Escorts Kubota Limited

August 7, 2023

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

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

BSE – 500495

NSE - ESCORTS

Sub: Earning Call Transcript

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the conference call held on August 1, 2023, for discussing the earning performance of the quarter ended June 30, 2023, and the same has been uploaded on the Company's website at the below link:

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

Kindly take the same on record.

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

SATYENDRA CHAUHAN
Digitally signed by SATYENDRA CHAUHAN
Date: 2023.08.07 17:21:13 +05'30'

Satyendra Chauhan
Company Secretary

"Escorts Kubota Limited (EKL)

Q1 FY '24 Earnings Conference Call"

August 01, 2023

MANAGEMENT: **MR. BHARAT MADAN – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER -EKL**
MR. HARISH LALCHANDANI – CHIEF COMMERCIAL OFFICER – AGRI MACHINERY BUSINESS DIVISION EKL
MR. SANJEEV BAJAJ – CHIEF OFFICER, CONSTRUCTION EQUIPMENT BUSINESS DIVISIONS
MR. ANKUR DEV – CHIEF OFFICER – RAILWAY EQUIPMENT BUSINESS DIVISION-EKL
MR. PRATEEK SINGHAL – INVESTOR RELATIONS AND ESG-EKL

MODERATOR: **MR. RISHI VORA – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Escorts Kubota Limited Q1 FY '24 Earnings Conference Call hosted by Kotak Securities 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 would now like to hand the conference over to Mr. Rishi Vora from Kotak Securities Limited. Thank you, and over to you, sir.

Rishi Vora: Yes. Thank you, Karen. Good evening, and on behalf of Kotak Securities Limited, I welcome you all for Escorts Kubota Limited Q1 FY '24 Results Earning Conference Call. I also take this opportunity to welcome the management team from Escorts Kubota Limited. Today, we have with us, Mr. Bharat Madan, Whole-Time Director, and Chief Financial Officer; Mr. Harish Lalchandani, Chief Officer, Agri Machinery Business Division; Mr. Sanjeev Bajaj, Chief Officer, Executive Construction Equipment Business Division; Mr. Ankur Dev, Chief Officer Railway, Equipment Business Division; and Mr. Prateek Singhal, Investor Relations and ESG at Escorts Kubota Limited.

We would start the call with brief opening remarks from the management and followed by an interactive Q&A session. Before we start, I would like to add that some of the statements that the company makes in today's conference call will be forward-looking in nature and are subject to risk as outlined in annual reports and investor releases of the company. At this point I would request management to make their opening remarks. Over to you, sir.

Prateek Singhal: Thank you Rishi. Good evening, everyone, and thank you all for joining us today. We are delighted to share strong start of financial year 2024 with the best ever quarterly financial performance so far, both on standalone and consolidated basis in Q1. Few highlights of Company's standalone performance for the first quarter ended June 2023 are as follows: Highest ever quarterly revenue from operations at INR2,327.7 crores in quarter ended June '23, up by 15.5% as against INR2014.9 crores in corresponding quarter. Tractor sales volume at 26,582 tractors in quarter ended June '23, as against 26,797 tractors in the corresponding quarter last year.

Construction equipment volume for the quarter ended June '23 was up by 42.1% to 1,373 machines, highest ever for Q1 as against 966 machines in corresponding quarter last year. EBITDA for the quarter ended June '23 was up by 62.2% at INR326.9 crores as against INR201.6 crores in the corresponding quarter last year and sequentially up by 38.6% as against INR235.8 crores in Q4 FY '23. EBITDA margin for Q1 now stand at 14%, up by 404 bps as against 10% in corresponding quarter and sequentially up by 324 bps as against 10.8% in Q4FY'23, mainly led by operating leverage in Construction and Railway Business sequentially, better realization and softening in the commodity price.

PBT at INR378.6 crores, highest ever, as against INR198.1 crores in corresponding quarter last year. Net profit up by 91.8% to highest ever quarterly profit of INR282.8 crores, as against

INR147.5 crores in corresponding quarter last year. Company continued to be net debt free with sufficient available liquidity for growth and capacity expansion.

Please note that, during the quarter we got approval for a scheme of capital reduction of 2,14,42,343 equity shares of face value of INR10 each, representing approximately 16.3% of the paid-up share capital pre-reduction, which will become effective from 29th May 2023. The share capital of the company now stands reduced from 131,94,06,040 to 110,49,82,610, divided into 11,04,98,261 equity share of INR10 each.

Few financial highlights on consolidated basis for quarter ended June 2023 is as follows: Turnover, up by 15.9% Y-o-Y to all-time high quarterly revenue of INR2,355.2 crores. EBITDA margin at 14.1%, as against 10% in last year's same quarter. Net profit more than doubled to highest ever INR289.9 crores. EPS stands at INR26.76 as compared to INR13.01 in the corresponding quarter. Moving on to the segmental business performance.

Starting with the Agri Machinery business, the domestic tractor industry for the quarter ended June 2023 was at 2.61 lakh tractors as compared to 2.65 lakh tractors in the corresponding quarter, down by 1.9%, due to preponement of the key festive season this time to March '23 as against April last year, combined with unseasonal rain and reduction of subsidies impacted sales.

Our domestic tractor volume went up by 2.5% to highest-ever Q1 volume of 25,226 tractors, as against 24,608 tractors in the previous year, resulting in 41 bps gain in our market share to 9.7% in Q1 FY '24 as compared to 9.3% in the corresponding quarter. We continue our channel expansion to cover the white spaces for both. Powertrac and the Farmtrac brand, primarily in our opportunity market and our total dealer count in India at the end of June '23 quarter stood at 1240 plus.

