

North has seen a growth, which is a good sign for us. The rest, again, Maharashtra has improved over last year, but Gujarat has dropped in terms of industry. So overall, rest was marginally less than last year. So the signs are positive, and we are hopeful for a pretty good financial year, starting with the festive season in September.

**Raghunandhan N. L.:** Got it. Thank you. And if you can talk about your market share expectations, your efforts on new products and the Worldmaxx tractor, that would be helpful?

**Neeraj Mehra:** Hi, Raghu. So overall, I had mentioned in the previous call as well, our focus in terms of growth of market share remains in the northern and the western part of the country, which currently contributes about 75% or thereabouts of the total all-India industry. And we have, in the last quarter, grown market share overall in the North Zone as well as in the West Zone. So things are looking positive for us. We have dropped market share to a certain extent in the eastern part of the country, where the industry growth was phenomenal to extent of 40%, and our volumes were not in sync with that. Status on the industry part. Yes, we are pretty positive of market share growth, though the quarter one has been a bit subdued.

On the new product side, yes, the Worldmaxx launch is actually -- we have started the introduction of Worldmaxx in a very phased manner in select locations, but our full-fledged launch is expected around the festive season. Also, there's another series on the Farmtrac bench, which is on the anvil. And hopefully, we'll be able to launch that also in October, November period.

**Raghunandhan N. L.:** Thank you, sir. Wishing you all the best. My second question was on exports. Export through Kubota channel, I think you said 21%. Earlier, it had gone as high as 30% plus. If you can talk about the update on integration of distribution network globally and by when that could happen? And also, if you can provide a status on the launch time lines for Brazil and U.S., and if you can give some color on the growth prospects?

**Bharat Madan:** So Raghu, as Prateek mentioned, so our major exports, 60% of the exports happen to the European market. So if you look at the industry, the growth which is coming in export, which is very nominal, but still it's a growth about 2.5%, 2% in the first quarter. Has been exactly because the dispatches happening to the North American and Latin American market, where we are not present. But the players who are actually exporting to European countries are seeing a decline because in Europe because the increased inflation and stocking with the dealers, the correction is happening in the inventories and the demand also has been subdued for multiple quarters now.

So our export to Kubota will also happening to Europe, which has been impacted right now, but they are also expecting maybe the pick-up will start happening towards the end of this year. So in regard a discussion with the Board members who is also there, is having the European operation. So we saw it positive towards the end of the year, but I think initially, there have been some -- in fact, because of these changes, which has happened and the inflation evidence has been seen in this market. But we expect the pick-up will happen.

I think regarding our entry to North American and Brazil market, I think we have already mentioned it will take time. This first we need to be ready with the product portfolio is required for market. Large portfolio is dependent on the greenfield facility which has come up, which is still 3-4 years away. So it will take some time. And there are certain products which we are now looking at developing for those markets, that will happen only by sometime in the next year, middle of next year, in FY '26. The European products are being made ready, like we mentioned in the last call, so that will be ready by third quarter this year. So there, we said the exports will start picking up towards the last quarter of this fiscal.

**Raghunandhan N. L.:** Thank you very much, sir. I have more questions, I'll come back in the queue.

**Bharat Madan:** Sure.

**Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

**Gunjan Prithyani:** Yes. Hi. Thanks, team, for taking my question. I just had a follow-up on the industry outlook. Could you refresh us if there is any update on the emission norm time lines and what does it mean for the industry outlook? And also, where are we on the merger with the Kubota India entities, if there is any progress in that direction?

**Neeraj Mehra:** So on the emission norms, the date is fix, as of now, there is no change, April 1, 2026. So for the current year and better part of the next year, we don't see any much impact on the tractor industry. The Tractor Manufacturers Association is in talks with the government regarding the finalization of the date, but currently, the date remains on April 1, 2026. On the merger part, I will ask Bharat sir to take the question.

**Bharat Madan:** So Gunjan, merger, we had this hearing in the first week of July, where the order for merger has been reserved by NCLT bench. So it can be pronounced any day, and we are expecting it should happen soon now. Within this month, we should get this order so that we are able to make it effective from first of September, the chances are  very fair that we'll get it in, this month.

