



“Outcome of Today’s Board Meeting of Escorts Limited”

March 20, 2020



**MANAGEMENT: MR. SHAILENDRA AGRAWAL -- EXECUTIVE DIRECTOR,
ESCORTS LIMITED
MR. BHARATH MADAN -- GROUP CHIEF FINANCIAL
OFFICER & CORPORATE HEAD, ESCORTS
MR. SHENU AGARWAL – CHIEF EXECUTIVE OFFICER,
AGRI MACHINERY, ESCORTS
INVESTOR RELATIONS TEAM**



*Escorts Limited
March 20, 2020*

Moderator: Ladies and gentlemen, good day and welcome to Outcome of Today's Board Meeting of Escorts Limited. Today, we have with us Mr. Shailendra Agrawal -- Executive Director, Escorts Limited; Mr. Bharat Madan -- Group Chief Financial Officer and Corporate Head and Mr. Shenu Agarwal -- CEO, Escorts Agri Machinery and Investor Relations Team at Escorts Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bharat Madan. Thank you and over to you, sir.

Bharat Madan: Thank you, Steven. Good evening, everyone, and thank you for joining us for outcome of today's board meeting of Escorts Limited. Escorts Limited and Kubota Corporation to further deepen their existing relationship. Kubota Corporation to invest in Escorts Limited, that is the way the headline goes. Now with this Escorts and Kubota will partner to become a leading player in the Indian market and have above product development, manufacturing and sourcing of global markets.

Just to give the "Key Transaction Highlights", Escorts will issue and allot 1,22,57,688 equity shares through a preferential issue to Kubota at an issue price of Rs.850 per share subject to shareholders and necessary regulatory approvals. Kubota's investment will constitute 9.1% of the equity stake on a pre-capital reduction or 10% on a post-capital reduction basis for a total investment of Rs.1,041.9 crores. This price represents a premium of 48.21% over the last traded price of yesterday, that is 19th March 2020.

The Board of Directors of Escorts has given an in-principle approval to consider reduction of 1,22,57,688 equity shares which is the same number as the preferential shares being allotted to Kubota of Escorts Limited held by Escorts Benefit and Welfare Trust, subject to receipt of necessary approvals and upon completion of the preferential allotment to Kubota. This shall ensure that the total equity share capital of Escorts remains unchanged. And post the capital reduction, Kubota will hold 10% equity stake in Escorts. There is no secondary stake sale by the promoters or promoters' group of Escorts. The operating control of Escorts will continue to remain with the current promoters. Kubota will have right to nominate two non-executive directors on the board of Escorts Limited. In addition to the preferential issue, Escorts will also acquire 40% stake in Kubota Agricultural Machinery India Private Limited, the marketing and sales company of Kubota in India for a consideration of Rs.90 crores in an all cash deal. The existing 60:40 joint venture between Kubota and Escorts respectively namely Escorts Kubota India Private Limited will continue to operate as planned earlier. Capital infuse into the company from this transaction will be used for future growth and development of Agri machinery business, mainly focusing on new product development, which we are creating together with Kubota to achieve a "Vision 2027" that we will share with you all at an appropriate time.

Some of the benefits from this win-win collaboration to Escorts are Product Innovation, to Indigenization of Global R&D, Production Systems Excellence, Global Supply Chain, Sales and Distribution and this is going to act as a global sourcing hub for Kubota. For Kubota, this means an assured supply of cost-effective products out of India, joint product development for emerging and global markets and introduction to product range through respective distribution networks.

We will also explore new avenues of growth in construction equipment, and agricultural implement space, leveraging on strengths of both the parties with focus on products including earth moving equipment and smart agriculture implements.

We will be creating one of the largest Indo-Japan Agriculture Association aligned to Indian government's "Make in India" Vision by integrating technological excellence and frugal innovation to provide latest farm organization solutions across the globe.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vivek Gada from HSBC. Please go ahead.