On the export side in Q1 FY '24, the industry was down by 31.1% to 24,200 tractors as compared to 35,000 tractors in the corresponding quarter. Our export volumes went down by 38.1% to 1,356 tractors, as compared to 2,189 tractors in the corresponding quarter. Sales through Kubota Global Network during the quarter ended June '23 contribute approx. 32% of the total export volume.

Segment revenue for the Agri Machinery Business Division was up by 4.4% to INR1,666.8 crores, as compared to INR1,595.8 crores in the corresponding quarter. EBIT margin for Agri Machinery Business Division were up by 285 bps to 13.4%, as compared to 10.6% in corresponding quarter and was up by 348 bps, as compared to 9.9% in sequential quarter, mainly led by improved price realization and softening of the commodity prices.

Going forward, for FY '24, we expect the domestic tractor industry may register low-single digit growth, led by adequate reservoir levels, better crop prices, better liquidity, and adequate credit availability.

Coming onto the Construction Equipment business, our served industry volume of crane, backhoe loader and compactor were up by 30% in Q1 FY '24, as compared to the corresponding quarter, led by growth in the crane industry by 59%, backhoe loader industry by 23%, and compactor industry by 32%. Our total volume of manufacture and traded products went up by

42.1% to highest ever Q1 volumes of 1,373 machines, as against 966 machines in the corresponding quarter. Segment revenue went up by 46.3% to INR360.1 crores, as against INR246.1 crores in the corresponding quarter.

EBIT margin for the quarter ended June '23 went up by 658 bps to 7.6%, as against 1% in the corresponding quarter, led by operating leverage, better realization, and improved product mix. Despite the onset of monsoon, there is a sustained demand for construction equipment industry, led by government thrust and focus on faster execution of infrastructure projects. We expect current demand momentum to continue going forward and further accelerate post monsoon in balance of the year. Coming onto the Railway division.

Revenue for the quarter ended June '23 went up by 71.8% to our highest ever quarterly revenue of INR297.7 crores, as against INR173.4 crores in the corresponding quarter. EBIT margin went up by 738 bps to 20.9% in quarter ended June '23, as against 13.6% in corresponding quarter. Our order book for the division at the end of June '23 is approximately INR950 crores, and we continue our focus on expansion and diversification of Railway business product lines. Now I will request the moderator to open the floor for Q&A.

Moderator: The first question is from the line of Raghu Nandhan from Nuvama Institutional Equities.

Raghu Nandhan: Congratulations to the entire team on stellar number. My first question was on the Agri segment. Can you provide a rough breakup of benefits Q-o-Q? I mean to say the margin expansion drivers Q-o-Q in terms of commodity deflation, price increase and any other factors? Also, if you can talk about a broad range for the full year that will be very useful.

Bharat Madan: Raghu, you are saying, quarter-on-quarter changes?

Raghu Nandhan: Yes sir.

Bharat Madan: Okay. So on the tractor front, I think the overall, commodity prices as we mentioned, have been softening. So in the last 3 quarters, we've seen the trend has been positive. So from the peak level, what we hit in Q2 of last year, from there the commodity prices have moved down significantly. So it's almost 2.5% reduction, which has happened now so far, then from the peak level which was achieved, which is what you are seeing and reflected in the margin too. On the prices from the last quarter, we've taken 1 price increase, which was taken in the middle of June. So the full impact obviously is not visible right now. So which was roughly 1% and that impact surely will come in the coming period.

Raghu Nandhan: And any other factors, sir, in terms of mix being better or anything which the company has been focusing on to support margins?

Bharat Madan: So, if you compared to the last year, the mix has not been better but maybe quarter-on-quarter, it may show some positive impact, but nothing significant as such.

Raghu Nandhan: For the full year sir, would you look at sustaining at the current range?

Bharat Madan: You are saying the mix or the margins?

Raghu Nandhan: Margins, sir, for the Tractor segment.

Bharat Madan: Yes, it looks like we should be able to sustain. If you recall, we had given the guidance of hitting actually 13% to 14% range by the yearend. But fortunately, this time, because the commodity prices have softened, so that impact came much earlier. So we expect that should be sustained in the balance of year.

Raghu Nandhan: That's good to hear, sir. That's very useful. My second question was on the tractor industry outlook. Given how last 2 months of monsoon has panned out and of late there is a very encouraging trend in both monsoons, as well as kharif sowing, how are you seeing, how are you reading the demand situation and you retain the single-digit growth outlook for the full year.

Harish Lalchandani: Raghu, this is Harish, right. As per the current estimate, we foresee the market to be low to mid-single digit growth this year as compared to the last year. So there are positive trends in the market if we see in terms of prices, at what level rain falls, etcetera, but we also see a softening in terms of some of the subsidies. So as a mix, we see around low to mid-single-digit growth.

Raghu Nandhan: Lastly, on the Railway side, wanted to understand, as you explained very strong revenue performance for Q1, 72%. So based on the order book, how do you see the full-year growth panning out? And if you can elaborate a little what is driving this full year growth? And related to that, even on the margin side, 20% plus margin is extremely strong number. Is it due to scale, or is there localization also contributing to the margin expansion?

