



“Escorts Kubota Limited  
Q3 FY '23 Earnings Conference Call”  
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**MODERATOR:** **MR. SAKSHAM KAUSHAL – PHILLIPCAPITAL INDIA PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Escorts Kubota Limited Q3 FY '23 Earnings Conference Call hosted by PhillipCapital India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saksham Kaushal from PhillipCapital India Private Limited. Thank you, and over to you, sir.

**Saksham Kaushal:** Thanks, Vikram. Good evening, everyone. And on behalf of PhillipCapital, I welcome you all for Escorts Kubota Limited Q3 FY '23 earnings conference call. I also take this opportunity to welcome the management team. Today, we have with us, Mr. Bharat Madan, Whole-Time Director and Chief Financial Officer; Mr. Harish Lalchandani, Chief Commercial Officer, Agri Business; Mr. Sanjeev Bajaj, Chief Executive, Construction Business; Mr. Ankur Dev, Chief Executive, Railway Equipment Division; and Mr. Prateek Singhal from the Investor Relations team.

We would 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 that the company makes in today's call will be forward-looking in nature and are subject to risks as outlined in annual reports and investor releases of the company. Over to the management for the opening remarks.

**Prateek Singhal:** Hi. Thank you, Saksham. This is Prateek Singhal. Good evening, ladies and gentlemen, and thank you all for joining us on the earning call for the third quarter and 9-month ended 31st December 2022. Few highlights of the company's standalone performance for the third quarter ended December 2022 are as follows: revenue from operations during the quarter was up by 14.8% at INR 2,263.7 crores as against INR 1,971.5 crores in the previous fiscal.

On the sales volume front, tractor volume was up by 10.7% to 28,025 tractors as against 25,325 tractors last year same quarter. On the Construction Equipment, volume were up by 5% to 1,209 machines as against 1,151 machines in the last year same quarter. EBITDA for the quarter ended December '22 came at INR 190.3 crores, down by 31.7% as against INR 278.6 crores last year same quarter.

EBITDA margin for Q3 stood at 8.4% as against 14.1% last year same quarter. Margin adversely impacted mainly due to steep inflation, adverse product mix, coupled with price rationalization in our strong market. Other income during the quarter include a non-recurring item of INR 12.5 crores on account of contract termination recovery from erstwhile Tadano JV. PBT at INR 241.4 crores as against INR 268.8 crores last year same quarter. Net profit at INR 186.4 crores as against INR 201.5 crores last year same quarter. Company continues to be net debt free with sufficient availability liquidity for growth.

On consolidated basis, company financial performance for the 9-month ended December 2022 is as follows: turnover at INR 6,214.2 crores, up by 15.2% year-on-year; EBITDA margin at 8.8%, down by 509 bps as against 13.8% in the last year same quarter; profit before tax and exceptional item at INR 610 crores as against INR 735.4 crores last year. EPS stands at INR 38.85 as against INR 55.48 last year same period.

Now moving on to the segment-wise business performance, starting with the Agri Machinery business. The domestic tractor industry during the quarter ended December '22 was up by 10.5% year-on-year to 2.47 lakh tractors. This is primarily attributed to positive farmer sentiments, led by above normal monsoon, better crop prices, ample finance availability, and better rabi sowing year-on-year, approximately up by 4-odd percent. During the quarter, industry in our strong regions of North and Central grew by 7.6%, whereas industry in our opportunity region of South and the Western India grew by 13.5%.

Our domestic volume grew by 12.3% Y-o-Y basis at 26,181 tractors as against 23,321 tractors in the last year same quarter, higher than industry growth, resulted in marginal gain in the domestic market share to 10.6% in Q3 as compared to 10.4% last year same period. The company continued its channel network expansion during the quarter, primarily in our opportunity market, and our total dealer count in India at the end of December 2022 stood at 1,200 plus. Tractor export industry export volume was down by 14.4% to 29,300 tractors as compared to 34,000 tractors last year.

Our export volume was down by 8% at 1,844 tractors as against 2,004 tractors, resulted in increased export market share to 6.3% as against 5.9% in the same period last year. This is driven by our continuous focus on new product development and on expanding our distribution network through new channel partners.

Sales to Kubota's global network is also gradually increasing, and during Q3 contributed more than 35% of the total export volumes. Segment revenue for the Agri Machinery was up by 12.4% at INR 1,708.9 crores as against INR 1,519.3 crores in the corresponding quarter previous fiscal.

EBIT margin for Agri Machinery business stood at 8.3%, mainly impacted by steep inflation in commodity price, adverse product mix, and impact of price rationalization in certain products and geographies. The growth trend in the domestic tractor industry is likely to continue in Q4 also and industry volumes are likely to cross 9 lakh tractors and may register a new peak.

