Escorts Kubota Limited

November 13, 2024

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001

BSE – 500495

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra East, Mumbai – 400051

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 07, 2024, for discussing the earning performance of the quarter and half year ended September 30, 2024, and the same has been uploaded on the Company's website at the below link:

https://www.escortskubota.com/investors/financials

The aforesaid transcript was uploaded on the Company's website on November 12, 2024 at 06:36 P.M.

Kindly take the same on record.

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

ARVIND KUMAR
Digitally signed by ARVIND KUMAR
Date: 2024.11.13 11:26:30 +05'30'

Arvind Kumar
Company Secretary

Encl.: As above

"Escorts Kubota Limited
Q2 & H1 FY '25 Earnings Conference Call"
November 07, 2024

MANAGEMENT:	**MR. BHARAT MADAN – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER** **MR. NEERAJ MEHRA – CHIEF OFFICER, TRACTOR BUSINESS DIVISION** **MR. SANJEEV BAJAJ – CHIEF OFFICER, CONSTRUCTION EQUIPMENT BUSINESS DIVISION** **MR. ANKUR DEV – CHIEF OFFICER – RAILWAY EQUIPMENT BUSINESS DIVISION** **MR. SANJEEV GARG – HEAD, FINANCE & TAX** **MR. PRATEEK SINGHAL – INVESTOR RELATIONS AND ESG**
MODERATOR:	**MR. MITUL SHAH – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Escorts Kubota Limited Q2 and H1 FY '25 Earnings Conference Call hosted by DAM Capital Advisors 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 touch-tone phone. Please note that this conference is being recorded.

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

Mitul Shah: Thank you, Del. Good evening, all. On behalf of DAM Capital, I welcome you all for Escorts Kubota Limited's Q2 and H1 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, Tractor Business Division; Mr. Sanjeev Bajaj, Chief Officer, Construction Equipment Business Dividend; 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 company in today's call, which will be forward-looking in nature and are subject to risks as outlined in annual report and investor release of the company.

Over to management for their opening remarks. Thank you.

Prateek Singhal: Thank you, Mitul. Good evening, everyone, and thank you all for joining us today. The current fiscal year marked a significant milestone for our company, as we celebrated 80 years of spreading prosperity and impacting lives, sharing key milestone that we have achieved in the current financial year that are aligned to our midterm business plan shared with you all earlier. We got approval from National Company Law Tribunal NCLT for scheme of Amalgamation consolidating Escorts Kubota India Private Limited, EKI and Kubota Agricultural Machinery India Private Limited, KAI into Escorts Kubota Limited, EKL. This marks a significant step towards becoming one of the largest Indo-Japan machinery equipment collaboration operating from India.

We obtained the certificate of registration from RBI for Escorts Kubota Finance Limited (EKFL), and we are gearing up to begin operations for captive finance of EKL products in the current fiscal year itself. Inaugurated a state-of-art export hub spanning over 58,000 square feet in Faridabad, exclusively dedicated to supplying components to Kubota Group company worldwide.

Quarter ended September '24, marked the first reporting period following the merger of Escorts Kubota India Private Limited and Kubota Agriculture Machinery India Private Limited with Escorts Kubota Limited. All figures for the current quarter as well as the earlier period has been updated considering Merged financial of EKI and KAI with EKL to make meaningful comparisons.

Here are some key highlights for EKL stand-alone financial performance for the quarter ended September '24. Operating revenue at INR 2,476.2 crores, EBITDA at INR 267.6 crores, marginally up as against INR 266.7 crores year-on-year. The EBITDA margin in Q2 is at 10.8% are more similar to last year level. Post-merger margin dilution impact is there as the merged entity are currently not as profitable as EKL was premerger. However, we are actively working to improve post-merger margin by focusing on integrating synergies, enhancing our product mix, and implementing cost rationalization measures.

PBT at INR 310 crores, up by 5.6% Y-o-Y. Net profit at INR 326.7 crores, up by 53.2 % Y-o-Y. This growth was primarily driven by a onetime TAX impact of INR 91 crores approx. resulting from change in long-term capital gain provision as well as impact of broad forward losses of the amalgating companies. EPS stands at INR 29.7 as compared to INR 19.4 Y-o-Y; company continue to be debt-free with enough liquidity on its balance sheet to support future growth plans. The company repaid debt of INR 347 crores approx. of Amalgamating companies EKI and KAI upon merger.

On consolidated basis, company financial performance for the quarter ended September '24 is as follows: total revenue at INR 2,488.5 crores, as against INR 2,477.7 crores year-on-year. EBITDA at INR 264.7 crores with a margin of 10.6%, net profit at INR 324.2 crores, up by 54% as against INR 210.5 crores Y-o-Y.

Moving on to the segmental business performance, starting with Agri Machinery business. On tractor business in Q2 FY '25, the total tractor industry domestic plus export was at 2.35 lakhs tractor at par with that of corresponding quarter last year. Our total volumes were at 25,995 tractor as against 26,241 tractor in the corresponding quarter. On domestic front, tractor industry in Q2 FY '25 was at 2.10 lakh tractor was almost at par with respect to the corresponding quarter last year.

Our domestic tractor volumes stood at 24,768 tractor as against 24,690 tractor in the corresponding quarter. Our domestic market share in Q2 FY '25 stands at 11.8%. We have currently around 1,500 exclusive dealers for our Kubota, Farmtrac and Powertrac brand.