Ankur Dev: Raghu, this side, Ankur Dev. So first about revenue. So in Q1, we have a lot of benefits. I would like to mention, 1 is higher sales of spare parts, higher sales of exports, and in terms of the full year, we see that there will be a growth in terms of double-digit, which we will feel that we'll be able to achieve in financial year '24. In terms of margin, so we got a benefit of operating leverage because of higher revenue and as I mentioned, we had a higher portion of spare part sales, which has resulted into the margin in excess of 20%. On a full-year basis, I think our margin should be in the range of 16% to 17%.

Raghu Nandhan: Got it, Ankur sir. Just a clarification. When you see higher share of spares and exports, can you broadly indicate what could be the mix?

Ankur Dev: So spare parts is almost 25% more than what we normally used to have in any of the quarter, in terms of proportion.

Raghu Nandhan: You mean the share is higher by 25%?

Ankur Dev: Yes. Yes.

Raghu Nandhan: And what would be the share, sir?

Ankur Dev: So share is almost in the range of 12% to 16%.

Raghu Nandhan: 12% to 16%, Got it, sir. And what could be the export share?

Ankur Dev: That is in the range of 4% to 6%.

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

Gunjan Prithyani: Yes. I have a follow-up to what Raghu had asked firstly on the margin. This 3.5 percentage point improvement Q-on-Q just seems very steep. So I'm just stepping back and looking and the sort of volatility that we've seen in the margins, dipping to 8% and then now back to 13.5%. I mean, great outcome, but I'm just sort of struggling to understand what have been the levers and from here on, all of that cost improvements that we had to do, all of those are behind and from here, it is just more about operating leverage and commodity or is there something else also that I should keep in mind?

Bharat Madan: Gunjan, this is Bharat Madan. So obviously the margin is not just 1 factor. This is the combination of multiple factors like you mentioned. So obviously, deflation was the larger part, which was there, but obviously, there are also other initiatives on the cost front, which have been taken. So both in material cost, as well as on the fixed cost. So as you can see here, the fixed cost also have been kept under check in this quarter.

And cost saving also which is happening on the material cost front, which is a continuing effort. It's not a one-off effort, which will not happen. So this will continue to happen in the balance of months too. So these 2 levers will continue. Obviously, we can't control the commodity price. So that will be an external moment, which will be there for everyone. But the other factors are more internal to us, which we are trying to focus on now to improve the margin further from here.

Gunjan Prithyani: So, from 13.5%, these levels, you still have some more fixed cost rationalization as an upside to play out, right? I mean that's what you are indicating that there is more scope to -- scope of improvement there?

Bharat Madan: Yes, there is an improvement, but they can also be hidden costs, which we are not aware of right now. So that is why we are keeping that out of the question. So hopefully if everything remains constant the way it is today, yes then there is possibility of improvement. But as you know, the product mix also keeps on fluctuating quarter-to-quarter. So that could be another risk which will be there.

So even though this quarter we have seen a good performance, 41% to 50% HP market share, actually, share has also gone up and we've seen a very good growth numbers coming in more than 40 HP segment, so which is a positive sign. But whether that will sustain in future or not, is difficult to say. So that's why I think as of now, we think we should be able to maintain the sort of level in the balance of year, but yes, with a positive side to that.

Gunjan Prithyani: Okay. Got it. That's clear. And second, on the growth outlook, I had couple of follow-ups. When I look at the retail, they just seem very high in terms of there is a double-digit growth in retails. If I look at YTD on the Vahan Number, then I mean, generally, from where we started the year expecting monsoons to be weaker and they've just -- they've turned out to be better. Is there a case that we are conservative in calling out low single-digit growth outlook? I mean -- and I saw that you had given about mid-single digit growth guidance in the annual report. So any change to the thought process in terms of seeing tractor has better growth in F'24 as well?

Harish Lalchandani: Gunjan, this is Harish. On retailing, the particular growth of the market as of now, speaking of retail, retail is more a function of our efforts in the market on the ground level. So lot of activations, lot of activities, lot of key dealer focus, focus on key segments and products have happened to drive the retail growth for us.

Gunjan Prithyani: But sir, what I was meaning is, that retail is actually showing double-digit growth for YTD F '24, whereas our outlook for whole of this year is low-single digit. So is there some disconnect between the Vahan number and the wholesale? Is that something that we should keep in mind, because the number on Vahan just seems very strong.

Harish Lalchandani: You're saying the market for retail is growing double-digit.

Bharat Madan: So the last year number actually on VAHAN portal seem to have some issue. If you also looked at the retail data is showing very strong growth, which is actually not the case which is on the ground. So -- but the data looks like, more issue with the last year number than the current year number.

Gunjan Prithyani: Okay. Got it. And Harish sir, you mentioned that subsidies softening as an issue. Can you just clarify, I mean, the general MSP and farm sentiment looks okay to you, but what is the subsidy element that you had pointed out earlier?

Harish Lalchandani: There are times when the states bring out certain subsidies on tractors for the farmers. So in certain states, for example Maharashtra, you see a certain softening of the subsidies, whereas other states are picking up. Like Gujarat has picked up significantly, but Maharashtra is softening. But net-net, on a balance, because Maharashtra is a bigger state for tractors as compared to Gujarat, there is a bit of a lowering of volumes because of subsidy softening.

Gunjan Prithyani: Okay. Got it. And last question, any update on that Kubota marketing, that merger that had to happen? Any refreshed timelines around it?

Bharat Madan: So we got the approval from stock exchange and SEBI now. So we have filed a petition with the NCLT. So we're just waiting for further hearing to happen on that front. And obviously, that will be followed with the meeting of shareholders and creditors before they finally given approval. So we are still expecting maybe another 6 months sort of time frame, looking at the past experience with NCLT. But all other approvals are in place now. So that's the last step, which is pending.