Coming on to the Construction Equipment business, our served industry comprising of backhoe loader, pick and carry cranes and compactors was up by 29% in Q3, mainly led by backhoe loader industry, which is also up by 29%, Crane industry is up by 35% and compactor industry up by 12-odd percent. Our total volume comprise of both manufacturing and traded products was up by 5% to 1,209 machines as against 1,151 machines in the same quarter last year.

Our export was adversely impacted due to unfavourable economic condition in our strong market of Nepal and Bangladesh. Segment revenue for the Construction Equipment went up by 10.7% at INR 306.1 crores as against INR 276.5 crores in corresponding quarter previous fiscal.

EBIT margin for the Construction Equipment business in Q3 has become positive and came at 2.2% as against negative 2.6% in the preceding quarter and is expected to improve further in Q4, which is a peak sales volume period for the Construction Equipment industry.

Going forward, on the back of robust demand led by increased capital spending by the government on various infra projects, including smart city development and irrigation projects, we expect growth momentum to continue in coming months for material handling and the Construction Equipment machinery.

Coming on to the Railway Equipment Division. Revenue for the third quarter went up by 43.4% to our ever highest quarterly revenue of INR 249.3 crores as against INR 173.9 crores in the corresponding quarter. EBIT margin for the quarter ended December '22 stood at 13.1% as against 14.3% in the corresponding period last year.

Continuing our focus on expansion and diversification of railway business product line, we also got the first-ever order of split brakes Discs, HVAC system and Train 18 damper during the quarter. Order book for the division at the end of December 2022 stood at a healthy and the ever highest level of more than INR 1,000-odd crores. For FY '23, we expect the Railway Equipment business segment will continue to grow at the similar pace.

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

**Moderator:**

We have a first question from the line of Gunjan Prithyani from Bank of America.

**Gunjan Prithyani:**

Yes. I have two questions. Firstly, on the margin side, if you can just give us a little bit more colour, because there's clearly a huge operating leverage on a sequential basis and there was also expectation of the RM easing or the steel easing, which was to reflect in this quarter. Both of these are very significant positive drivers on a Q-on-Q basis. So I'm just trying to understand what really took away all the benefit and we have a flat EBIT margin here?

**Bharat Madan:**

Yes. Thank you, Gunjan. So this is Bharat Madan. So I'll just pick up. There are 2 or 3 reasons actually for this margin, which has been more or less flattish compared to the sequential quarter. One obviously, reason was in the Q2, we had obviously much higher production because we're building inventory for the festive season. So while the sales numbers are high in this quarter, the production volumes are much higher in the previous quarter.

So as a result, the leverage, which we get from the production overhead absorption was actually there, which was almost accounting for 1% to 1.25% in terms of the margin improvement, which happened in Q2. So if you remove that impact, actually, the margin in Q2 would have been much lower at maybe about 7-odd percent compared to that, if you really compare with this period.

Now second, on the price increase, which was factored in the Q2, actually happened after the main festive season is already over. So we actually took a price increase, which was somewhere towards the end of November. So the full impact of that price increase did not come into this quarter, but by the time more than 60% volume for the quarter had already happened. So that's why we could not get the full impact of this price increase also.

And as far as the deflation is concerned, as you know, in the tractor industry, the major raw material is not really steel. Steel only constitute about 17% of the total material cost for us. So major costing which comes is more from the tires and the casting, which is actually bigger than scrap, where the prices have gone up by almost 50% to 57%. Now those impacts have yet to come in for the industry. So some softening did happen in the last quarter, but it's very, very marginal.

And we're expecting some softening will further happen in Q4, which can help us in getting better margin probably going forward. But as I mentioned, I think the material cost has actually been going up in a very, very steep manner. And we are still carrying unabsorbed material inflation as of end of December to the tune of 1% to 1.5%, which has not been passed on to the market and it doesn't look like it will get passed on right now looking at the condition of the market. But overall, we expect I think it'll take few quarters before you really see the normal margin coming back to the system. So I think until that time, we will have those challenges because the deflation is happening in a very, very soft manner while this inflation was very steep. It happened right in the first quarter in the beginning of the year.

So the entire year's margins are getting impacted with the Q1 inflation, which happened because of the geopolitical situation. The price increase happened on a staggered manner, which is also in the range of 1.5% to 2% each quarter what we had done. And in Q4, as of now, we don't see any indication of further price increases happening. So we have to really watch the situation what happens in Q1 next fiscal how the industry really reacts. And if we actually see the softening continues on the commodity side, maybe you will see some opportunity where the margins probably will start recovering.

**Gunjan Prithyani:**

Okay. And mix also, Bharat, sir, if you can talk about, because if I think -- I mean, largely I get the sense that operating leverage was offset by this quarterly adjustment that you mentioned, 1.25% or so, but there is also an adverse mix that you all called out. So what is that?