Vivek Gada: Sir, I wanted to get a sense of your product development collaborations considering one of the focuses to improve share in the southern and western markets in India. Is there anything in specific that Kubota can bring on table on that front?

Shailendra Agrawal: As you know, we started our collaboration with joint manufacturing, manufacturing Kubota products and Escorts products. Over the time, they are also looking for developing channel and they have their channel worldwide. So, globally, they will sell our products also complementary to their products in terms of pricing, in terms of application. So, what we are looking for jointly is that wherever we want to grow in global market or in domestic market where we want to grow jointly Kubota and Escorts Powertrac - Farmtrac brand, we can develop a few products which can be positioned very well in global or in the domestic market. So, we have shortlisted some of the products still and we are working for joint team, but in long-term we are looking for a lot of opportunities of looking from our side frugal engineering, supply chain development and the kind of stance we have. From their side, design expertise. They are among the world by leaders. That is synergy. But we will make some roadmap in the coming years to draw and there will be a lot of synergy in developing joint projects.

Vivek Gada: Secondly, I also wanted to get a sense of your capital allocation. What do we plan to do with the cash that is significant right now that will...?

Shailendra Agrawal: So, long term as you know that first is that we want to enhance the capacity and create the world-class plant for joint manufacturing, that is (EKI) Escorts Kubota India Private Limited. So, there right now we have targeted Rs.300 crores investment and right now more or less Rs.300 crores

we have done, or we will be doing in the next few months. So, we will be creating a capacity of 50,000, but over time a lot of new projects will be coming in from Kubota sites and from our side also to be produced there. So, there is a tooling development, supplier development and all the kind of development work will be there to produce tractor there and the continuous improvement of the products and processes. So that is one big investment we will be continuously investing on that JV plant. Secondly, as we supply them tractors for global market specifically, not so much for domestic markets, but especially for global markets, they will like to improve quality of our products and there also they have agreed with us that they will like to work together in supply quality development, in vendor development, in the kind of supply chain and also in the manufacturing plant development improvements. So, we might have to invest something on the plants as well as our plants to really make our projects further improved for global markets. So that is one area. So, it can be paint shop, it can be engine assembly because tomorrow they might think of manufacturing jointly engines also, though still not clear, but over the time engine manufacturing also can be part of our joint partnership, then in long run as Bharat said that we are looking for implements manufacturing. So, whenever they decide for manufacturing implements, harvester India, they will look either for sourcing or assembly of implement, then construction, can be a long-term plan of excavators. And similarly, component aggregate is one big area that they are looking for that India to be the manufacturing hub. That is their wish and vision. And for that if they start doing that, there will be a lot of tooling and vendor investment in terms of component and aggregates. So, similarly emerging technology. So, I will say a lot of investment can come in over time. So, that is the area where we are thinking and that will be very much utilized. Rather we like to make profits out of the JV over the years to really invest back into this partnership.

Moderator: Thank you. The next question is from the Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: I wanted to understand more is that have you developed any five-year plan on your product development CAPEX because capacity utilization is already low, generally, tractors do not grow more than 6%, 7% CAGR in India. So, I think this is more for exports. So, if you can share some light in five years what can be your export ambitions and what kind of product development CAPEX will be required to achieve those ambitions? So basically, I am trying to understand the five-year CAPEX allocation and product development and what is the export plan?

Shailendra Agrawal: So, it is a very dynamic process though, but we are looking for a process and we are planning some products and investments and new product development, the improvement projects also. So, we are looking for a plan first up to 2023 and then the 2027. I think broad plan should be ready in next two to three months and that will bring some clarity of the kind of investment we are doing year-on-year on this partnership for different initiatives. So right now, yes, we have something in mind, we have started initiating discussions also. So, it is not that it has not been discussed. We have understood well what kind of synergy and what kind of initiative business partnership will be doing. But as far as the plan is concerned, on the numbers and the values and

the investment, we will come out in next two, three months for the next three to five years and that will be of course we cannot be firm, and year-on-year we will work on that.