Moderator: The next question is from the line of Sonal Gupta from HSBC Mutual Fund.

Sonal Gupta: Just on the RM cost side, I mean like, have we seen because some other companies have said that there are steel prices have gone up in this quarter and then they expect it to come down next quarter. I'm just trying to understand, for us, has there been any increase or not really, I mean, in any sort of major change?

Bharat Madan: So there were some increases in between, but like I said, in tractor cases, it is not the steel, which really matters. So in our case, like we mentioned in the past, I think the major cost is coming from casting and where the impact was not much. But in Construction Equipment business, we had seen that a bit coming in during the quarter. So that is where I think we are seeing that the effort will be there. But now, looks like, as of now looks like there is no major pressure on those prices. But yes, that is one business which gets impacted because of these changes.

Sonal Gupta: Sir, it means, casting, you're saying with a lag, but that impact will come, right? Like the pig iron or whatever?

Bharat Madan: It has come but it is not to the extent what you have seen happening in sheet market. But yes, the impact has been there. So we're seeing that impact now coming in.

Sonal Gupta: Got it. And just on the, I mean, related to that, the price increases, I mean what sort of price increase did you take in Q4 which would have had some follow through in this quarter?

Bharat Madan: So we had taken in Q1 actually, this quarter only, in June, which we had taken the price increase, which was done actually towards the middle of June. So really the impact will come in the next quarter. So in Q4...

Sonal Gupta: So there is no price increase in Jan to March?

Bharat Madan: In Jan to March, there is no price increase.

Sonal Gupta: Okay. And sir, lastly, could you just tell us about, I mean like, in terms of the export opportunity and export of tractors from Escorts for the Kubota network, how are -- I mean what's the time frame like? I mean, I understand you are sort of working on the products. So any updates there?

Bharat Madan: Yes. So some of the exports, obviously even now is happening to Kubota. So even in this quarter we have roughly 32% of our export was through Kubota network. But having said that, like you mentioned, so there are the products development which are underway and there are also some quality issues, which are getting addressed for exporting to Kubota globally. I think once those issues get sorted out, which we expect will start happening now from this quarter, from second quarter onwards, so, from September onwards we expect, I think the pickup will start happening in the export numbers.

Sonal Gupta: So I mean, like then the product-related stuff is largely done, is that the way to...?

Bharat Madan: No, we are really looking at the quality improvement in the existing product line. The development process will take some time, because that would be then for the new market, like U.S., etcetera, which we want to open. So that we've not yet started. So that will obviously happen once the products are in place. But obviously, we got a request now from Kubota side in terms of what sort of product lineup they want, and that work has already started happening now on that. So development process is on, but it will take some time. So we don't expect that full benefit will likely happen now, this year. Maybe from next year, we can see a major improvement will start happening on those numbers.

Sonal Gupta: Got it, sir. Great. Congrats on a great set of numbers.

Bharat Madan: Thanks.

Moderator: The next question is from the line of Rishi Vora from Kotak Securities.

Rishi Vora: Yes. Congratulations on good set of numbers. Just a follow-up on exports. So basically, we have seen a double-digit number...

Moderator: Excuse me, sir. Sorry to interrupt. May I please request you to speak a bit louder?

Rishi Vora: Sure.

Rishi Vora: Just wanted to get a sense on exports, because the volumes have been declining now for a few months. So what is happening over there? Which geographies we are seeing some demand pressure? So any color on that would be helpful.

Bharat Madan: Yes. So right now, export market is under pressure. So both, the European market, where the larger exports were happening, as well as U.S. market, the demand has slowed down, especially for compact tractors. Where during the COVID time, this segment, which is represented through the hobby farming segment. So you have seen, in the COVID time, most of the people were working from home. So there was a great demand, which came up and over the entire of '20 to '22.

So those 3 years were really good for the business there in these market. But now, after the markets has started opening up, people have gone back to work. So we've seen the demand actually is coming down, and then obviously, we have pressure on inflation and recessionary outlooks in the European countries. So again, the demand has been impacted. So in some countries, we have again, like country like Poland, where we are exporting there waiting for the subsidy program, which has not been started because of their own financial pressure from the government side.

So I think all those issues are impacting the demand in some way. So we expect, maybe, towards the end of this year, we'll will see maybe some pickup will start happening in these markets, and then the export will start growing.

Rishi Vora: Okay. Understood. Understood. And just, how is our product portfolio shaping up on the farm implement side and what will be the contribution from that segment, let's say in 1Q FY '24 or FY '23? Any color on that would be helpful.

Bharat Madan: So the numbers are looking up but since the base is very low for us, because we are essentially into the very basic implement right now. So the numbers are almost having 30%, 40% growth. But since the base is so low, it won't be really material even for this year. So that is on the implement side. But obviously, in addition, there'll be things like harvesters combined or transplanters, which will come into the company after the merger. So that is a sizable business which the JV adds. So if that also gets combined, then obviously, we will have a sizable business in implement and harvesters put together. So, for next year, we expect it will be a significant business for us, INR400 crores plus, sort of top line coming from this business alone.

Rishi Vora: That's great. And just lastly on the Construction Equipment side, what about revenue growth expectations for this year and margin also on a Y-o-Y basis or on a Q2, the dip is very low. So what is driving this margin improvement and is this sustainable?

Bharat Madan: Sanjeev, you want to respond?