**Bharat Madan:**

So essentially, if you look at our market share, it has gone up in the sub 30 HP segment. So normally earlier we used to track the less than 40 HP and more than 40 HP segment, where still the more than 40 HP segment, there's not been major change. But within less than 40 HP segment, the market share actually has gone up in 21 HP to 30 HP segment for us.

Now, normally in the less than 30 HP segment, the realizations are lower than probably what you get in 30 HP to 40 HP segment, which is why the impact is coming. I think there's almost differential of about 1,000 odd tractors, where the additional volume has come in, in this segment, which has actually impacted the realization. If you look at even the average realization

has gone down in this quarter in spite of the price increase. So that is one factor. And second, if you recall, we actually had taken certain measures on the price rationalization in Q2 because we had to face a situation where the market share was dropping in Q1, and we had to create the situation in certain strong market, where the market share loss was significant, especially in the lower HP segment.

So in Q2, we had taken the correction somewhere in the worst month and the full impact was not visible in Q2. So that impact is also something, which is impacting the margin in this quarter. But positive sign is, we have been not losing market share. We had actually gained market share, not only in Q2, but also in Q3, which is a positive sign. So I think the focus will again come back to the margin, I think as you move forward.

**Gunjan Prithyani:** Okay. And just to be clear, you mentioned that the RM tailwind is not going to reflect in quarter 4 as well because the commodity or let's say, the basket that matters to you is still not has softened, and you expect that price increases will sort of kick in from F '24 onwards. Is that understanding correct?

**Bharat Madan:** So there will be some softening obviously, which will happen in Q4 because we are already looking at some softer trend on the costing front too, and the steel prices in January has again moved up. So in Construction Equipment, actually, we have seen the impact, which is negative in February month. So there we pass on the cost impact to the vendors on a month-to-month basis, but in tractor, we do on a quarterly lag. So definitely, Q4 will have some softening on the tractor side, but it may not be significant, not to that extent, I think what you see in the inflation coming in, maybe less than 1% or is around 1%, it can happen.

**Gunjan Prithyani:** And the second question is on the growth, basically, now clearly, this year has sort of surprised everyone positively. The way we started out the year to now, the growth has been quite strong. So when you're looking at the underlying trends, if you can give us some feedback, is there something peculiar to this year or is it just the general fundamentals, which are looking up? And how should we be then -- given the cyclicity of the industry, how should we be thinking about F '24 for tractor industry?

**Harish Lalchandani:** Yes, Gunjan, this is Harish, I'll take that question. So if you take a look at the market this time, I think it's more to do with the fundamentals, where throughout the year, we have seen good monsoons. We have seen good prices for the farm produce. Also, currently, seeing good reservoir levels across the country. So as a result of which I think not seeing a significant slowdown in tractor sales.

Even if you look at the current budget and the fact that you are getting in elections almost 15 states, you will continue to see some amount of positive momentum in the market this time driven through inputs coming through the government as well as investments coming in states that are going into election soon. So we expect this positive momentum to continue.

**Moderator:** We have next question from the line of Raghunandhan from Emkay Global.

**Raghunandhan:** Welcoming Harish, sir, on the platform. Firstly, on the tractor side, sir, compared to how the expectations were going in the initial quarters of the year, the industry was expected to do 5 to 7 kind of percent growth. Now it looks like industry is likely to do more than 10% growth for FY '23. So -- and for FY '24, given the government support as well as the farmer sentiments being on the positive side which you alluded to, can we expect a 5% growth or a positive growth for FY '24, your thoughts on that?

**Harish Lalchandani:** Raghunandhan, this is Harish, and thank you for the warm welcome. Yes, you're right. If you take a look at the total industry growth that has happened so far, the TIV growth is almost 7% in the first 3 quarters of the year. At least for the fourth quarter of this year, we expect the industry positive growth momentum to continue.

If you were to ask me to predict about the FY '24, I think it's a little early right now because, yes, while there is positive momentum today in terms of reservoir levels as well as crop prices, as you are aware, a big driver for industry growth every year is the monsoons. And we'll have to wait and watch as to what the predictions of the IMD are in terms of monsoons, which will then clear only us predicting what industry volume would be for F '24.

**Raghunandhan:** Secondly, again, continuing on the margin side to Bharat, sir, sir, as I understand, Q4 should get the benefit of price increases, which happened in November, the full quarter benefit. Second is some commodity deflation benefit less than 1%, which you alluded to. Is it fair to assume that Q4, we might be around the double-digit mark and 3 quarters, 4 quarters down the line, we might come back to the trajectory of 13%, 14%, which was the normal level of margins for Escorts?