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

Mitul Shah: My question is, is there any discussion or any scope for Kubota increasing stake further from 10%, and of 17% which is still remaining stake with the welfare trust?

Bharat Madan: So, I think as you know the relationship with Kubota, we have been discussing for last now more than four years and the relationship actually was fructified only about a year ago when we set up this manufacturing JV with them. And obviously over the last one year the trust between the two companies have grown very well and the relationship is looking very strong. So, I think there is a confidence and trust element in both the partners which is what led to this relationship getting strengthened further, and they agreed to invest 10% in Escorts. Now, whether we will go from 10% to a higher number or not, I think it is very difficult and speculative as of now but yes, the idea is the relationship should strengthen in future and the kind of synergy which we are looking at with Kubota both on the product side on the various categories like Shailendra mention on implements space, on export potential, on global sourcing of components from India, they do 30,000 crores of buying for their components for the tractors globally. And even if India gets 10% of that, is a huge number I think we are looking at. So, I think the potential is huge I think in this partnership. So that is why we thought it would be very fruitful to strengthen this relationship further where we are actually tied to each other in both the companies. So, we also further tightened the relationship very early, it was only manufacturing JV, we were 40% partners, now they also agreed to allow us to enter into the sales company, where again we are going to get 40%. I think the company's strength on both these products, I am sure it is going to help the company and reach new levels of heights and I think the benchmark which would be set by various companies, going to set a real benchmark for future industry development.

Mitul Shah: For Kubota India is there scope that it will eventually become a part of the JV company and everything comes under one roof, not right now, it is a separate entity?

Bharat Madan: That is a synergy but as of now there is nothing on the card, but yes, as of now, they are working independently, but, yes, in the future, if the synergies do emerge, which is more logical to happen, so, we think yes, that could be one potential element which will happen.

Mitul Shah: Lastly on the cash again, we already spent Rs.300 crores for 50,000 capacity and as earlier pointed out industry grows by 7%, 8% CAGR over long-term. So, another 50,000-volume capacity means nearly six years growth kind of a scenario. You do not need major CAPEX for capacity expansion excluding the product development. So still this Rs.1,000 crores plus and existing cash of around Rs.1,400 crores cash compared to our regular CAPEX being around Rs.100 crores or less, it is a very big sizable. So, any concrete thought on this?

Bharat Madan: As Shailendra mentioned, because we are jointly working with Kubota, I think in the next three to four months the business plan will be ready for next five-years. The feasibility studies are being done now and like we said, we are looking at expanding into the area of implements, we plan to set up the joint R&D center here in India, and right now in the manufacturing JV only starting with the two models there and as the business grows, still they are importing a lot of models from Japan and Thailand, I think those models will get localized. We are also exploring the potential of maybe in future getting into the Indian manufacturing facility in India which is one of the bigger business globally. And I think as the relationship grows, the ideas are there on the table, and I sure once the things are being put to the sheets to the paper, and we are looking at the feasibility is there, I think gradually the developments will happen, and I think in next three to four months, we will get more clarity into the cash deployment and how the capital allocation will happen over next four to five years. But this is one of the key steps in our plan, I think which we talked about, I think the plan that which we are working on for 2027 which will be in partnership with Kubota.

Mitul Shah: So just reconfirming, you earlier stated that alliance will work for construction equipment segment also is it what I heard?

Bharat Madan: They are shown interest in some of the construction equipment segment like including backhoe loader and Kubota is a global leader in the earthmoving segment and the mini excavator series. So, they are interested in sourcing a lot of components from us and a lot of products from us for the global market too. So, there is one potential area which they see where there is some synergy exists with Escorts. So, like I said, so they are still in the phase of putting down the details on paper. The feasibility studies are still being done. But as I think we go forward in the next three to four months, I think we will have better clarity on which products and which priorities will be first undertaken, and then we will share it with you.