**Gunjan Prithyani:** Okay. And directionally, what does it mean from execution of the midterm plan or strategy that we had laid out? Because I think, correct me if I'm wrong, I think this exercise took longer than what we were expecting earlier now that once it's done, we have the approvals in place. Is there a case that you see acceleration on some of the initiatives that you had laid out for the midterm plan? Is there a change that we should keep in mind after this merger is approved?

**Bharat Madan:** So I think given the integration, which is slightly delayed, but I think the idea was that we should be able to cross leverage each other channels and the product portfolio. And this is one of the other concern area for Kubota. We don't have enough product range in India. So that's why we have a restricted and limited market player with very small market share. I think the idea is once the merger happens and the integration starts happening, we should be able to utilize their channel also. They've got about 300 dealers' network in India and Escorts have around 1200 dealers. So if we are able to leverage the strengths and also cross-sell our products, so it should actually lead to some positive momentum on the sales and market share side. So that is something which is in plan, which we actually intend to do, provided the integration is completed. Obviously, it will take some time with post-Merger, there are some obviously integration issues which need to be sized out. So maybe it will take a few months before you see this impact coming in  the results.

**Gunjan Prithyani:** Okay. And the other question that I had was on the -- on this whole new -- the new structure to the organization. It's quite interesting that you've now carved out different subsegment for engines, different subsegment for agri product solutions. So anything that you want to share why the change in structuring? Are you seeing some of these businesses scaling up meaningfully? Just some thoughts around what does it mean in terms of operating structure of these businesses? There are six segments that you call out. So some thoughts around that.

**Bharat Madan:** So Gunjan, the idea of carving out these businesses was to align with the Kubota Group. So they also have the similar verticals in terms of revenue. So then within agri, they got four verticals for tractors and then they are for agri solutions, which is essentially implement, I would say, transplanters. And then they've got engine which is a very large business for them. And then there's a space and service, which is again another large vertical.

So since the boarding for the organization is also dotted line to the head office to the parent company, so the similar division at who are there in Kubota head office will be also looking at these businesses independently. So which is one of the reasons why we segregated these four businesses, and these will remain focus area for us.

So if you look at individually on other three verticals, which we think can actually drive your revenue significantly higher weather it is Agri solution business, our Indian business, which is also picking up significantly now within Escorts as well as Kubota and spares and service. So, all three have the potential to cross INR 1000 crores business in the next four to five years, which is also a mid-term business plan. You know we have an objective to do that. So we think that this revised structure, a lot of focus will come from the teams in releasing and driving those numbers. So which is the reason we want to align it with the parent company.

**Gunjan Prithyani:** Okay, got it. Thank you. And just last question, commodity, anything that we should bear in mind because steel sort of remains benign? So, should we things still work with 13%, 14% EBIT margin or there is a case that it sorts of shoots above the 14% range also given as operating leverage picks up in second half?

**Bharat Madan:** So, in first quarter, we did not see the inflation impact of commodities. But I think in the second quarter, we are getting the impact now, already started getting in price increases that are being given to the suppliers. So there is pressure on the rubber prices globally and the rubber are going up and there's also some compliance issue with the tire companies, which is leading to price increases. And we also passing it on in Q2, same way as I mean we happen in the casting too.

This is based on -- we're only passing on the lag of the quarter. So based on the last quarter numbers, we are going to pass it on in this quarter. So there will be some inflation pressure which will come in Q2, but in anticipation, the pricing deals was taken in the Q1 itself. I mean we've taken the price increase from sometime in May. So we should be able to offset the cumulative cost impact for first half. So on the margin front, I think we expect the margin should remain within this thing because the indication we have given. On tractor, we see some positives. Possibilities are there that going forward the volumes pick up; the operating leverage should play. So that should be able to drive some betterment in margin.

**Gunjan Prithyani:** Got it. Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, the next question is from the line of Mitul Shah from DAM Capital. Please go ahead.

**Mitul Shah:** Thank you for the opportunity. Sir, first question is again on tractor volume growth outlook for FY 2025 and 2026 also. So, in terms of this mid-single-digit growth of about say 5%, how do you see geography-wise growth coming in? Because as last two, three years, North has witnessed very high growth, all-time record high volumes coming from UP for the month of July, roughly 11%, 12% growth coming in. So do you see this trend to continue? Or because South was almost 30% lower than the previous peak, the South and Maharashtra can record a much higher growth or there would be disproportionate growth from these geographies?