**Bharat Madan:** So, Raghu, I think what you said about the material cost impact and the pricing impact what we took in the last quarter, that is correct. But at the same time, the volume will not be similar what we've seen in Q3. So Q3 normally is the peak volume quarter. In Q4, the volumes are not that high. As of now, we are not looking at that high, looking at the January. Even if you look at the strong growth, which the January month has seen, which is 20% plus for the industry.

So still I think in the overall quarter, it will still be lower volumes. So definitely, we will have disadvantage in terms of the operating leverage in this quarter. So that probably can also play out, even though the pricing impact, clearly, benefit will come and some sort of deflation impact may also come. So let's see. I think it's too early to really guide on the margin how it will happen, but we don't see major downside.

**Raghunandhan:** Just lastly, can you talk about the Construction Equipment industry outlook and Railways outlook for FY '24?

**Bharat Madan:** Sure. So I'll request Sanjeev and Ankur to take that question.

**Sanjeev Bajaj:** Yes. This is Sanjeev Bajaj. As far as Construction Equipment industry is concerned, this is after a very slow Q2, Q3, especially in the later part of Q3 has shown a very, very positive trend, and it has surprised everybody. December has been very positive. And we see this momentum also

because of some pent-up demand of quarter 2 coming into quarter 3, later part of quarter 3, and it is expected to continue through to the quarter 4.

And so the kind of work, which is going on infrastructure, all the projects are at a very high speed, and there is a focus of completion of the projects, especially before the elections, many of the projects have to complete their phases. So the investments are on and there is a sense of urgency for most of the projects. So buying will continue, although, the first quarter of any fiscal is slightly lower, but before the rains, a lot of work has to be completed. So we expect that this buoyancy will continue through the first quarter of next fiscal also.

**Ragunandhan:** Got it, sir.

**Bharat Madan:** Ankur, you want to respond on railway?

**Ankur Dev:** Thank you, Raghu. So regarding the railway outlook, I think we are working on various sectors, which contributes to our top line. And basis that, for example, if I talk about the products, which are running in our field trial, we expect that field trial to get completed in the coming quarter, and that products will get commercialized for the regular production and which will benefit us in the coming year.

And on the similar lines, we are working on various products related to the Train 18, which will also give us some benefit. And similarly on the lines of that, we are working on various export markets. So considering all these factors, we expect the railway business to have a double-digit growth in the coming year.

**Moderator:** We have next question from the line of Saksham Kaushal from PhillipCapital.

**Saksham Kaushal:** Sir, if we look at our market share for tractors, over the last few quarters, there has been a steady decline. And historically Q4, if you look at like the last 5 years as well, Q4, there has -- this has been our strongest quarter with market share well above our full year average. Surprisingly, Jan also market share was lower than what we have achieved in the first 3 quarters. So what has changed? And when can we expect to regain our market share? Because we are -- I think for the full 10 months, we are at 9.9%, I guess, and earlier, it used to be around 11.7% and 10.7%?

**Harish Lalchandani:** Saksham, this is Harish. And just one clarification before I start. If you take a look at the quarter-on-quarter market share that we have showcased this year right from Q1, Q2, Q3, there has actually been a growth across each quarter. So for the first quarter, we were at 9.3%, for quarter 2, we were at 9.7% and quarter 3, we are at 10.6%. So it's been an increasing trend and not a declining trend. That's one.

And second is, right, quarter 4 has been always a reasonably good quarter for us. And this year too, we expect to end the quarter at the higher market share than what we have for Q3. That said, if you specifically take a look at January numbers, and I think alluded to January numbers, for us, January has been a focus, which is greater on retail. But if you look at our retail numbers in January, our retail numbers are significantly higher than what we have billed. So it's not



theoretically a loss of sale in the market, it is just basically billing number, which is lower than the retail number.

**Saksham Kaushal:** But, sir, you referred that there's an increasing trend. But if you look at FY '22, I think we closed the full year domestic industry at 10.7% and right now, we are at 9.9%. And it's a great thing to know that our billing is less than our inventory. So if you could even help me with our inventory numbers as well, please, what's the current inventory? And if you can give it in days or in numbers, it would be great?

**Harish Lalchandani:** Yes. One more correction, Saksham. Our market share for the full year FY '22 was 10.2% and it is not 10.7% as mentioned. And second is, if you take a look at the inventory numbers, traditionally, our channel inventory has been lower than the competitors in the marketplace. Now you guys are well aware of what the competitor inventory levels are better than us. So lest to say in that, one, our inventory levels continue to be lower than what competition has in the market. That is one.

Two is, I think broadly, we will retain our inventory levels within the 4 week to 4.5 week range that we always have been. And I think entering into Feb, March, which because Navratri in March this year, it is a healthy inventory level to maintain for us getting into peak season.