Sanjeev Bajaj: Yes, yes. So primarily, the margins are sustainable. That is what we see because it is, based on very high demand from infrastructure and mostly the equipment which are sold in the project and this demand looks to be very sustainable right through the year, and we see that the commodity also is not putting any pressure as of now, which was the case last year, and prices have settled and the price realization in the market is also very good. So it looks sustainable both in terms of volume as well as margin.

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

Mitul Shah: Congratulations for a very strong performance. Sir, first question is on tractor inventory. Considering, this time festival getting delayed by 15, 20 days, so what is the industry-wide inventory at present and for us, and is it coming down, and for next 1 or 2 months, how one should look at that?

Harish Lalchandani: Mitul, this is Harish. I won't comment on the industry inventory as of now because it's still something that we don't have. Second, our inventory, our focus is on bringing the inventory down currently. So if you take a look at our inventory at the end of Q1, both dealers, as well as our inventory, it is lower than what it was in the beginning of the quarter.

Mitul Shah: By how much in terms of days or numbers it's reduced, roughly?

Harish Lalchandani: So, you can say that currently our inventory is in the range of 4 to 6 weeks, is what we retained at dealerships. About 4 weeks, 4.5 weeks, which is still the same.

Mitul Shah: Okay. Second question is on localization for Kubota tractor. Sir, what is the status there and going forward, in next 2, 3 years, how one should look at product mix in terms of Escorts' tractor as compared to this Kubota tractor mix in overall portfolio?

Bharat Madan: So, in Kubota, Mitul, the major localization which has to happen is on the engine front. So which will only happen once we have the greenfield facility coming up. So which will start with the engine manufacturing, which will be Kubota-make engine, which will be made in India. So till that time, they will continue to import the engine, but there will be obviously plan to also have mix and match like we mentioned.

So some engine from Farmtrac, will get used in the Kubota product. So that is something which will be worked out as an interim measure to save on the cost. So that is something which will happen. Otherwise, if you look at greenfield, I think the plan is to go live only by FY'26. So there is still some time before we cover the full-fledged manufacturing terms Kubota engine in India.

Mitul Shah: So non-engine part is largely localized?

Bharat Madan: Yes. Ours is all localized.

Mitul Shah: And lastly, sir, what would be our medium-term roadmap for Construction Equipment, as well as the Railway, considering Kubota is globally not present in Railway business, and on Construction side also, our roadmap for double-digit margin, if you can give some details on these 2?

Bharat Madan: So in Construction Equipment, Kubota is present. They've got a very large business in mini-excavator, and they also supply engines to most industrial OEMs. So obviously, Construction Equipment is something which will continue. On Railway, so as we had mentioned and even in the beginning, we had directly mentioned that it's not a core strength for Kubota. So they can't add much value. So I think we got to look at options in the long-term, what we do with the business. Whether in terms of partnership, we will look for some partner who can help us in growing this business further or we will look at some alternate option.

Moderator: The next question is from the line of Mumuksh Mandlesha from Anand Rathi.

Mumuksh M.: Congratulation on good numbers, sir. Sir, how are you seeing the demand from the haulage segment in recent months? Some of the state governments have been stricter on regulations. How do we see this impact on demand over the medium term?

Harish Lalchandani: See, if you technically get it today -- This is Harish here. We are seeing actually a growth in the haulage segment. It is primarily due to the infrastructure projects, which is coming up in lot of states. So if you take a look at the 31 to 40 segments in some states, it is declining, whereas, in other states it is growing. So if you take a look at the segment, overall, which is a 31 to 40 segment, it has been more or less flat for the year, but we feel this segment has potential going forward, especially for optics. Hello?

Moderator: Mr. Mumuksh, your line is unmuted. You may please go ahead if you have any further questions.

Mumuksh M.: Can you hear me?

Moderator: Yes sir. Now it's better.

Mumuksh M.: Just on that, some of the state governments have been stricter on regulation side for tractor being used for haulage purpose. Are you seeing any impact on the demand because of that?

Harish Lalchandani: See, no significant change coming for us, because most of the expectations that we are seeing is more at the municipal corporations. Our tractors typically sell beyond municipal corporations.

Mumuksh M.: Got it, sir. Sir, second question on the JV. Company's profitability has improved in FY '23. What kind of profit numbers you see for FY'24? And do you see the lower margin dilution impact once the amalgamation happens? So earlier, you have guided for 1.5% to 2%. What kind of guidance do you see now, sir?

Bharat Madan: It will be similar. I think the number which we had indicated, so it will be a similar drop, which will happen initially, before we start working on improving the margin and getting the synergies out of the merger.

Moderator: The next question is from the line of Mayur Milak from Asian Market Securities.

Mayur Milak: Yes. So just trying to understand the reduction of share capital. So we've got it down to 110. Is this going to be the final after the merger as well or there are going to be issue of new shares once the merger is done?

Bharat Madan: Yes, obviously, in the merger, there'll be some issuance of capital which will happen. But given the, I think the exchange ratio, we don't expect that material, because this is a small dilution, which will happen, but it's not going to be very significant.

Mayur Milak: Okay. And coming back to the business. So as we've been noticing, the retails for this fiscal has been pretty good compared to possibly where we started, but we do not really see that reflecting in either of the growth numbers. If I look at April to July, for most players now was, does this mean that till March end, there was a huge inventory and that has kind of got corrected in the system and now we have a scope for kind of building up inventory again, going forward?

Bharat Madan: So we responded to the similar question I think in the beginning, from Gunjan. So the retail data what we're looking at for last year seems some issue there. Some -- it looks like some incorrect data there.