For FY '25 full year, we expect the domestic tractor industry to continue its Growth trajectory with mid-single-digit growth. The industry experienced record breaking growth in October demand due to concentrated festival period and also driven by above average rainfall and higher water level reservoir, anticipated higher crop yield, increased crop production, higher MSPs and improved Terms of trade.

On export front, the tractor industry in Q2 FY '25 came at 24,500 tractors as against 25,900 tractors in the corresponding quarter. Our export volume came at 1,227 tractors as against 1,551 tractor in the corresponding quarter, impacted primarily due to challenges in our key market of Europe, which are experiencing recessionary condition. During the quarter, sales through Kubota Global network accounted for almost 20% of our total export sales.

With the merger of our Agri Machinery, product revenue is getting diversified. And non tractor revenue now counts for around 17% to 19% of our overall agri machinery revenue as compared to 10% to 12% pre-merger. Non-tractor business comprised of agri solution business, we are offering a wide range of Agri mechanization applications such as Rotavators, Harvester, rice transplanter, Bailers, Sprayers and More, all under Farmpower and Kubota brand.

Engine business specialized in high performance diesel engines with power output range of 7.5 kVA to 58.5 kVA in Escorts engine. These engines are primarily supplied to genset OEM with third-party engines also being used when needed. Additionally, our Kubota engine are supplied to construction machinery OEM and 10-kilowatt to 55-kilowatt range.

Service and spare part business, catering to a wide range of agri machinery products, ensuring that our customers have access to support they need for their equipment. For global sourcing by Kubota Group by leveraging China plus One strategy and cost efficiencies of Indian manufacturing, Kubota is partnering with EKL for a robust global sourcing strategy. With EKL well-established large vendor base and Frugal cost structure along with Skilled workforce Kubota is looking at India as a key sourcing base for goods and service to cater this global requirement. The potential of sourcing from India to the world is enormous and establishing first part export warehouse, this year is a step towards achieving the larger objectives.

By clearly distinguishing between our tractor and non-tractor business and making these independent business vertical, we intend to unlock the full potential of each business through focused strategies and efforts going forward. On the revenue side, for the segment agri machinery was up by 5.3% to INR 1,884.2 crores as against INR 1,789.4 crores in the corresponding quarter. EBIT margin for agri-machinery business division were at 9.1% as against 9.2% in the corresponding quarter.

Coming on to the Construction Equipment business. In Q2 FY '25, served industry volumes of cranes, backhoe loader, mini excavators and compactors were down by approx 2% as against corresponding quarter last year. This degrowth was primarily driven by the crane industry, which was down approximately 18% as compared to the corresponding quarter last year.

Our total volume for Construction Equipment business were at 1,394 machines, as against 1,709 machines in the corresponding quarter. Construction Equipment segment revenue came at INR 379.9 crores as against INR 440.2 crores in the corresponding quarter. EBIT margin for the quarter ended September '24 came at 9.3% as against 9.9% in the corresponding quarter.

As we move forward in the fiscal year, we expect an increase in demand due to the government initiative to stimulate the economic and upcoming changes in the emission norm regulation, starting from January 1, 2025, which may result in pre-buying opportunity. Overall, the outlook for the later part of the fiscal is optimistic.

Moving on to the Railway Equipment business Division. Revenue for the quarter ended September '24 came at INR 211.2 crores as against INR 234.3 crores in the corresponding quarter. EBIT margin for the railway segment for the quarter ended September '24 came at 15.2%. Our order book for the railway division at the end of September '24 stand at more than INR 1,100 crores, this order book, however, includes BMBS orders for the freight wagon for approx. INR 382 crores, supplies of which have been temporary on hold by RDSO.

In line with our strategic focus on agri and the Construction Equipment sector, we have made the decision to divest our railway equipment business to Sona Comstar, the purpose of this sale is to streamline our operations, reallocate capital and enhance the scale and efficiency of our core businesses. The selection of Sona Comstar as a buyer and pricing of the deal were a result of a comprehensive competitive process that involved multiple potential buyers across the globe and was facilitated by a reputed global investment banking firm.

Now we request the moderator to finally open the floor for the Q&A.

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

Gunjan Prithyani: when I look at the farm business, of course, there's been a huge change with the merger of these 2 companies. I mean, for the benefit of the group at large, if you can give us some sense on what was the revenue and EBIT for the companies that got consolidated? And also directionally, how to think about margin? I mean, of course, Prateek spelled out few measures, but how should we think about margin recovery or margin build out from here because it is just a pretty big reset down, right? So, if you can give us better color on the 2 subsidiaries financials and how do we see the margin shaping shaping up going forward?

Bharat Madan: Gunjan, this is Bharat Madan: So, I think as we've been indicating in our earlier calls too, so these 2 JVs are combined levels were more or less breakeven operation, and they had about INR 2,000 crores of sales as a top line with very nominal operating margin. So that is why we had syndicated this will lead to about 1.5% to 2% dilution in the overall margin on a short-term basis till the time we work on the profitability improvement for these companies.

The major issue there, obviously, the contribution with the material cost levels are high. The reason is because many products are still getting imported from outside. As a result, the margins are not really high. So, as you localize those products, the margin improvement will happen. So that is a process which will continue in the next 2, 3 years, which is what we are working on, and last quarter what will also depend on the Indian localization, which will happen once the greenfield factory gets set up.