**Neeraj Mehra:** Hi Mitul, this is Neeraj this side. So, overall, if you see the western part of the country and southern part of the country, though they are still showing a negative trend, the quantum of degrowth has reduced. So we feel that going forward, this will further reduce and we should be able to see some improvement in terms of industry, both in the western part of the country and the South.

In the North, the industry growth is -- for the first quarter is 5%. It's not very high. And looking at the current sentiment and overall scenario, we feel that this growth will be there. The surprising element last quarter was the eastern part of the country or the rice bowl, which witnessed a 40% growth. We do not see that kind of growth coming in again as we go forward. So to summarize, north we'll see a continuous -- a similar growth. South and West will -- the degrowth will get substantially reduced as we go forward.

**Mitul Shah:** Still South and West will continue degrowth, so it will be at a very low quantum. Is it right and understanding, right?

**Neeraj Mehra:** So, West could show a positive trend because Maharashtra has already shown a positive trend. Only Gujarat is negative. Maharashtra has already come into a positive. So we feel this will certainly be -- show a positive movement. In terms of South, at this point of time, it's very difficult to comment because the reservoir levels, though has improved from a very low 20% to the 40% in the latest report that has been shared, we still feel that South will not perform on the positive side.

**Mitul Shah:** That should help us on the market share side, right, as we are stronger again on the North?

**Neeraj Mehra:** Yes, hopefully.

**Mitul Shah:** And sir, second question, again on this trem which is indicated April '26 as an implementation date. Any possibility, as indicated by a few other tractor players, it may get delayed by two or three years?

**Neeraj Mehra:** No. As of now, there is no significant communication on this front, though the TMA and the government is in discussion on what needs to be done. But as of now, it's difficult to comment on whether this will be delayed. The ministry has been firm in their last communication to go ahead with the April 1, 2026, date.

**Mitul Shah:** Sir, last question, on Construction Equipment margins. Despite Q1 seasonally weak, we have recorded double-digit margin. How sustainable are these? And in context of commodity prices going up, particularly tire and steel prices, which is a higher portion of the overall commodity for construction equipment, how one should look at coming quarters?

**Bharat Madan:** So this sort of volume -- Sanjeev, you want to go ahead?

**Sanjeev Bajaj:** Yes, you can carry on.

**Bharat Madan:** So at these levels of volume, we expect the margins are sustainable, even though there may be some upward movement in the pricing, but we think the commodity side, we should be able to pass this on to the market. So the margin is also driven by better product mix and also there is a gain in our market share in pick and carry crane segment, which is pretty important in this industry. So that is also helping us and we expect these margins should be able to sustain.

And we really expect the growth to happen post monsoon in the equipment space too, and there should be a double-digit growth, maybe growth and go onwards we should see that growth happening. So that should only help them maintaining those margin levels at the current level. Sanjeev, you want to add on the market perspective?

**Sanjeev Bajaj:** I think, yes. So we are expecting that the volumes will improve post monsoons. So that should help us to sustain momentum, but at the same time, there is a little bit of risk of commodity shooting up when the volumes go up and the demand go up. So that is the only caution which we have in mind. But we feel that this level should be sustainable.

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

**Jinesh Gandhi:** Hi. My question pertains to the price hikes you mentioned you have taken from May this would be, what, about 2% or would be lower than that?

**Bharat Madan:** No, it was a marginal price increase, I think closer to 0.5%, 0.6%, which is because the commodity price has not gone up in the last quarter. So we have seen that trend happening early now. So in anticipation, we have taken the increase to offset any possible inflation which will happen, I mean which you will see now in Q2.

**Jinesh Gandhi:** Okay. So we do not need to take any material price increase going forward unless there is further inflation in commodities. Is that the right understanding?

**Bharat Madan:** Yes, we do not expect industry will pass on. There is a nominal increase which is happening on the commodities. So, so far in the first half while I look at cumulative basis, there is not much impact. So we do not expect industry will take their view and further price increase. But obviously, we will closely keep watching the competition to and is there a possibility, we'll definitely follow them.

**Jinesh Gandhi:** Got it. Got it. And secondly, you mentioned about the export side where in North American LatAm, we will need to develop products which should be in sync with the greenfield plant which we are looking at. Are any other midterm business plan targets, the market share target which we are talking about or Agri machinery revenues target which you are looking at, depending on the greenfield plant or that should be attained irrespective of the greenfield plant comes before that period or not.