**Moderator:** We have next question from the line of Sonal Gupta from HSBC Mutual Fund.

**Sonal Gupta:** Just coming back to the question on the raw material costs, so just trying to understand, so have we seen the worst in terms of the cost or I mean, like you mentioned, I don't know, there is 1% to 1.5% under-recovery, but you also mentioned that you had taken some price cuts in August and then some price increases in November. So just trying to understand like what is the final picture looking like? And is there...

**Bharat Madan:** Yes, Sonal, so I had obviously had considered the price increase, which we had taken in November when we said there's still unabsorbed inflation, which is there at the end of last quarter. Now having said that, we also are looking at softening of the prices. So it's not that the prices have not gone down.

The last two quarters also, marginal deflation has set in, but it's very small. I think it will be about 1% sort of deflation, which we saw. As you mentioned, the major impact which comes from casting et cetera, and the tire has not really set in. So that is still ruling more or less at the similar levels. But we will actually look at some softening, which will happen in Q4 and we expect the unabsorbed part probably will get addressed by end of March.

So that's why I am saying, we don't expect the industry will take another price hike in this quarter because the deflation is going to neutralize the whatever inflation has been there. But having said that, that obviously has impacted the margin, whereas your numerator, denominator is same, which is what has been passed into the market, then this does have an impact of 3% to 4% on the margin, too. So that impact is definitely going to be there.

**Sonal Gupta:** And just in terms of the -- again, coming back to the market share for tractors, I mean, like could you give us a sense of what is the general, one, industry level inventory levels? And secondly, I mean, if you could just highlight, are there any product actions, I mean, in terms of new introductions et cetera, that you've done to support the market share?

**Harish Lalchandani:** Yes. One is, I think you guys are in a better position to judge industry inventory levels as compared to what we are. The only indication that we have is that, broadly speaking, as is the usual trend, our inventory levels are lower than what we see of competition. And for us, it is between 4 and 4.5 weeks, which I had also mentioned earlier is a healthy level getting into festive between Feb and March of this particular year.

The second point that you raised, there has been a number of actions that we have taken during the course of this particular year, which has resulted in an increase in our share quarter-on-quarter. One is in terms of the refocus back in our strong markets. Two is, introduction of variants in the 31 to 40 range. Three is, introduction of variants with hub reduction, for example, the 434 and the 439, which as you are aware are good selling models within the Powertrac brand.

And introducing this in the hub reduction, which helps us get into a different segment in strong markets. The second portion is channel addition. We are focused on channel addition as was mentioned by Prateek in the opportunity markets of us and the third is, a lot of focus on local activation events, meet customer needs, meet service needs, et cetera.

**Sonal Gupta:** So overall, you think we should get back to 10% plus market share on the Escorts side?

**Harish Lalchandani:** Yes, I mean that's the aim.

**Moderator:** We have the next question from the line of Yashvardhan Saraf from Ratnabali Investments.

**Yashvardhan Saraf:** Sir, thank you for taking my question. Sir my question is regarding manufacturing. Does the company have any plans of manufacturing products in India from Kubota's global product basket apart from tractors?

**Bharat Madan:** Yes. So if you look at our midterm business plan, I think we've given fairly good direction of what will happen in the next 5 years, 6 years. And there we also laid out certain areas, which are priority areas for us. And that will include the sourcing, which Kubota intends to do from India, both in terms of the finished goods as well as on component space. So there are opportunities obviously. So -- but the only thing is the product development time will have some lead time, which is involved. I think once that is done, then definitely the sourcing will start.

As it is from the export perspective, we are looking at Kubota's share in the export is gradually moving up, so which is a positive sign. And we also started adding this some component exports, which are already happening in our manufacturing JV. We are already exporting to U.S. market and they're also starting to sell in Asia now. So that is also happening. So we have plans to do some investment on the -- implement on the harvesters line in India. Then there is also a plan to set up a greenfield, where the engine manufacturing facility will also get set up.

And as you know, Kubota is a large player in the engine supplies also to most of the industrial manufacturers and OEMs. So definitely, there is a lot of opportunity I think going forward from our perspective. But, yes, like I said, it will take some time. It's not going to happen in a few months' time or a quarter-to-quarter basis. So we will have to have enough patience. There will be some investment, which will happen for that, which is also laid down in the midterm business plan document, and then obviously we'll start getting the results.