So, till that time, obviously, these numbers will remain under pressure. At the same time, there are some synergies, which will come from the integration of these companies now with the Escorts, especially on the overhead parts, the manpower and other fixed overhead, which are there which also almost 10%, 11% top line, which can get rationalized. So, a lot of common function, obviously, which we perform. So those cost savings will start coming in.

So, we expect, I think, in the next 1 to 1.5 years, you will see, I think the improvement will start getting visible. So, I used to go back to the level of margin that is said, which is, again, at the entity level, we're looking at 12%, 13% sort of margins. So that is the sort of margin which we intend to continue to maintain, and after the registration bases are put into place.

But in the long run, for tractor business per say, we have been indicating the mid-teens sort of margin including these JVs. So that will be the thought process when you go for the localization.

Gunjan Prithyani: Okay. Got it. And just to be clear, this 12% to 13% margin that you are mentioning factors in the localization of engine or 12% to 13% is basically synergies and some interventions which are low? I mean I'm just trying to get what is low hanging versus what engine localization, the greenfield plant will still take time, right? So that potentially I'm assuming is 2 years out.

Bharat Madan: Yes, 12%, 13% is a low hanging one. Then in the long term, we said it will be mid-teens. So, engine. Etc. will also get localised,

Gunjan Prithyani: Okay. And the 1%, 1.5% drag that you -- sorry, 1.5% to 2% drag that you mentioned, when I look at actually the numbers this quarter, it seems a bigger drag. So, is there anything in the underlying business besides the drag from these 2 subsidiaries? Is there anything else to call out? Because if I look at just, let's say, I'm not even looking at adjusted numbers. I'm just looking at quarter-on-quarter margin decline. It seems pretty steep even factoring the operating deleverage. So, anything else from a cost perspective that we should bear in mind was dragged down or impacted the margins in this quarter?

Bharat Madan: So, this quarter, Gunjan, is normally still the weakest quarter for the industry. So that's why you see the bigger impact in the margin dilution looks more. But like I said, on a full year basis, it will remain in the range of 1.5% to 2% only, maybe less than 2% from around 1.5%. So, the next 2 quarters, you will see actually, it will be more positive that was negative impact what you saw in this Q2.

Gunjan Prithyani: Okay. Okay. That's good to know. And second, again, a bit more strategic around this merger now concluded. I think this was one of the large steps we were sort of waiting for to conclude before we could start executing and full flow on our midterm targets. So now with this behind, would you want to like sort of call out what is that can play out more comfortably? Is it exports? Is it components, some bit of update on the midterm strategy or targets that we had laid down? How do we see the progress from here on, on those metrics?

Bharat Madan: Yes. I think Gunjan, as Prateek mentioned in his opening remarks, the 2 companies which we merge are not totally dependent on tractors. So, tractor for them was only 60% of the business roughly. And the balance, 37%- 40% was coming from the non-tractor side.

So, which is a positive side, so dependence will not be only on one product line So the other product line and verticals, which we created, which is for spare parts and service for the engine business or the Agri solution for the implement, harvester, transplanter the line or for the global part sourcing. So, these 4 verticals which have been created will continue to be the growth driver other than the tractor business, of course, which will be there.

So, dependence will also be then more on the other verticals, which we also expect will be a good line for growth purposes. So, in these all verticals, we expect the growth should be significant in the coming years, and we'll see very large potential across all 3 verticals, especially on the parts part and the engine part.

Gunjan Prithyani: Okay. Got it. Just last question, outlook on the industry. We had even your competitor report some time back in the guidance on the industry, so just trying to get your thoughts on any change from your perspective on industry demand looking far more stronger and gearing upside to the guidance that you all giving for the industry?

Neeraj Mehra: Gunjan, this is Neeraj Mehra, so we are positive on my industry. We feel that fiscal year '25 will probably end with the growth of about mid-single digits. So mid-single-digit growth we are looking at for this fiscal year.

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

Raghunandhan N. L.: Festive greetings. Sir, continuing on the margin part, so was there any other impact on the margin with reference to commodity costs either in Q2 or expected in Q3? And also, in terms of the margin improvement, localization is a very important trigger. So, if you can share in terms of the greenfield plant, what is the current status? When is the construction work expected to start? Any thoughts on the timeline?

Bharat Madan: So, Raghu, on the greenfield, obviously, like I said, the localization will do a large extent, depend on the greenfield plant going live and kicking. So, as we indicated last time, so we have submitted an expression of interest to the UP government now with the Rajasthan government was not able to give us the assurance for the water supplies were to withdraw the expression of interest on Rajasthan.

And now we are discussing with the UP government and the discussions have been very positive. So, we expect within the next 6 months, we should be able to close on the land part. And if we get the land alloted in the next 6 months, then we will next 2.5, we should be able to go live on no commercial production on the tractor side. So, I think our original plan of FY '27, '28 remains there. So, we are still sticking to that. So hopefully, that will come on time if it's all.

Raghunandhan N. L.: Got it, sir. And any near-term issue, sir, on the commodity cost? Was there any impact?

Bharat Madan: So, in Q2, we had seen some inflation, but very nominal, it will not be significant. We have taken a price increase in the first quarter in anticipation. So especially on the rubber side, the tire prices have gone up. You would have seen in the tire industry also, so both because of the environment issue and the normal natural rubber price is going up. So, it's a short supply and the costs were going up. So, there is a pressure on that front only, but it's not something significant which will lead to any major description. So, this quarter also is more or less softness only in the commodities. If we don't expect any significant change in the material cost side.