Mayur Milak: No, sir. I'm not trying to compare this to last year's number. I'm just saying that, just the April, July number that I look for you. So you are at 32,000. So you are like a 0% growth in dispatches, but retail numbers have been pretty good only for April to July fiscal. So just trying to understand that, was there some inventory that was built up in March and that has seemed to got corrected?

Harish Lalchandani: If you see the total growth that we had on the leases, billings is around 2.5%. Whereas our growth in retail is higher. It was not build up, because absolute reduction is not significant enough to cause a change, and yes, there is a reduction. There is a reduction in inventory.

Mayur Milak: Okay. And is there a way to read -- I'm just trying to understand. So since the trend came in on the 50 plus HP, you always had a theory that at least for the near term, the likes of, you and Mahindra will possibly see growth into the 30 or 40, since you are leaders in that segment, vis-a-vis the other guys. Are you actually witnessing that into your retail markets?

Harish Lalchandani: So we are growth in 41 to 50 for us as compared to, let's say, greater than 50.

Mayur Milak: Right, so this means people -- so, there is some kind of shift right since the trend changes incurred on the 50plus number?

Harish Lalchandani: We are seeing that shift.

Moderator: The next question is from the line of Sameer Deshpande, an Individual Investor.

Sameer Deshpande: Congratulations, Mr. Madan, and the team for excellent results. And I would like to know new products from Kubota which are likely to be introduced, which maybe after the merger of the companies, would they be in the form of trading, or they will be manufactured by Escorts here?

Bharat Madan: It will be mostly manufactured. Trading will be limited.

Sameer Deshpande: The excavators, mini excavators, as well as this transplanters and harvester combined system, all will be manufactured?

Bharat Madan: That will continue to be traded. So the implement, though they are the volumes are not very high right now. So manufacturing it in India, as of now, it doesn't make sense because they cannot be really viable. Business case will not be there for those small volumes. But obviously, once the volumes start growing up, so that is the intent, finally, to also start manufacturing gradually those things also in India. But as of now, we started developing some of the parts for those products in India.

So we're already doing some parts for harvester for example. There is a plan to do that in India and we are also doing some excel for transmission, some of the parts which are getting already made. So those parts are getting exported. But as the volumes continue to grow, so, we'll also look at --explore options of localizing those and making them and testing also in India.

Sameer Deshpande: And actually, Kubota tractors and Escorts together, what will be the market share?

Bharat Madan: So it's in the range of 12.5% to 13%.

Sameer Deshpande: Currently we have about 9.7% now. Escorts Kubota, this listed company, this together, it will add another about 3%.

Bharat Madan: Yes. 2.5% to 3% range.

Moderator: The next question is from the line of Saral Dilip Seth from IndSec Securities.

Saral Seth: Yes. Congrats for great set of numbers. I had one question. So wherever we are not strong, rest of the region, we've outpaced the industry by 370 basis points. Just wanted to understand what are we doing there differently, that we are being able to gain market share?

Bharat Madan: Which market did you say?

Saral Seth: So we mentioned that in rest of the region, we have grown by 8.7%.

Bharat Madan: Rest of region.

Saral Seth: While... Yes, sir. So what is driving this strong outperformance versus the industry where we are not that strong?

Harish Lalchandani: See, our focus in the opportunity markets has been there, especially, 2 things. One is, we are focusing on distributors in order to increase the coverage. So increase of coverage is happening in the opportunity markets for us, which is not so much of an opportunity in strong markets. Second, we are also doing a segment-wise HP focus, which is, basically, if you see the 0 to 20 segments, it has grown significantly for us in this first quarter. Third, we are also using a lot of digital tools and activation to penetrate into the opportunity markets.

Saral Seth: Understood, sir. That was very helpful. And just a follow up on this. In the strong region, we have been unable to gain market share, but we are maintaining that. So any outlook on that in terms of market share in the strong region?

Harish Lalchandani: So our focus continues to remain in the strong markets. We will continue to do whatever we are doing so far, plus, we want to drive additional focus on the 31 to 40 HP haulage segment in strong markets.

Saral Seth: Right, sir. That was helpful. So overall market share guidance, anything you want to have as an aspiration for next 2 years, 2 to 3 years?

Harish Lalchandani: So obviously want to grow as market share. But I'm not putting a number to it right now.

Moderator: The next question is from the line of Chandrakant Dhanuka from CD Equisearch.

Chandrakant Dhanuka: Sir, I just have one question. Like, how do you think you -- like you will gain market share in international market?

Bharat Madan: So in international market, as you know, so we are really banking on Kubota Network, because in international market, your distribution is very important. Now if you look at the competition also, there are 2 ways you can do it. Either you have your own entity there and you set up your own retail distribution or otherwise, you go through a distribution route. Now wherever we are operating, we are operating basically through a distribution model, where obviously your margins come under pressure, but at least, your business is secure.

But then now since we got Kubota as a partner, and they are present in more than 100 countries globally. They already got established network in most of the countries. So our idea is to use leverage of that network and they need products from India because they are facing lot of competition globally from players from India, China, Korea, and they want those products which can be sold to compete with those players. So that's a win-win for both of us. So we get established network, and they got the product portfolio from us. So this is something which we intending to use for the international market there.

Chandrakant Dhanuka: Okay, sir. But there are, actually, like there are established foreign players also there. So how you are going to tackle that, sir?