Shailendra Agrawal: Just to clarify that in construction equipment we have many products. And as far as the crane is concerned, crane they are not interested, we will be doing on our own and for that higher end cranes like truck cranes and duck crane, we have a partnership with Tadano, so this construction does not anywhere related to that business of cranes what we are looking for within our company and outside JV with Tadano. So, this is more on as Bharat rightly said on the excavator side in the longer term and backhoe loader sales and joint manufacturing.

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

Jinesh Gandhi: My question pertains first with 10% stake would Kubota be getting board seats and if there is how many?

Bharat Madan: So, they will be getting two board seats; the non-executive directors which will be coming on board.

Jinesh Gandhi: Second, you touched upon implements. So, this implements business would be largely through Kubota India or this would be either through JV or through Escorts?

Shailendra Agrawal: As we have created a JV already for manufacturing of tractors, so whenever we decide on basis of feasibility and business case for implements, including harvesters, we will decide to be manufacturing in JV only. That is what broadly is the purpose, but yes, as far as the sourcing base and manufacturing is concerned that they can take support of Escorts and suppliers. Assembly manufacturing will be a joint venture, not Kubota India. There is nothing company like Kubota India, now it will be JV only.

Jinesh Gandhi: The company where we took a stake, that is Kubota India, right?

Bharat Madan: We have a JV for the manufacturing, and this was a sales JV with another partner who is getting off from that JV and we are getting into the partnership with Kubota. So, now in both manufacturing and sales we will have 40% partnership.

Jinesh Gandhi: So, how much stake Kubota will be having?

Bharat Madan: So right now, it is a partnership with Sumitomo which is 60:40 JV and the Sumitomo fairly is looking for an exit, so then they will buy out Sumitomo and become 100% company, and from that stake we will buy 40% on Kubota.

Jinesh Gandhi: Can you also touch on the components business that you talked about? Are we looking to get into the components manufacturing as well?

Shailendra Agrawal: So, components business is one of the biggest business. They already initiated with their company in India before they had partnership with us and there is a saving of around in the range of 30% - 40% compared to Japan and maybe 25% compared to Thailand. So, that is what we are manufacturing, and we have worked very well while developing components in India for their products, but we are manufacturing in JV. So, in future, they have a plan of exporting and developing components from the JV to their other manufacturing plants also. So, there is no firm plan still, but we have done some initial feasibility study and if found feasible for quality, for cost and all other aspects of logistics, this can be a good base for supply chain components from India to their plants in Japan, USA. or Thailand.

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

Raghunandhan: My first question was on the current status of the joint venture. Can you update on these three areas - on the production side, on the joint product development side and on the export side?

Shailendra Agrawal: So as far as manufacturing side is concerned, it is very much doing well and we are planning to roll out few tractors in July and by September, October, we are planning to have regular

production from that plant. So, the facilities are under construction and equipment's are under installation, this is doing well. As far as the joint development is concerned, as we already covered in our discussion recently with a few of the members that we are still working on a business plan and once we work out a business plan and we work out the kind of priority of products, we need to be jointly developing right product, right quality and cost and what is required in the market as per application. So right now, there is no kind of segregated that this product or that product. So, we are still working on the product requirement, but we have identified the process, we have identified the structure. So that is clear as far as the product development. Third point on exports. We have three phases. So, the first one is phases where our products are already ready like South African market, Thailand market and some of the Europe markets. So, these markets we already initiated a few numbers in this year as a trial and next year onwards there will be regular supply of tractors from Escorts to their channel globally and then we will start regularly and next year plan would be a few hundred number of tractors to be exported to their channel. So, we are we are making that. When we make the complete business plan, it is very much that there will be some numbers up to 2023, but we are planning to export.

Moderator: Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Two things I wanted to clarify; one is will there also be any potential management appointments from the Kubota side going forward at Escorts?

Bharat Madan: Like I said, there are two board seats which have been given to them.

Riken Gopani: So, there would be replacement from the current two board members, so this is an expansion of the board itself?