- Moderator:** We have next question from the line of Hitesh from CLSA.
- Hitesh:** Yes, sir. Sir, my question is on this TREM IV norms, which is expected to come in October, right, in '23. So is this just a draft notification from the government because elections are also going to be near, right? So how should we look at that, whether it's coming this year or it will be postponed next year, any discussions you've had with the government?
- Harish Lalchandani:** So if you -- I -- the TREM IV norms that you are referring to has already been implemented from Jan 1 onwards for the greater than 50 HP segment, and it is on production and not on retail. So currently, we don't see a significant impact yet, because there is some inventory that is there which people continue to buy. But I think if you were to ask us a question in terms of how do we foresee the impact, obviously, I think in the short-term, you may see some shift from greater than 50 HP to the sub 50 HP with a higher kind of a torque.
- Hitesh:** No, no, I was asking for the overall industry. I mean, I know for 50 HP, it's been implemented. I was talking about the -- it is going to be implemented across the board, right, for all HP sizes going forward, right? So, what is...
- Harish Lalchandani:** Okay, sorry, sorry. Then -- because my bite -- because that is an indication we have today is of 1 September '24.
- Hitesh:** Okay. It is not October '23. Is it? Because...
- Harish Lalchandani:** April.
- Bharat Madan:** So it was supposed to be from 1 April '24, but now since the more than 50 HP emission norms time line has been shifted now by almost 1.5 years because of the COVID situation. So in the stage, we are expecting that the original deadline even for the other emission norms for less than -- for more than 25 HP will also get pushed from April '24. So as of now, it's not clear. Obviously, it will come once the notification is there from the government side.
- So the original deadline was April '24. Now chances are since coming from 1st January, more than 50 HP emission norms are set in, so that deadline will get pushed. And since -- as you mentioned, it's also a pre-election year and it will be closer to election. So we don't think that will really happen. So only thing whether this also get pushed by 1.5 years further, which will then move to FY '26 or it will be slightly earlier. So that is I think the only question, which still needs to be answered from the government side.

**Hitesh:** Okay. And my second question, sir, you said steel is not -- steel is getting negated from the increase that we are seeing in other material costs, right, but we have seen in truck also. In truck also, tire and all is quite big, right, but steel is also equivalent to what proportion you're talking about in tractor, and there we have seen a substantial improvement in gross margins?

**Bharat Madan:** No, I said the steel prices are going down, but in our case, steel composition is only about 17% in the sheet metal. So the major input in tractor is actually castings, which gives almost 28% and forging, which is another 17%, and tire is almost 18% in the material composition. So between these 3, which is not really a normal phenomenon in the other order players, so the impact of sheet metal has started coming in, but that's very small for us, which is the benefit which you saw happening in the last 2 quarters, but it's very, very small component for tractor. So the major benefit which comes is from the castings side, which obviously, as you mentioned, CV is definitely using it, but for them the composition is still lower, but they do use larger steel compared to the tractor space.

**Hitesh:** Okay. Sir, and we are not seeing any major improvement in cost reduction in fourth quarter also on the castings side?

**Bharat Madan:** In Q4, like we said, there is softening because normally we get the benefit after a lag. So in the -- based on the last quarter commodity benchmarks, so we will get the benefit in Q4, but it's not going to be significant. So, let's say, its maybe around 1% or maybe even a little less than that, which is what we're looking at today. And a lot of it actually still needs to be settled, because normally the industry leader takes the lead and discusses and closes the rates with the major manufacturers, both on the steel side as well on the forging side. So that is still to happen. We are expecting by February end, this will get settled. So then we'll come to know really what sort of benefit is going to come in Q4. Though, that will be effective from 1st of January.

**Hitesh:** So, sir, just a follow-up here. We have not seen this kind of impact in Mahindra's margin or any other company's margin on tractor side, right? So we have seen it in Escorts after Kubota has taken over the company. So is there some product interventions that you guys are doing because of which the cost has gone up, because it's not -- exactly it's not matching with the other companies that we are seeing and how will margins...

**Bharat Madan:** How will you look at year-on-year margin even for the competition, I think the drop is similar. Even our margin had dropped by 5%, 6% and they also have seen the 5%, 6% drop from the peak margin from last year. So I think when you're saying they have not seen this impact, I think it's difficult to say, even on the blended result, but they published, it includes the auto business also, you don't get to know the material costs separately for tractor and for auto player.

And auto obviously is doing well at this point in time. For them, the last 2 years were not very good because of various reasons, including the semiconductor shortage and COVID situation, while the tractor industry, those 2 years was extremely good. So obviously, it's not really comparable number. But, yes -- so we have -- because ultimately, Mahindra is the one who is

taking the lead and we're also following them. So definitely, if they get the benefit, the entire industry is something which follows them in the commodity prices.