Bharat Madan: So like I said, India basically supplies the compact tractors, which are cheaper in value. So it's a value for money tractors, which go from India and there are similar tractors which come from China, Korea also, to those markets. So this is a segment which is unaddressed from the foreign players. The product which they make obviously having high-end cost and the higher horsepower tractors, but India supplies to the smaller HP segment, which is essentially less than 120 HP, which is the segment where Kubota is strong globally.

And this is a segment which we want to really contribute. It is in the low end of the market in those markets where you are already seeing lot of export is happening from India. So last year, the total export from India was almost 125,000 plus. So that export numbers are growing. So which is where we also want to contribute.

Chandrakant Dhanuka: Okay. So like we would differentiate in the pricing with the competitors?

Bharat Madan: Yes, that's right.

Moderator: The next question is from the line of Abhishek from Dolat Capital.

Abhishek Jain: Thanks for the opportunity. Sir, in Construction Equipment segment realization has gone up by 4% quarter-on-quarter. What is the reason?

Bharat Madan: So there is a favourable mix because we are selling the higher end of the cranes. So we are not really very strong player in the lower end of the crane. But the higher end of the crane, where your realizations are much higher. So that is one definitely the advantage and we have seen the realization also moving up and the margin profile is also better there.

Abhishek Jain: So going ahead by realization will be the same and we'll be able to sustain this part of the mix?

Bharat Madan: So as of now, the demand momentum is quite strong. So maybe I request Sanjeev to add to that.

Sanjeev Bajaj: Yes. This is Sanjeev. So yes, you are right. The demand has been shifting towards the higher tonnage, higher capacity machines because of the bulk infrastructure which is taking place. So that demand is definitely sustainable and at the same time, we are stronger in that segment compared to our competition. So that is helping us.

Abhishek Jain: And in this quarter, the Compactor volume jumped 88% versus industry growth of 32%. So what is the reason to outperform industry growth? Is there any new product launch in this segment?

Sanjeev Bajaj: Yes. There is a new product launched. But compactor, we have been working really hard during last year, but last year industry did not support. The industry was lower by 5% than the previous year. So the hard work which has been done in the market is really helping us. We also have introduced a new product which is 11-ton soil compactor. That is what is going to add volumes to the future. So I think it is more about penetrating this segment and penetrating this market which is untapped by us.

Abhishek Jain: So what is your full year guidance for the Construction Equipment segment, sir, in FY'24? Margin guidance?

Bharat Madan: So margin, we expect we should be able to sustain the level what we have seen now. So it should be high single-digit margin only.

Moderator: The next question is from the line of Raghu Nandhan from Nuvama Institutional Equities.

Raghu Nandhan: My question was to Harish sir. Sir, can you talk a bit about how you are looking at improving the product portfolio over the next 1, 2 years? What would be the areas of focus for the introduction of new products? What white spaces you are trying to cover, I mean, specifically, paddy specialist tractor, below 30 HP tractors? Your thoughts will be extremely useful.

Harish Lalchandani: So Raghu, that exercise is still an ongoing exercise and a continued exercise, is that we keep looking at. At any given point of time, the way we approach is in 2 ways. One is, whether the segments where we don't have tractors and 2 is in which segments our tractors are. We take the lead in terms of competitiveness, of USPs, features, specifications. So if I take a look at the latter, that's a continuous ongoing process across all the HP segments.

Second, if you take a look at the new tractor introductions, we have. So if you take a look at that new tractor development, for example, we would soon be coming up with one of the flagship models in the Farmtrac series, which we would be launching sometime in the next 3 months. So these are new product introductions that we will come in, in order to take opportunities within the market, whether it's an entry space, the mass segment, the premium or the other entry premium segment.

So this is the way we approach. Third thing. The way we look at it is that we have 3 brands currently. Or going forward, we will have 3 brands, which is PT, FT, Powertrac, Farmtrac, as well as Kubota. So we will structure the portfolio in such a way that Kubota occupies the premium segment, Farmtrac occupies the mid-segment and Powertrac occupies the entry to the mid-segment. That's the way that we're going to approach the market over the next 3 to 5 years.

Raghu Nandhan: Got it, sir. And in terms of the pricing, if Farmtrac is 100, would Kubota be like 110 and Powertrac be 90? Would broadly that be the pricing guide?

Harish Lalchandani: I don't think there is a mathematical formula, like that we have worked out, but our products will be competitive within the markets and within the segments that they operate it.

Raghu Nandhan: And sir, in terms of cross selling, would you look at it as a low-hanging fruit and any steps there to leverage, where Kubota can leverage the existing network of Escorts?

Harish Lalchandani: So yes, I think going forward, we will look for opportunities for or how do call it, optimizing our network. If there are white spaces for any particular brand, we will offer the dealer of that particular area, the first right of refusal for some other brand's dealership.

Raghu Nandhan: Got it, sir. And to Bharat sir, in terms of component exports to Kubota, if you can talk a bit on that in terms of which are the parts that are being exported on a pilot basis? We know that $0.5 billion is the aspirational target, but how do you expect the ramp up in revenue to happen? What could be the revenue in FY'25?

Bharat Madan: So Raghu, right now, like I mentioned, the export component is happening to the other 2 JVs, where they were already supplying earlier to Kubota Network, and they developed some vendor base. So, the Kubota products are also being made in those JVs only in EKI for example, in the manufacturing JV. So as Escorts is not making any Kubota product right now. So till the time merger happens, obviously we will not be doing anything on that front. But the export will continue to happen from both the JVs, which currently is also happening.