Bharat Madan: We are not sure it can also lead to expansion. But what we need to maybe restructure at an appropriate time maybe towards the closing time, I think we will do that.

Riken Gopani: And the timeline sir by which you expect this transaction to get completed?

Bharat Madan: The transaction is subject to the approval of shareholders which will happen maybe towards the end of April and then again there is some regulatory approvals required which are likely to come by the end of May or middle of June. So tentatively, I think by the end of June or beginning of July we should be able to conclude this transaction.

Riken Gopani: Cash that is a part of this transaction, if I am understanding this correctly, this is going to be used under some sort of a five-year plan for any potential case explained, right, is that how you guys are thinking about it or what is the thinking there?

- Shailendra Agrawal:** As we said that, already they have started investing on the JV and this will be of course a five year plan as you rightly said, but over time, we will be utilizing the next three to four years, there will be a lot of investment in these products and in the plants, very well covered in the next five to seven years plan.
- Moderator:** Thank you. Thank you. The next question is from the line of Pratik Poddar from Nippon India. Please go ahead.
- Pratik Poddar:** When you say global sourcing not for Kubota, this sourcing up goes into the JV or into the standalone Escorts? And what do you mean by global sourcing – is it that a lot of Kubota’s production would be shifted to India to leverage the low-cost benefits which comes out of India, that is the way to think about it?
- Bharat Madan:** See, right now Kubota is sourcing the component from the sales company, which is we are going to invest 40% now. So, they are already doing about 175 to 200 crores of export of component to their plant in Thailand. Now, we are also starting to export tractors from Escorts Limited to the global network of Kubota, which will be essentially the tractors manufactured by Escorts but will be sold under a co-brand, which is E-Kubota in the global network. Now as we also go into the manufacturing JV and do a joint development of products, so the potential to export those products also to the global market, and then those products will also get sold in India. And I think like just now we mentioned, the production in that JV is going to start only from Q2. Again, once the production starts, yes, there is a potential opportunity to export those models which can be also sold through their network, in their brand in other countries. So, I think overall in every company including the sales company, manufacturing company as well in Escorts, there is an opportunity for export.
- Pratik Poddar:** So, just to summarize this, the sales company would look after components, the manufacturing JV will look after contract...?
- Bharat Madan:** This is a current structure but yes, gradually I think as you move forward, so, whichever company is producing it, so they will be exported from that company.
- Shailendra Agrawal:** So, because the manufacturing company has complete supply chain, sourcing of components and the development of components, so naturally the manufacturing company will be doing in future all the global sourcing as and when needed. So first they will focus on what are the products to be manufactured in JV and then in the longer run, there will be more and more components if they find feasible, they will be exporting as global sourcing. And this will be part of our five-years plan.
- Pratik Poddar:** So, immediately, just to understand most of the benefits will accrue in the manufacturing JV and in the sales entity, not in the standalone Escorts entity and maybe in the medium to the listed to the standalone Escorts entity, right?