**Moderator:** Thank you. We have next question from the line of Mitul Shah from Reliance Securities.

**Mitul Shah:** Yes. Good evening sir and thank you for giving me opportunity. Sir, I have question on tractor industry dynamics. At the beginning of financial year, everyone was talking about 0% to 5% growth or more or less flat kind of a number, then 5%, 6%. Now by end of January, it is coming 11.6% kind of a double-digit growth and still Feb, March are expected with more than 20% growth. So what has changed, even there is no cyclicity visible in this. So is it retail -- sir, and then on the retail side also, if you can give what would be the retail growth against this 11.6% wholesale growth or any change in -- industry-wide change in inventory from 1st April to December end or January end, whatever it is?

**Harish Lalchandani:** Hi, Mitul, this is Harish here. So as I had indicated earlier, I don't think there's anything significantly different that is happening this particular year. It is just that a lot of the individual factors that normally play out and some of them play out more, some don't play out as much. This year, I think all of the factors seem to be playing out reasonably okay for the industry. So if you take a look at the monsoons, it has been reasonably good.

If you take a look at the MSP prices, it has been reasonably good. If you take a look at even the non-MSP related crop prices, it has been good. If you take a look at the reservoir levels, it has been good. If you see the commercial activity that is happening, it has been reasonably good. So it's just that there are incremental improvements happening in each one of the areas, which is resulting in the industry which is significantly higher than what we have seen in the past. If you were to now compare the wholesale versus retail in terms of the tractors, I think, overall, the industry is operating on a net almost similar retail growth as what you see in wholesale.

**Mitul Shah:** So no major change in inventory, do you want to say that, sir?

**Harish Lalchandani:** No, if you take a look at the FADA numbers that we have seen and FADA numbers are published, there is no significant change. And therefore, we are not seeing a massive increase in inventory. In the short-term, you could see some increase or decrease but that depends whether peak season, off season, build-up, et cetera, but there is no industry build-up that we are noticing. And actually, if you take a look at our -- which is why I think I mentioned in the past also in this call, retail numbers for us in the last 2 quarters have been better than our wholesale numbers.

**Mitul Shah:** Okay, sir. Second question on geography-wise growth parameters. The primary growth, which is coming from Central region with around close to 18% growth and from West region close to 15% growth, whereas all other regions are in a single-digit growth. So wherever we are very strong, those markets are growing at a low single-digit. So going forward, what is your view in terms of these geographical growth still this North, Central would remain low growth, then will continue putting pressure on market share?

**Harish Lalchandani:** See, if you take a look at the full year numbers, what has happened is, if you take a look at what you are referring to as our strong markets, the first 2 quarters were extremely good for our strong markets. It is only Q3, the growth is a single-digit growth of approximately 7% to 8% in the strong markets of us. If you take a look at the opportunity markets, opportunity markets while they're low in the quarter 1, they have done well in quarter 2 and quarter 3. So as a mix for us between the strong and opportunity markets, I think the overall opportunity or the basket for us to play has remained more or less similar.

The second point is, yes, at one point of time, there were strong markets and there were opportunity markets, the relative differences even today for us. But because of our focus in the opportunity markets, last few quarters, if you take a look at it, my growth in the opportunity markets in Q3, for example, have been higher than the market growth. And as a result of which if you see my overall market share for the quarter, it has not shown a dip, it has actually shown an increase.

**Mitul Shah:** Okay, sir, lastly, again on this market share thing only, as Escorts has remained strong in North and Central part, whereas relatively weaker in South and West, on the other hand, Kubota is very strong in West and South, whereas it is weak in North and Central region. So going forward, what could be the synergy benefit on market share side maybe next 2 years, 3 years, what you can think of that?

**Harish Lalchandani:** So one clarification, I think for the West, Western markets for us at least no longer are weak markets as you mentioned. They are reasonably good growth markets for us and good opportunity markets for us. The beauty of this partnership is the fact that if you take a look at India as a whole, there are pockets of opportunity for both of us in -- across each one of the markets in India, the beauty comes together in terms of our relative strength in the markets, which means that net-net put together, we will actually be complementary to each other rather than eating into each other's share. So I think overall it's a positive for Escorts Kubota.

**Moderator:** We have next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

**Jinesh Gandhi:** Hi sir. A couple of questions from my side on the tractor business side. So do we -- are we seeing a good recovery on the commercial usage of tractor or non-agri usage of tractor or that segment is yet to see a comeback?

**Harish Lalchandani:** So if you take a look at the overall numbers in India, at least in terms of what we see and perceive in the market, yes, the commercial application for tractors are looking good. But in certain markets, like for example, in certain districts, if you take a look at, for example, in UP and Bihar, you could see a reversal of trend because of local clampdowns and local issues happening over there. But if you look at the overall country, I think the commercial segment is looking up.

**Jinesh Gandhi:** Okay, okay. Got it. And secondly, with respect to the component exports, which we talked about through manufacturing JV. So this would be primarily trading of components in the sense we will be buying it from third-party manufacturer and exporting it to Kubota globally or will -- we

are getting into manufacturing of components as well or its exports of components which we manufacture in-house?