Raghunandhan N. L.: Got it, sir. And in terms of the midterm business plan, a couple of areas where I will request some update. One is in terms of the entry into export markets like Brazil and U.S., would you expect that to happen at the beginning of FY '26? And second, on the new product launches, the Farmtrac, Worldmaxx had come out how is the initial feedback? And apart from that, what other new products can we expect in the coming months?

Bharat Madan: So, on export, our first priority is to cater to the Mexican market and the Southeast Asian market for which the products are being developed now. So, as we mentioned earlier, from this fiscal year-end, we'll have the product ready partly for European market. And next year, we'll have a product label for southeast Mexican market, too, and that will start. I think the export for the

American market and South America will largely depend on the greenfield facility. Those products are right now not in our portfolio. So, they will obviously come up along with that. But we expect from Q4, you will see a growth momentum to start on the export so far, exports have not done well for the European market, which is our largest market, has been under pressure. But now from Q4, we expect the numbers to start improving.

Raghunandhan N. L.: Okay. And Neeraj sir, you can talk about the new products?

Neeraj Mehra: So first, on the Worldmaxx thing. So, as you know, Worldmaxx was a slightly higher horsepower product and primarily for our next segment. So, we have gone slow and steady on that, and the initial response has been very, very good. And seeing the initial response, we now intend to extend the geographies. Currently, it was restricted to certain geographies only.

Going forward, we also intend to introduce a new range again in the Farmtrac brand, this should be out by about January, February. It's a 41 to 50 HP segment range, where we had certain product gaps, both on the 2-wheel and 4-wheel front. So, it will massively cover those gaps and help us grow volumes and market share in key markets. So that should come around February.

Raghunandhan N. L.: Got it, sir. My last question was on the tax rate, Bharat sir, that tax benefit, what we have got this quarter, given the accumulated losses and the merger impact how much more tax benefit can we expect in the coming quarter or for full year FY '25, what could be the tax benefit that we could book?

Bharat Madan: So, I think the tax impact has all been taken now in this quarter. So, all carried forward losses benefit has flown into this quarter. And for the treasury income side, also, the tax impact on the capital gain has also been considered. The only good thing will be, I think, going forward since the treasury income is still large for the P&L, so effective tax rate will go down from 25% to maybe 22%, 23% level. So that will be continuing going forward.

Moderator: The next question is from the line of Amit Goela from Rare Enterprises.

Amit Goela: Bharat, just one question. Could we keep reading or hearing that crop prices are good rains have been good, crop prices are good at is doing better. But at the same time, we keep seeing that there's solid pressure on consumption you're talking of like mid-single-digit growth. What exactly is happening? And like can you give us some color? Or can you tell us like exactly what you are seeing and what you are experiencing on that side?

Bharat Madan: Okay. I'll ask Neeraj to respond to this. But just to give you an idea about this mid-single digit. But if you look at the first 6 months, the industry has been flat. So, when you're talking about the full year, which will be the second half has to grow in double digit to give you a mid-single digit sort of growth. So that was the growth momentum will start from October, which we've already seen has happened.

October has been very good for the industry, and we expect a similar momentum will continue in the balance 5 months also. So, we think the green shoots are already there. So rural recovery is happening, and we've seen that happening in October and will continue going forward. But maybe Neeraj can also throw some light on this.

Moderator: Mr. Amit, does that answer your question?

Amit Goela: Yes. Can Mr. Neeraj also explain what you're saying...

Neeraj Mehra: Yes, yes. So, Bharat has already explained what has happened in the past 6 months and how we see the industry over the next 6 months. But overall, the rainfall has been pretty good. So, it's been 8% to 10% surplus growth. The major issue was the reservoir levels. So, the reservoir levels at this point of time are between 85% to 90%. So now that impact will actually culminate in growth in H2. So that is why we are a little positive on a double-digit growth in H2.

Also, looking at the initial impact of the kharif crop, the output is positive, and the Mandi arrivals have started happening in October and the output is higher than last year. MSPs of the Rabi crops with respect to last year, are also slightly higher. Government's focus on infrastructure as well as on the agri sector remains there.

So, all these combined together, and it might look like a single-digit growth for the entire year. But we need to look at the fact that last year base was not a low base. We ended the last year at about 8,75,000 units for the industry. So mid-single-digit growth would take it to about 920, 925 which is probably the second highest ever in the history of India in terms of industry. So, we think it's a positive, and this will move further forward for the next year.

Amit Goela: Okay. Neeraj, can you throw some light also on what's happening on the agricultural equipment side?

Neeraj Mehra: So, on the Agri equipment side, see, we have -- earlier, we were operating with a single brand, which was Farmpower. Now with the Kubota coming in, our focus on the agri equipment side, primarily, we were focused on the rotavator business. And now with Kubota coming in, the combined harvesters and the Rice transplanters. So, all these -- including the Sprayers as well as the super speeders. So, the portfolio has, to a large extent, increased, so we intend to -- we are hopeful for a very positive growth in the next 6 months and the subsequent year also.

Bharat Madan: So, Amit, Kubota actually has almost grown more than 100% on this business of agri solution this year in the first 6 months. So, the harvester’s growth has been significant. So overall, if you look at value terms also, it's more than 100% growth that Kubota have seen. So, we expect this will be a very positive growth driver for us going forward.