- Bharat Madan:** So, like I said, the tractors which we are making and exporting through global network of Kubota under a co-branding arrangement are being exported from Escorts and there is a plan to do exports of 4,000 to 5,000 tractors in three to four years which will go from Escorts. Once the manufacturing JV start manufacturing their product and they develop their vendor base here in India, the component and the product sourcing purchasing will start from that manufacturing JV to the global countries.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** Just one follow up of last question. I mean, you said that around Rs.150 crores or Rs.200 crores of components sourcing are happening through the sales entity. So, the sales entity is doing trading of those components or they are also manufacturing?
- Shailendra Agrawal:** They were doing this trading only when the JV was not existing. Now, we have manufacturing JV which is doing supply chain sourcing and manufacturing. So over time, it may take six months, one year, all the sourcing will be shifting to the manufacturing JV only, not the sales JV. So, it will be continued from the manufacturing JV what we have with Kubota.
- Priya Ranjan:** But that manufacturing JV will also manufacture those components, it will keep sourcing from outside and then transferring it to Kubota?
- Shailendra Agrawal:** Yes, so right now it is more of an assembly plant. So, manufacturing of component and machinery is not there, but in longer term, yes, it can be a manufacturing base also. Right now, it can be mostly from the supplier end and can be developed and then exported. So, as and when need based it can be there.
- Priya Ranjan:** Just on transaction part, why we have not thought of canceling the entire treasury stocks of the cost benefit?
- Bharat Madan:** Like I said, the capital structure was to be maintained and they wanted a cleaner deal through a preferential allotment which is a more transparent structure and governance which makes more sense, but this will go through the shareholders' approval route. So, they prefer that structure which is why we are giving a preferential allotment to them through fresh shares allotment and subsequently we cancel the equivalent number of treasury shares to ensure the capital structure does not change.
- Priya Ranjan:** But I mean in various discussions with investors and all, we have always been discussing that, eventually this treasury shares will have to be canceled out or must be given to some other?
- Bharat Madan:** I think if we look at the past history, I think we had sold 3% of our treasury stock in December 2017 and again this time in a way we are canceling 10% of the treasury stock, the 13% of the treasury is already taken care of, the balance 17% which is left, definitely will be used to make

sure that company's growth objectives are met and these 13% also which has been there, is also going to be used for the future growth objectives of the company. The product development and the other investment which we are going to do along with Kubota is obviously going to support the company in achieving greater heights and the future growth strategy.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: We are a cash-rich company and we are generating excess of Rs.500 crores of cash flows for the year, right. And in the best case estimates also, under the JV route or standalone operations, our CAPEX might be met through internal accruals itself. So, can we not share this wealth with the shareholders because as such dividend payouts have been very dismal in the past?

Bharat Madan: I think if you look at the last two years, while only the last year we were able to generate good cash flows because of the squeeze in the working capital, but the year before was really bad and we actually had a lot of issues in the working capital structure and also because the tax issues, the GST accumulation happening on the balance sheet. So overall, this business which is cyclical in nature has a lot of seasonality built into this which needs a huge amount of cash in terms of working capital. So that is the risk which obviously was there. But yes, as we grow further, so the money which we are taking from Kubota is earmarked for working with them in developing and growing the business of both the companies in India. So that money is not money which will be required or will be eligible for distribution. The money which the company is going to generate in future and as a free cash, that is the money which will be available for the shareholders for the growth objectives, for the other businesses as well as for distribution to the shareholders. So, as we grow further, as the cash flow improves which we have been saying also to the investors earlier. So, we will obviously be looking at the better distribution of dividend to the shareholders.

Shashank Kanodia: Post this transaction, the trust will continue to hold 17.5% stake in the company, right?

Bharat Madan: That is right.

Shashank Kanodia: Are we in the eligible limits to qualify under promoter shareholding?

Bharat Madan: So, we have been declaring it under promoter shareholding because I think logic given by SEBI was because these are directly/indirectly under control of the promoter. So that is why we have been declaring as a significant beneficial order in the name of the promoter. So, the declaration continues to be like that, even though it is not directly held by promoter, but the beneficiary in this case is the company, but they are still classified as a promoter category shareholder.

Moderator: Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: I just wanted to clarify that 1,050 crores are all coming into the company. Is that understanding correct?

Bharat Madan: Yes, Rs.1,042 crores roughly.

Moderator: Thank you. The next question is from the line of Bharat Giani from Sharekhan. Please go ahead.

Bharat Giani: So, I just want to understand like post this partnership and as you highlighted that most of the business now would be done through the joint venture only. So what role now will the Escorts standalone business play, I mean, what I am trying to understand is that should we look now of the business opportunity from an Escorts standalone business perspective because the things that you pointed out be it the component manufacturing or be it an implement manufacturing and also the other thing that you pointed out, that is mostly will be done in the JV only. So, what will be the role of the Escorts standalone business if you can just throw some light on that?