**Bharat Madan:** So right now it's manufacturing actually.

**Jinesh Gandhi:** Okay, that's good to know. And lastly, if you can talk about the completion of merger of Kubota JVs, by when do we expect that to happen, the time line?

**Bharat Madan:** So there are 2 elements to this. One is the capital reduction scheme which was filed. So that is now coming up for hearing towards the end of February, but that was the precondition to the merger. So if that goes through, then only the merger will go through. So merger application is pending with the stock exchanges. I think we are awaiting the approval from there, from SEBI side. Once we get that approval, then we'll be making the filing with NCLT. And then once the NCLT filing happen, then the approval process for shareholders, creditors, all that stuff will start. So still I think we expect our time line is somewhere around September, October, we should be able to see this through, if everything remains normal.

**Jinesh Gandhi:** Okay. Got it. And, sir, one more question, sir, lastly, you talked about plans to set up greenfield for engine manufacturing. So can you talk a bit more about this? What kind of engines are we looking at and by when we should be seeing further progress on this?

**Bharat Madan:** So, this greenfield facility will be both for tractor as well as engine. So right now in the manufacturing JV, Kubota is importing the engine. So we're not making them in-house. So the idea is, unless we localize the engine, the cost pressure will always be there. So the margins will never be comparable to what the domestic manufacturers are making. So that's why that will be prerequisite. So that capacity will come up in the greenfield venture, along with the tractor capacity. So both will come together. And obviously, the larger capacity means, since Kubota is selling a lot of engine actually, so they are globally -- this is one of the key business for them. So definitely, if India also starts making those engines, it will also open some sourcing opportunities for Kubota from India.

**Jinesh Gandhi:** Got it. And we haven't yet announced time lines for this sort of capacity which we are looking at on the tractor side?

**Bharat Madan:** So in our midterm business plan, we indicated in FY '26, that plant will go live. So obviously, it's still -- the first preference is to utilize the capacities over here. So I think there's some changes happening in our own manufacturing setup. So the layout, et cetera, will undergo a change. So firstly, we need to utilize the capacity available in the Faridabad location for both the plants in the JV as well as our own plant, which itself is today close to 170,000 and we are still far from it. And then obviously, the process will start in the greenfield facility setup.

**Moderator:** We have next question from the line of Pramod Amthe from Incred Capital.

**Pramod Amthe:** Yes. Sir, just to confirm, since you said above 50 HP you have started producing, what's the end customer price hikes you have taken above 50 HP to meet the emission norms?

- Bharat Madan:** Sorry, can you repeat the question, Pramod?
- Pramod Amthe:** Sir, basically, I was asking for the new emission norms. The above 50 HP since you have started production and supplying to the market, what is the extent of price hikes you have taken for that specific product line to compensate for emission upgrade?
- Bharat Madan:** So right now, actually, as I think Harish mentioned because still manufacturers are sitting on the inventory. So obviously, so that is not yet effective. But yes, I think most of the old inventory is over, then we will have to really discuss and see how the industry at least is looking at. But the rough estimate was anywhere between 10% to 15% increase can happen on those tractors, which is why there will be a switch in demand which may happen in the short-term for more than 50 HP to less than 50 HP, because already you are sitting on a steep inflation, on top of it, emission norm causing big blow also be very heavy on the company.
- Pramod Amthe:** Okay. And sir, going forward, 18 months down the line as it is going to spread out to the rest of the industry, what type of rationalization or cost reduction you are looking at in the rest of the HP tractors, so that there is not such a steep increase which will come on the smaller HP tractors?
- Bharat Madan:** So I think the idea is obviously, it will be cost increase for everyone. The only thing is how much cost increase happens from one OEM to another OEM. So, as we've said, the indication is, it may be anywhere between 8% to 12%, 13% range which may happen in the more than 25 HP tractors. So the advantage is, if we can actually pull in resources from Kubota, so we're also trying to be as low on the cost increase as is possible. So that will also give us some competitive advantage compared to other players, so which is what we are trying to do. But still since there is some time with us on hand, so we'll see what best can be done and minimize the cost and bid to the farmers.
- Moderator:** Ladies and gentlemen, that was the last question. I'd now like to hand the conference back over to the management for closing comments. Over to you, gentlemen.
- Bharat Madan:** Thank you, ladies and gentlemen for being present on this call. For any feedback or queries, please feel free to write us at [investor.relation@escortskubota.com](mailto:investor.relation@escortskubota.com). Thank you very much and have a good day.
- Harish Lalchandani:** Thank you.
- Moderator:** Ladies and gentlemen, on behalf of PhillipCapital India Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.