Moderator: The next question is from the line of Shubham Patel from JPMorgan. As there is no response from the participant, we'll move on to the next question. The next question is from the line of Mumuksh Mandlesha: from Anand Rathi Institutional Equities.

Mumuksh Mandlesha: So firstly, can you just help us understand how was the festive period good for the tractor industry and for us?

Neeraj Mehra: So, the festival period was very good. Probably, for a single month, the best ever industry figures as well as for us. So as Prateek has mentioned that we did highest ever sales in the month of October. This was primarily due to the fact that all the festivals have combined together and were falling in a single month. So, we have done our best ever sales this festival season.

Mumuksh Mandlesha: So, if we compare to festive period to festive period, would it be double digit, sir?

Neeraj Mehra: Sorry?

Mumuksh Mandlesha: If we compare festive period to festive period last year, where last year it came around October to November and this year from October to start of November. So that growth will be double digit, sir?

Neeraj Mehra: Yes, yes. That growth is double digit. It's a decent double digit.

Mumuksh Mandlesha: Okay. And sir, how would be the dealer inventory post the festive season?

Neeraj Mehra: So, our current inventory levels are between 35 to 37 days of stock on an annualized basis.

Mumuksh Mandlesha: Which would have come down post festival, sir?

Neeraj Mehra: Yes, substantially.

Mumuksh Mandlesha: Got it. And sir, how do you see the region wise strength, sir, particularly where you're seeing like Gujarat and Rajasthan will be very heavy rains had dent in the volumes earlier. So how do you see the trend regionally, sir?

Neeraj Mehra: So, see, in quarter 2, the industry in the eastern part of the country, except Bihar grew tremendously, especially Chhattisgarh, Jharkhand market grew tremendously. It was primarily driven by, to a certain extent, some subsidy sales and certain shops given in Chhattisgarh. But with pretty adequate rains happening, we see -- we feel that West and especially South will actually pick up now.

West has already started picking up. Gujarat is a slight concern, but Maharashtra is doing pretty well for the past 3, 4 months. And last month, though it was not part of H2, in October, the industry in the certain part of the country was pretty good. So as the reservoir levels are now alright close to a level of 85%, 88%, we feel that the south industry will also move.

Mumuksh Mandlesha: So, we also -- with support to the Kubota brand, which was muted last year in terms of the tractor volume?

Neeraj Mehra: Absolutely. Absolutely.

Mumuksh Mandlesha: Got it, sir. Sir, in this quarter -- in the Q2 quarter, the other expenses and the employee costs have increased Q-on-Q despite the lower revenues. Any reason for the increase in both these expenses? Anyone-of there, sir?

Bharat Madan: Yes. So sorry, I think we lost you in between. So, there was actually -- so the other cost basically includes the contractual manpower. So, as you know, this quarter typically is a quarter where the production levels are very high. and the sale number is low. So that leads to high contractual manpower costs.

And it's happening both across the Construction Equipment business as well as on the tractor side. So, the sale typically happens in the next quarter in the season time, which has happened in October. So, the inventory buildup has started in the Q2. So that leads to the higher contractual manpower cost, which is more variable in nature linked to production and non-linked to sale, but we'll see this getting diluted in the next quarter.

Mumuksh Mandlesha: Understood, sir. And sir, lastly, on the Construction Equipment, sir, it has been negativing till now for the industry and for us. How do you see the recovery going ahead, sir?

Bharat Madan: Sanjeev, can you respond to that?

Sanjeev Bajaj: Yes, yes. Sanjeev Bajaj this side. So, first half of this year, we've seen little subdued performance of the industry, primarily because of the elections in the first quarter and then heavy rains in the second quarter and extended monsoon till September in many parts of the country.

So -- but -- and the overall speed of the project's execution was evidently very slow. So therefore, buying has been less but we believe that from Q3 onwards and in Q4, this thing, we will turn around. We also expect that there will be some pre-buying before the BSV norms cutting, which will be from 1st of January. So that also will add to some demand in Q3 as well as Q4. So, at an overall level, I think there will be some correction of slower growth in the first half.

Moderator: The next question is from the line of Priya Ranjan from HDFC AMC.

Priya Ranjan: So, my question is on the construction equipment, we are closer to around double-digit margin. And -- what is the path to maybe mid-teen margin in the construction equipment because the profitability from the past has substantially improved. But I think for the full company to have a double-digit margin -- I mean the mid-teen margin in this segment also has to go to somewhere around mid-teen margins. So -- and a longer-term outlook in terms of growth, I mean, which are the segment because backhoe, we are still not able to grow meaningfully in terms of market share. So, what are the levers of growth in that segment?

Sanjeev Bajaj Yes. So, I will respond to this in terms of the actions which we are taking to improve the margin. But I mean the direction of mid-teens would be probably Bharat sir would be able to respond better. So -- so you are right. Currently, we have improved from very low levels in the past few years to 10% around that. And the next levers for growth would come from, of course, the industry is expected to grow tremendously over 5 to 6 years because of the focus of the government on infrastructure.

And we believe that the overall Construction equipment, which was 1.37 lakhs last year will go to more than 2 lakhs by 2030 and around that. So therefore, there is an opportunity in terms of volume, which will come to us, and we represent close to 50% of the total industry. So that in that way, the opportunity will be available for us also.

Going forward, I think, as you see in backhoe loaders, so there is a lot of work being done on backhoe loaders because this product is now getting ready for sales in global channels, including the Kubota channel worldwide and we are coming up with the new platform of backhoe loaders along with the BS V introduction, which will happen in first quarter of next year. So that is going to make this product more globally acceptable and will lead to larger volumes.