**Bharat Madan:** See for the American market, it was dependent on greenfield facility only because they are totally new product different from what we are making in India. So we will have to really start from scratch and there, the work is already starting now and discussions have started happening with the North American team. So obviously, we come up only with the greenfield facility, and that is what the plan was also in the midterm business plan that this will happen from there. The existing portfolio like we mentioned we are exporting is most to the European market other than the SAARC countries and then some of the African countries.

So Europe is a big market, which is the growth for – has happened into industry also for smaller tractors, so these are compact segment is doing extremely well there. So let us say, I think the product development is happening, and we -- this is also part of our existing portfolio, which is only to rebranded with some tweaking, which has been done. So these were the low-hanging fruit, which we were able to get. And that we will continue till the time we see more product development happens with these markets.

**Jinesh Gandhi:** Sorry, my question was more so for the India market share target of mid-teen or high-teen market share. Would we need the greenfield plant also to support that aspiration or we can get it from the total capacity which we have today between now Escort stand-alone and the JV plant?

**Bharat Madan:** No, obviously, if we are looking at the volume expectation for the midterm business plan, we will need greenfield facility definitely. So that is also the reason why we had planned it there. So besides export, it will also help in the domestic market volume. From the existing capacity, as you know, between the JV and us is closer to 170,000 tractors. And I think you look at the numbers of JV and us we already 125,000 - 130,000 sort of numbers which with us. So we do not expect this capacity will be enough going forward. Maybe after a year or so in any case looking at alternates. So let us say, greenfield is important for domestic aspiration goals.

**Jinesh Gandhi:** Got it. Got it. And last question, on the railway business. So we have seen a stagnation in order book, or in fact, has moderated over the last two years. What is happening in the business? Is the tendering activity yet to come back post COVID or the focus of government is on different segments where we are not present? How should we look at this business going forward?

**Ankur Dev:** Yes. Hi. Good evening, Jinesh, Ankur Dev here. So there are different types of rolling stock which are being manufactured in India. The existing one is LHB type of passenger coaches and now the government is moving towards Vande Bharat platform. Moving on to the, I would say, passenger coaches within that, they are doing the sleeper type of coaches, chair car and metro. So right now, the industry for LHB type of passenger coaches is almost flat in the last two to three years, where we have all type of components. Whereas the industry is growing in Vande Bharat passenger coaches, so right now, we are in the development stage of developing these components for this type of rolling stock where the industry is increasing.

We have already secured the initial orders for these coaches, whether it is brakes, couplers, dampers. Now we will be supplying the first orders in these product families. Once these are supplied, we complete the necessary field trial, we will be able to supply these components for Vande Bharat coaches for the regular orders, also the bulk orders. And with that, we should be able to see the growth momentum in the railway also with the desired Vande Bharat growth.

**Jinesh Gandhi:** Understood. Yes. So this year, we should be looking at mid-teen growth or it will be lower than that.

**Ankur Dev:** So with the introduction of many new products, we expect that we should be able to continue the double-digit growth as we have done in the last few years.

**Jinesh Gandhi:** Okay. Great. Thanks. All the best.

**Moderator:** The next question is from the line of Pramod Amthe from InCred Equities. Please go ahead.

**Pramod Amthe:** Yes, hi. So this is with regard to the tractor industry and your inventory. And I also wanted to check where they are. And if I had to look at your volume, they are up almost around 20% on Q-o-Q, but your capital employed in the business has shrunk by almost around 8%. And this is -- we are entering the peak of the season. So any change in the way you guys are looking at this business?

**Bharat Madan:** No, there is no significant change in the capital, I think in the business has to reduce only by about INR 200-odd crores. So at least some improvement in working capital which has happened. Some inventory creation which has been there across the organization. So as I saw the first quarter, we had a lower production number to correct the own inventory, which we had within the plants and depos. So but we do not expect -- there's no significant change in the business model as such We think the similar trend will continue. So as of now, we're seeing some liquidity pressures which have still been there in the rural markets, so looking from a dealer's working capital perspective, which still has some pressure on the receivables side, but we expect as we get into this post monsoon period with the festival season, we expect, I think, that pressure should start easing out. And then you see more money in hand of customer. So that should actually ease out. So we should see further improvement actually in the working capital across the year-end.