So going forward, there is a plan. So as you go into the greenfield facility, there is plan to set up a global sourcing center from India and the purpose of this vertical will be essential to look at opportunities, where we can actually source component which are either developed in-house or through a third party where Kubota can save the cost globally, and most of the players are looking at China Plus-One strategy and Kubota is also facing lot of challenges in the supply chain in the past 2 years in sourcing from China.

So they are obviously looking at India as the obvious choice in terms of strategy for developing those components. So yes, the expiration which we have given is something which we think is still an underplay. The opportunity is much larger. So we'll have to really see when the things clearly start happening here and more localization happen, so how the business really close. But in terms of our expiration, which is there, we think is definitely achievable and probably we should be better than that.

Raghu Nandhan: Understood, and which are the components being targeted? Like axles, transmission parts, gears, if you can talk a bit on that?

Bharat Madan: So like I said, so it will depend on what products get localized here in India. And obviously, the major portion will be tractors. So the tractor parts will be something which will be consumed in major portion, and there is also a lot of demand coming from the U.S. market, since U.S. got their own manufacturing, but the parts they get is quite expensive and so, the price is quite competitive, because they are coming from multiple countries.

So they need to centralize those supply chains, which probably, where India can help. So right now, we don't have a list really. Obviously, the procurement team and the global sourcing team is working on this as we say, and they have developed some database in terms of what sourcing can happen. So I can't share that data with you as such right now, but like I said, the team is working on this, and we think we should be able to do better than what we really aspired for.

Moderator: The next question is from the line of Chirag Shah from White Pine.

Chirag Shah: Sir, just one small question. I see sequential market share loss for you. Can you talk a bit about it? Is it driven by --- what are the drivers for the drop in sequential market share?

Harish Lalchandani: So Chirag, this is Harish. If you would traditionally look at it, the strongest quarters that we have are Q3 and Q4. So I can't compare a market share to market share sequentially, because it's just the differential nature in which the company operates in terms of in terms of where the tractor demand comes from. If you are taking a look at the quarter-on-quarter, if you compare a quarter this year versus last year same quarter, there is a growth. So that's a better way to compare.

Chirag Shah: Okay. So it's more of a regional nature, nothing else. Will take a note. Fair part.

Harish Lalchandani: Nothing else.

Chirag Shah: Yes, that's it. Sir, one last question was on Railway, if I can squeeze in. So we have seen a very strong growth in Railway. Is it driven by --- it is in general railway cycle you are seeing this or there a specific product or demand categories which is driving this? And any more tenders or anymore participations, if you can talk about on the railway front, including any expansion are looking at in your offering, bouquet of offerings?

Ankur Dev: Chirag, this side, Ankur Dev. So first of all, we are seeing a good traction from the Railway manufacturing side also. So there is a good momentum in terms of manufacturing of passenger coaches and freight wagons. Other than this, we have been introducing lot of new products. So in Q1, we have actually commercialized 2 of our products, which were actually in the field trial for last one year, one-and-a-half year. So basically brake pads and brake disk.

So these 2 products have been commercialized and they have contributed in this revenue. And as I mentioned earlier in this call, we have also seen good momentum in the spare part sales and in our export's revenue. So all these factors have really contributed in this growth momentum and I think in future also there are more products which will get commercialized. So and we will be launching many more products in the continuation.

So I can say that in first quarter, we have got first time order for one of the new products, which is the electric panel. So we --- and so, we are working on many such products and these introductions of new products will certainly help us in growing this top line for the Railway business.

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

Mitul Shah: My question on Construction Equipment side. Any meaningful change in the inventory Q-o-Q here also? And any pricing taken for this? And also, if anything pricing benefit on the Railway side also?

Sanjeev Bajaj: Sorry, Mitul. Sanjeev this side. I could not hear your first question.

Bharat Madan: Mitul, can you repeat your question? I think Sanjeev was not able to hear it.

Mitul Shah: Yes. My question was on Construction Equipment side in terms of any meaningful change in inventory here similar to tractor on Q-on-Q basis? And on pricing side, we have indicated 1% increase for tractor. Any price hikes taken for Construction Equipment in last 1 or 2 quarters? And similarly, any pricing benefit, we have seen in Railway business also, price increase or anything?

Sanjeev Bajaj: Yes. So Mitul, related to the first question, if I understood correctly, the inventory is, for our business is not having a major impact, because we operate at roughly about 15 to 20 days of inventory and also channel partners operate at 15 days of inventory. So that does not impact so much because of quarter-on-quarter change, and this has been moving on for quite some time. Coming to the price increase, we have taken one price increase in the start of Q1, and the price realization has been reasonable in value because of the demand, and we do not see immediate opportunity to do price increase. We will wait till start of Q3 to see next opportunity.

Moderator: The next question is from the line of Mousumi Paul from Equentis Wealth. It looks like no response from the current participant.

Bharat Madan: Just to respond to the Mitul's question on Railway business into the pricing. So I will request Ankur also to respond to that.

Ankur Dev: Yes, Mitul, Ankur this side. So I think in Railway business it is quite different in terms of pricing. That is completely tender-based business and there are lot of vendors, approved vendors for each of the product categories. So it is really different and that is really difficult there to increase the prices. So that's always the nature of the business.

Moderator: Ladies and gentlemen, there are no further questions. I would now like to hand the conference over to Mr. Bharat Madan for closing comments.

Bharat Madan: Thank you, ladies, and gentlemen, for being present on this call. For any feedback and queries, please feel free to write into us at investor.relations@escortskubota.com Thank you very much and have a good evening.

Moderator: Thank you. On behalf of Kotak Securities Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.