Even on the crane side, the product portfolio which is being worked out for midterm business plan, and we are expecting that there will be industry growth, and there will also be need for larger models, which, of course, will contribute more in terms of margins. So, we have a healthy plan of introducing new models in the coming time.

Priya Ranjan: And do you see the financing arm as a lever in this segment as well?

Sanjeev Bajaj Yes definitely.

Priya Ranjan: Have the financing arm mostly.

Sanjeev Bajaj Yes, sir. So, we believe that financing arm will definitely help us in especially in the retail segment, especially on the back loader where first-time buyers and first-time users number is quite high in the industry. Crane financing is still not a problem because they are quite consolidated customer base, but a large volume headroom is available on backhoe and financing will really help in that area.

Priya Ranjan: Understood. And just on the -- you mentioned about 50% addressable market, I mean, you see as of now. So, in the next 2, 3 years, what is the kind of addressable market you want to capture in that?

Sanjeev Bajaj From -- so we will be looking at expanding the current range of products. And apart from that, there are opportunities of bringing some more products from Kubota table So like Kubota also does scrip share loaders and compact truck orders. So, there is a possibility of bringing those products also. We are doing a market study on that. And apart from that, there are other revenues, which are our R&D and product planning function are working, which can expand the portfolio. But it is too early to give an indication on that.

Priya Ranjan: Bharat, can you...

Bharat Madan: Yes. So just to respond on the margin question. So, Priya, obviously we don't expect with the kind of portfolio which we have today on the construction space. The margins, I think, will be somewhere around this high single digit or maybe just on the double-digit number. We don't look at going up to mid-teens. But when you look at the current portfolio, I think among all 3 businesses on return ratios, I think are the base for the construction equipment even now. And if you look at the capital employed is very, very low in this business and the kind of return which we're generating, I think is the highest ever of all 3 business which we have today. So even if we are able to maintain these levers, we'll be very, very happy if we are able to get this because we don't see a major uptick in the volumes given the limited segment we operate in in this space. And backhoe is the largest market where we are a very nominal player as those volumes go up to the level which actually gives a push, or it will be difficult for us to go beyond these margin levels.

Priya Ranjan: But because some of your competitors in the crane, et cetera, is already doing mid-teens margins. So, I mean, so that's why I was wondering whether is possible.

Bharat Madan: Yes. It all depends on the mix; I think what we sell. So, if we go to the higher end mix better, then we will see a better opportunity there, but that again keeps on changing. So, I think as of now, we've seen the best so far is only the double-digit number. So, let's see, I think if we are able to cut costs somewhere, maybe we'll be able to do something better there.

Priya Ranjan: Sure. Okay. And on the export side, I mean, the end market has been bad, but as you mentioned about with the new product launches, et cetera, in the Southeast Asia and probably Mexico. So can we expect very very high growth next year because some of the markets might not be doing well at this point of time. But I mean when the things changes, it can be very high because your number is very, very small at this point of time. So can we expect a very substantial jump in the numbers. I mean, the growth will look very high, but I mean on an absolute term, it will be, like I say, in mid...

Bharat Madan: Yes, it's quite possible because as you rightly mentioned, the base is very low for us. I think this year we'll be doing close to 5,000 the same level as last year. So, it's not going to be a major number for us if you look at the industry perspective. So, if you look at top of this number, the industry's export start picking up from next year, then definitely the smaller numbers will give you a very high base in the growth number.

But I think, as we mentioned, the idea is to keep growing this number with the export is one area where we want to have more focus on and is much easier compared to the domestic market. So that's one area which we'll continue to remain our focus on. And I think you should see that sort of growth, maybe it will only high double-digit growth, which will be there next year on this.

Priya Ranjan: Sure. And just lastly on the Kubota after this amalgamation the brand Kubota last year has suffered because I think the South has been weak. The south and western market was weak. So that -- so as we look at the brand, I mean, how should we look at the Kubota brand doing in next 6 to 9 -- I mean, 12 months?

Bharat Madan: So good thing is, like you rightly mentioned, the markets where Kubota was strong, were degrowing. So that's why we have seen a decline in the market share. But when we've seen the revival now in the South and East market, they are growing very well. They have done better than the industry growth in October. So, we expect the next 6 to 12 months should be good at even from Kubota brand as that market will outperform, so I think we should see the good performance coming from Kubota brand also there.

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

Jinesh Gandhi: Yes. My question pertains to the industry outlook which you have given. So, if I look at the growth for the industry until October would have been 4.5% or so. So, are we looking at -- is the remainder of the year to be about 5%, 6% only or that number is given the positives which you're looking at?

Neeraj Mehra: So, this is Neeraj this side. So, for H1, the industry was more or less flattish at about 1%. October actually grew by about 23%, 24% overall. So, for the balance period, we're looking at a double-digit growth for the industry. So overall, what we're looking at is mid-single digits to a marginal high single-digit growth for financial year '25.

Jinesh Gandhi: Got it. Got it. That's right. And secondly, Mr. Madan if you can also talk about how how stand-alone business performed excluding merger that could give us some reference points through the previous quarters back say. So, if you can share revenue, EBIT, PAT EBITDA, Standalone excluding merger that would be helpful.

Bharat Madan: Sorry, your voice was not very clear, Jinesh. Can you repeat your question?