**Pramod Amthe:** And what is the spend now for the new plant? And what is your status going to expect it to come through?

**Bharat Madan:** New plant, the earlier proposal was to set it up in Rajasthan in the area called Ghilot, but there are some issues there, and the water availability was a major issue for industry use, which is not available. So obviously, for us to go ahead with that project is not possible. We will be looking at it 20, 30, 40 years in future. So that is why we had actually withdrawn the expression of interest turning to the RIICO with the Rajasthan Industry Investment Corporation.

So we are looking at alternate sites now in the states of Haryana, UP, Maharashtra, Gujarat. And obviously, the preference is to be within North, so obviously we will look to for different choices, but we are still open to look at a full state. So we are still not shortlisted. We got some interesting propositions from the state government, but we are still evaluating. And I think after that is finalized and we will keep the market informed.

**Pramod Amthe:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Abhishek Jain from AlfAccurate Advisors Private Limited. Please go ahead.

**Abhishek Jain:** Thanks for opportunity. Sir, what was the revenue of Escorts Kubota India Private Limited and Kubota Agriculture Machinery Private Limited in first quarter FY '25?

**Bharat Madan:** Closer to INR 500 crores roughly for the two JVs combined.

**Moderator:** Mitul Shah, please go ahead.

**Mitul Shah:** Yes, thanks for follow-up opportunity. Again, I have a question on this 5-year vision plan and this global strategy, expanding global footprint with help of Kubota. In view of this cancellation of Rajasthan related project and searching new lands as well as product launches getting delayed, any possibility of revising our 5-year vision plan guidance downward or delaying the target by maybe 2, 3 years?

**Bharat Madan:** Yes, there will be some work which will happen. So obviously, there will be the revision which we intend to do this year. So based on the current product development, obviously, the earlier plan was based on certain assumptions on what sort of products will come, how the integration will work for the company and the channel, how the cross-selling will happen. So there is some changes which has happened in the assumption. And based on that, they need to rework on this midterm business plan, which we intend to revise maybe sometime during this year.

I think that was certainly the reason happens. So there will be some delay there, I guess, starting from the numbers we are looking at, but I think it's difficult we're trying to cut down on this time line and see how much we can expedite. So I think right now, the engineers are working on that product development themes, and they will come back and they will have a better idea in terms of overall, we are looking at those numbers, probably will come back to you guys.

**Mitul Shah:** secondly, on the export side, again, as we have done some consolidation of the dealers in overseas markets as well as we're planning to launch new products next year. But considering ongoing slowdown in Europe and USA, particularly in the tractor side, what would be change in strategy for near term or maybe next one to two years? So, do we go slightly slow for next one or two years? Or will it still intend to be remained aggressive with a number of new launches under EKL brand with a homologation and all completed by this next one or two quarters?

**Bharat Madan:** On expand front, I think the team will remain aggressive, because that's one opportunity which is one of the reasons for this partnership with Kubota, so that is something which the global team also is very keen when they are looking at India as a major sourcing base for them. So actually, that aspiration remains. So the idea is to expedite the things -- expand the product portfolio, which we can use for exports and start executing that. So I don't think there will be a slowdown in the aggression, I think, on this front.

Yes, they are maybe temporary. Like you said, we've got a product development cycle and some of the quality improvement issues which they need. There will be some delay which may happen, but I think the long-term direction remains similar on export.

**Mitul Shah:** Thanks and all the best, sir.

**Bharat Madan:** Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Jain from AlfAccurate Advisors Private Limited. Please go ahead.

**Abhishek Jain:** Hello. So sir, as you mentioned that the first quarter revenue from both revenue was around INR 500 crores. Last year, it was around INR 2,000 crores. So can we expect that the revenue growth would be in line with the industry growth of around 5% to 6% in this year? And the second that what kind of the margin improvement we can see over there?

**Bharat Madan:** So first of all, INR 500 crores, we said is for the first quarter and INR 2,000 crores, what we mentioned is the annual number.

**Abhishek Jain:** Yes.

**Bharat Madan:** They are at a similar level, so they are not different. But since the market in South and West way Kubota is a stronger name and they've got a better market share, was under pressure. So their numbers have also gone down, which is the impact we are seeing in the market share to which slightly move down. But I think both the recovery starts happening in this market, which we are looking at now, like in -- as Neeraj mentioned about Maharashtra picking up, so that is something which we obviously will give good to Kubota numbers, but they are obviously large players in the compact tractor segment in that state.