Jinesh Gandhi: Yes. I'm referring to the stand-alone business performance, excluding a merger, if you can share the broader numbers, revenue, EBITDA, PAT, that will be useful.

Bharat Madan: Okay. So, we are not actually captured this of the quarter where we did the consolidated numbers. But like you mentioned, so roughly, if you look at the performance, it's more or less similar. So, I think on an overall basis, the company had done close to similar 12% to 13% sort of EBITDA, which was more or less similar as last year. So, the impact of the merger, obviously has in the dilution. So, this quarter dilution impact is slightly higher because this is a very low revenue number. But going forward, we expect the direction will be slightly lower. So, we expect about 1.5% dilution on a full year basis will happen when you end this year.

Moderator: The next question is from the line of Vijay Sarthy from Subhkam Ventures.

Vijay Sarthy: Just 2 questions, sir. One -- so with respect to your railway business, the business is actually in structural growth, and there's a tailwind ahead given that is that we sell at just 10x of current annualized PAT when business is very ripe. I just wanted to understand that thought process.

Second question is, given that we are operating close to around 60% utilization, and the fact that with mattress are exposed from the existing plant, do we need the new facility why this urgency?

Bharat Madan: So, I'll respond to your first question on the railway business. So, I think as you mentioned, so yes, the multiple has been low. It's about 12x likely of the PAT for the railway business, if we look at this. So obviously, the expectation for everyone was very high, but we have run a very competitive process where we approach almost 34 buyers, potential buyers and not only in India, but it was also the globe, including some private equity players who actually are interested into this line of business.

But the interest that we've seen was not very strong. So, the issue with most of the multinational player was, they've got a parallel product range, which is competing with us. So, they don't see much value into our existing portfolio. So, their interest was very low. So, the value also which we got from the table was very, very low.

So, idea was to look at a player who is totally new to this line. The product we make will be valuable. So, which is why we went to the local players now, where we saw some interest and Sona to be the highest bidder among all the other local players and that's why we went to Sona.

The idea is also that our focus on the railway business has not been that high because we have been now constraining on setting up the greenfield, setting up the captive finance arm and focus from Kubota perspective will always be on the core businesses.

So, this is one business which has a potential to grow. But because of our focus not being there, this will not be at full potential. So also go to a partner who can actually do full justice to the business and taking it to the right reputation with the business users. So, I think it was in that interest only, we thought it would be good now to think, take care of this business and divest it to Sona.

So, valuation-wise, expectation is one. But second is what do you get to the market. There's also another thing which we need to keep in mind. When we also started, we had very high expectation. But when we came to reality, and there was issues obviously around and the general reason for the buyers had that we can't have a value coming from the same product line. The railway doesn't allow you to sell the same product category in 2 different brands in the same entity.

So, there's a restriction there. So, this is the kind of business is very unique and it's its own complexities, so which is not something which is easily understood by the industry. So that's why we decided to go with this, and we think this is a good value, and there's also something on the table for Sona and that's the incentive for them to also grow this business further. And it's good for our employees of our customers running anyone.

Vijay Sarthy: Okay. On the second question?

Bharat Madan: So, second on the capacity utilization. So, if you look at our total numbers today on a combined basis, we are almost at 125,000, 130,000 tractors selling annually. And our capacity today is about 170,000. So, which means it's very little scope actually to grow. If you're looking at industry growing next year also the double digit, then you will have very limited scope especially when you've got seasonality also in this industry.

So, you will actually hit your peak very soon. So, we don't see – even much scope, if we don't set up the industry in greenfield now will be left out of pace. So, we will start the work now. So that in the next 3 years or 4 years when we have a project is ready and with greenfield capacity expansion happens unless we are able to cater to that market. Otherwise, the entire growth plan for export and domestic, which is there in place, so that won't be able to really equitable.

Vijay Sarthy: So, for the next 6 months, we can surely see some amount of land allotment and then we can get -- we'll have the capital equipment order. All of this can happen in the next...

Bharat Madan: So capital equipment order will not happen. So, first priority is to get the land. So right now, so far, whatever discussion we had with the UP government have been positive, and they were assured it will be able to help us and get the land alloted, if that happens, obviously, the ordering will start after the land allotment is done.

Vijay Sarthy: So, by -- so next year this time, we would have done the ordering of capital equipment, am I right?

Bharat Madan: Yes, we hope so.

Moderator: The next question is from the line of Shubham Patel from JPMorgan.

Shubham Patel: Just a question from my side. That's a drag in the dilution impact of in Q2 versus Q1 is coming to around 1.6%. But when we compare with Q2 of current year with previous year, the drag is coming to 2.9%. So, the dilution impact is appearing higher, so can you just elaborate? And point number 2 is that there will be inventory levels will be at higher levels. So, what is the amount of inventory credit that is sitting right now on the P&L in the current quarter?

Bharat Madan: Sorry. So first, I think your question is on the dilution in Q2, the dilution you're saying is more than the dilution in Q1, right?

Shubham Patel: The Q2 versus Q2 the comparison and then the dilution impact is appearing 2.9% and Q3 versus Q1, which is appearing 1.6%. So, dilution impact is around 1.3% higher when we see it in the previous year. So, if you can just elaborate any reason -- specific reason for the same?