The South is still slow, but they expect maybe the recovery should start happening. It may not be to the extent what we've seen the degrowth in the last year to almost 40%, 50% degrowth happen in certain states. Recovery will start happening post monsoon, with the monsoon been good in most of these states now. So we expect -- I think those numbers should start picking up.

But if you look at the mix also from the JV perspective, it's not totally dependent on the tractors. They are already largely also in the Agri Solutions business, harvester, transplanters, which is a larger portfolio and also selling the engines and some of the exports of that which is happening from there.

So tractor in terms of volume, I think, comes only about 50%, 55% from the JVs. Balance comes from the other businesses, which we are not really strong there, which is where we see the integration should help us. And this is also the reason I mentioned in the beginning why we are dividing in 4 vertices where focus will be on.

**Abhishek Jain:** Last year, the total revenue was around INR 2,000 crores. So can we expect a 10% to 15% growth in that business and a better EBIT margin in the business?

**Bharat Madan:** Obviously, they will also grow along with the industry growth. So they're not going to be different from the industry. The challenge you mentioned when the beginning was with the product portfolio, which is not very strong with them. They've got very limited models to sell, so which is why they are not able to expand on pan India basis. I think the post-merger, post integration, they will be able to leverage our platforms and we should be able to look at some maybe co-branding opportunities or combine in the channel. It should help both of our companies and the brands in terms of growth.

**Abhishek Jain:** So it means the second half will be much better than the first half, because of the integration of the business?

**Bharat Madan:** Yes. Even otherwise, second half is better industry perspective, also with the first four months are more or less flat for the industry. So the growth that you're talking about essentially means the second half should give you double-digit growth to really maybe mid-single digits for the whole year. So we are looking at a good second half for this year.

**Abhishek Jain:** Okay, sir. And my last question, on the component business. What is your target for the next two years on a component business level?

**Bharat Madan:** The business is just starting. So as we mentioned last quarter two, I think the team is in place now, and they are looking at opportunities where they can do the sourcing from India and the export. The potential is large, but it will take some time because most of the products need to be localized also for them before we start looking at large exports. So right now, what we do will be more like trading opportunities sourcing from some suppliers and then sending it to them. It not really in-house manufactured products, which will happen only once your localization gets completed. I think in the number we'll be having; we're looking at maybe INR 500-odd crores maybe next two years.

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

**Moderator:** Thank you. The next question is from the line of Krishna Agarwal, an individual investor. Please go ahead.

**Krishna Agarwal:** Thank you for the opportunity. My first question is on the tractor business. So are we focus on the small farm mechanization equipment for, let's say, below 20-horsepower tractors, tiller or let's say rotavators, as there are other industry players who are focusing on this segment as maybe there are subsidies that government are giving, what's your view on this, and how are some teams focusing on this segment?

**Neeraj Mehra:** So, yes, we operate in the sub-20 HP segment through a separate brand, which is called Steeltrac, and we're doing relatively well on that. The volumes are slow are less primarily because the segment size is not too big. As of now, there is no intent to go into the power tiller segment or rotary tiller segment.

**Krishna Agarwal:** And sir, my next question is like next you have to cover the whole Indian market, how many dealers we would require, how many are currently in our dealership network and for let's say we talk about a specific region, how many dealers do you see that a region required? Like then in a 50 kilometer you require three dealers or one dealer, how this dealership count can go on?

**Neeraj Mehra:** So Krishna, currently, we have around 1,200-odd dealers at EKL, spread across the length and breadth of the country. Defining a dealer territory is based on the potential of that market in terms of the tractor industry, and how the coverage can be done for that territory. So in geographies, which are smaller, like states like Haryana or Punjab, the dealers are to a certain extent at a distance of 30 to 40 kilometers.

But when you move towards states like MP or Maharashtra or the southern states and Rajasthan, so the distances are very huge. So overall, the dealers are -- it's very difficult to quantify, but the dealers are based out of -- from a distance between 75 to 100 and even 150 kilometers. That is one part. Also, there are in such locations where the geographies are very, very big. There are outlets and sub-dealers that are there. So the dealers have their own outlets at a smaller Tier 4, Tier 5 locations. So that is how the coverage is done. So it is geography-specific and potential-specific.