Bharat Madan: Yes. So last year, obviously, they had a positive EBITDA. And this year, they did not have this EBITDA and most of it is typically because of the issues around the product costs, which are getting imported, versus why I said they were importing the product, so they sit on a high inventory level. And that obviously as a better view carrying inventory with a high buying price and that it comes in the quarter. But going forward, the price reduction has happened because of this the positive impact will start coming in from Q3, so if you look at the full year level, we expect the dilution will be about 1.5%. So not in what we see in Q2.

Shubham Patel: Okay. And sir, what is the amount of LH credit that is sitting inventory projects because since Q2, we'll be building up the inventory, so compared to Q1, we would have got the inventory gain benefits in the P&L.

Bharat Madan: Yes. So, like whatever production has happened in Q2, the positive effect of that has already come into this. So, the sales number will obviously happen in Q3, but you will not get the production benefit here. But then so are your costs being also higher? Like you mentioned the question about other costs, other cost higher so your costs are also higher. So that actually utilizes the impact of higher production with the higher costs. But in Q3, when you get a higher sale obviously that will have some positive impact.

Moderator: Mr. Shubman, does that answer your question?

Shubham Patel: Yes.

Moderator: The next question is from the line of Mitul Shah from DAM Capital.

Mitul Shah: Just before going for the questions, I have one clarification on the margin side, current reported margins roughly 10.8%. If we take out the railway business, it comes closer to 10%. So, we earlier guided that over the next 2, 3 years once this new plant, localization, et cetera, it will go to 12% to 13%. So, this 10% will go to 12% to 13%. So right now, we are considering railway business as a normal continued operation?

Bharat Madan: In 2, 3 years' time, obviously Railways business will not be there because we expect within in the next 1 year, I think the divestment should get completed. So, what we mentioned is without railway business.

Mitul Shah: And now a question on the second half. In terms of double-digit growth, as we highlighted for the industry, which are the regions or geographies will see much higher growth. And also, after this combined entity and after merging of the Kubota, which are our opportunity markets and which are the stronger market because without Kubota, South and West Maharashtra was earlier considered to be weaker opportunity. But now Kubota already has 7%, 8% market share in Maharashtra and Karnataka. So combined entity, what is the situation now?

Neeraj Mehra: So, Mitul, this is Neeraj Mehra this side. So first, on the industry side, we feel that overall industry will grow across the country, but the higher growth will come in from south and the western part of the country. The second part, as regards to which are our opportunity markets and strong markets. So, at the beginning of the year, we had started our focus on West to be our growth market for the next couple of years.

Now with Kubota coming in, we feel that South and West are the 2 markets where we will focus more and where we see an opportunity to grow substantially because over the last couple of years, we have had put in place our channel strategy for both Maharashtra and Gujarat and also a couple of states for South. And with Kubota coming in, we think that our growth in South and West will be higher than what it has normally been.

Mitul Shah: Okay. Sir, last question on your policy on the cash strategy on that, we are already having about INR5,000 crores, INR6,000 crores kind of cash and other this cash will generate from the sale of Railway business, about INR1,400 crores, INR1,500 crores. So, by end of next FY '26, '27, it goes to INR8,000 crores, INR10,000 crores kind of a cash, whereas capex requirement is also much lower even if we consider land acquisition and all. So, what would be our strategy? Or what is our thought process on the cash management going forward?

Bharat Madan: So, Mitul, there are 3 important I think the spends which will happen. So, I think we indicated, I think, in earlier calls also. So, 1 honestly, we already done is the debt repayment after the merger. So, there are about INR 350 crores of debt is repaid for the JV over liquidity on the balance sheet. The greenfield project, we're estimating will cost somewhere around INR 4,500 crores, which will obviously spend over the next 4 years' time, it is not upfront. And then our finance company, we have marked INR 700 crores of capital for that to grow.

Now this put together takes care of almost INR 5,600 crores- INR 5,700 crores. In addition, there will be normal capex will continue. So what we're banking on really will be the divestment proceeds which will come from railway and the normal cash generation, which will happen every year, which will be in the range of -- I think if you look at the last maybe INR600 crores to INR800 crores of free cash flow gets generated each year.

So that is kitty which obviously we need to use, and we already indicated our dividend distribution policy now, which we have increased. We said we'll take it up to 40% level of the retained earnings. And also, I think we'll have to keep discussing. Proceeds in the railways proceeds; we are not really met above mind. So, this still discussion has to happen in the board, but that is still some time before we get the money into the company after we get all the approvals. But yes, I think that's, as you mentioned. So that's one obvious thing which will happen.

Moderator: The next question is from the line of Zubin Khurshed from Karma Capital.

Zubin Khurshed: So, apologies if this question has been answered, I joined this meeting late. Sir, now that we've sold off our railway business as well as we've seen a delay in terms of the greenfield capacity for engines. So just wanted to know if -- of course, there will be some changes with respect to our midterm plans which we have set in the beginning 2, 3 years down the line. So just wanted to know if there are any revised targets that the company is thinking about? Because in the midterm plan, we did have certain numbers for the Railway division as well, but now we've also seen changes happen to the entire setup. So just wanted you have thoughts on that.

Bharat Madan: Yes. So that's right, we had mentioned. So, we will be working on the revised midterm business plan, looking at the current scenario and whatever developments have happened so far in the last 2 years. So, we expect -- I think next year, we should be able to come out with this revised plan. Obviously, first, we need to discrete the board level, which we are planning to do some time towards the end of this fiscal year. And then after that, probably, we'll be able to initiate it with all of you.

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

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

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.