**Krishna Agarwal:** Okay. So like right now it is 1,200 dealers. So how much are we planning to grow in that dealership count of coverage or not seeing much there?

**Neeraj Mehra:** No. So see, in the northern part of the country, we have a pretty decent network. And our coverage in our stronger markets is to the tune of 80% plus. So our focus for growth is on the west and in the southern part of the country. So yes, over the next two, three years, basically up to financial year '28, the intent is to have a coverage of about 90% across both the brands.

**Krishna Agarwal:** So how much dealers would be required to cover that?

**Neeraj Mehra:** So it will be very difficult to quantify at this point of time. So I think it should be around between 1,700 to 1,800 dealers.

**Krishna Agarwal:** 1,700 more dealers?

**Neeraj Mehra:** No, no, no. Total.

**Krishna Agarwal:** Total. Okay.

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

**Mitul Shah:** Sir, thanks for opportunity again. Sir, my question on your reply to previous question related to Kubota under pressure due to South geography. So South has been declining, Q1 is also 20% down even in the month of July, and our South is down 18%, AP 19%, Telangana 25% decline. And so all these key markets are declining in a heavy double digit on a lower base, and Kubota, of course, got impacted from a peak market share of 3% plus now, it is 1.5%, 1.6%. So what strategy we are doing for Kubota tractor to become stronger in the other opportunity markets? And is there any possibility to launch any product for a Mass category wherein we can gain market share?

**Bharat Madan:** Yes, that is the intent. So that's what the midterm business plan also talks about – again since you do the integration, so there should be availability of product from our portfolio which we can use in Kubota network. And right now, their issue is they are of limited models of tractors, and they are not able to compete fully with the competition. So that's why the presence is also not pan-India. Once we expand the portfolio, they'll be able to leverage the network, both our network as well as their own network. So that's what the company is working on right now, what product we can offer to them from our portfolio and how they can be branded maybe in the co-branding arrangement, which we can sell through the channel. So that should definitely help the brand to gain more market share, which is also one of the levers which we want to deploy.

**Mitul Shah:** But positioning will remain premium only?

**Bharat Madan:** Yes. So positioning will remain premium.

**Mitul Shah:** Okay. So then lastly, on the railway side, what one should take as a sustainable margin? This time it's coming 20% despite double-digit decline, of course, because of the product mix becoming favorable. But how do you see this product mix going forward, next two, three years point of view and margin territory?

**Ankur Dev:** Yes. Hi. Good evening. There are -- other than product mix, there are a few points which will have impact on the margin. One, I would say we will be having the positive impact is the localization of components, which as of now we are importing. That will be a favorable benefit.

Second, I would like to mention that as we are introducing a lot of new components as well as getting into the components for Vande Bharat passenger coaches, there will be some impact because as we launch new products, there are low margins initially. So I think with both these points in mind, I believe margin should be in the range of plus/minus 200 basis points.

**Mitul Shah:** Okay. So can that go plus 200 bases also from this range or maybe in the range of 17% to 20% is the right?

**Ankur Dev:** Yes, that's what I mean, it can be both ways, plus/minus both ways from current levels.

**Mitul Shah:** And sir, we have continued giving some details on the new product side on the railway side. If you can help me with the new product and this import content over the last two, three years, how it has come down or what could be the target? That will be the last question.

**Ankur Dev:** Okay. So if I talk about the new product contribution, it is certainly higher than the earlier version as we are introducing a lot of new products. What was the next one?

**Bharat Madan:** Import content.

**Ankur Dev:** Yes, import content, obviously, it is going down as we are regularly localizing our components, whatever we are importing. So it is going down.

**Mitul Shah:** Yes. So any approximate number for this quarter, how much import is still we are there and what is the potential?

**Ankur Dev:** So as of now, I don't have the numbers readily available. Maybe we can give later on.

**Mitul Shah:** Okay. Sir, thanks and all the best.

**Ankur Dev:** Thank you.

**Moderator:** Thank you. That was the last question. I would now like to hand the conference over to the management for the 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 us at investor.relation@escortskubota.com. Thank you very much and have a good evening.

**Moderator:** On behalf of PhillipCapital India Private Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.