Bharat Madan: So, I think just to clarify, we did not say that everything will be done in the JV. Whatever is in relation to the Kubota brand or in relation to their products will be done in the JV. Anything to do with Escorts products and Escorts brand will be done in Escorts. So, in future the growth will happen in both the areas in their products as well in our product category. The investment will happen in both the companies in Escorts as well as in the JV. And those manufacturing in the JV will happen for their product range and obviously because of that reason, so whatever manufacturing will happen in the JV and the products will get exported, along with that there will be an opportunity to export the component also to the other companies globally. So, it is not that all the investment will go into JV, all the growth will happen only in the JV now, the investment will also happen in Escorts and Escorts will also grow its own product range. So, both the investment will happen, and both the growth story will continue.

Bharat Giani: So every business that you said be it the components business or the construction equipment business or the implements business, that does not necessarily happen in the JV wherever we feel that we have sort of a different kind of a play area as in the Escorts standalone, that will be done through Escorts standalone business, is that what you are saying, right?

Bharat Madan: Yes, so like I said, our branded products and our technology-led products which are they are both on the brand of Powertrac or Farmtrac or Escorts, they will continue to be made in Escorts only. Like the sales company we are investing 40%, they are already selling implements and the turnover is close to Rs.250-odd crores on the implements which includes basically harvester combines, transplanters, which is a big number compared to I think what Escorts does today which is a very small number. So, I think the overall in the areas of agreement or even in construction equipment where they are seeing potential. We are in the process of putting together a business plan which will be there for the next five years and in the next three to four months we should be ready with that master plan and then obviously we will share with the investors in terms of where we are going to spend this money and how the allocation will happen and which company will get what.

- Moderator:** Thank you. The next question is from the line. Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** So, just want to check, are we looking to further invest in the JV in the near term itself from this Rs.1,000-odd crores that we have got?
- Shailendra Agrawal:** As of now, we plan Rs.300 crores and that is what we have planned for capacity of 50,000, that is what we planned, and we will do that. But as and when needed, there will be some new products coming in, new segments of horsepower will be produced of MU as well as our tractor. So, there can be some investment always required in manufacturing of Kubota tractors, both supplier development and in-house manufacturing and for manufacturing of Escorts products also, there can be some manufacturing investment required in the JV. So, as of now, yes, but we will continue investing on the JV on an incremental basis.
- Mukesh Saraf:** What you already announced earlier itself with regards to the JV, you will do that investment, but in the immediate you do not have any plans to invest out of ...
- Shailendra Agrawal:** It can be next year also because there are a lot of products coming in. So, it can be continuous investment as we are doing in Escorts time-to-time on the manufacturing as a new product development, those kinds of investments will continue even in the JV also.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Just one clarification on this manufacturing JV. So here we said the capacity will be 50,000 tractors?
- Shailendra Agrawal:** Yes, capacity is 50,000 and need based we will manufacture Kubota tractors as well as Escorts, it can be Farmtrac brand or Powertrac brand.
- Pritesh Chheda:** So, if it is Farmtrac or Powertrac it would be meant for Kubota's export or...
- Shailendra Agrawal:** Not as a rule, but it will be on outsourcing basis and we can outsource and as a capacity that is there with us and they will manufacture our product also.
- Bharat Madan:** So, the line which we have there is flexible, they can also produce Kubota products, they can also produce Escorts products depending on who needs what, so that flexibility is available in the JV.
- Shailendra Agrawal:** But there is no rule like that whatever they produce, they will export or like that. They can export the products being produced in Escorts plants also and maybe what they produce that can be sold in domestic market also.

- Pritesh Chheda:** And the Rs.250 crores implements business which you mentioned, that is the part of Kubota India, right?
- Bharat Madan:** Yes, the sales company.
- Pritesh Chheda:** So, Kubota India would have Rs.250 crores of equipment plus Rs.130 crores of components sourcing that it does on behalf of Kubota, is that correct?
- Bharat Madan:** No, so the sales company last year had a turnover of Rs.920 crores, out of which about Rs.675 crores for the components exports and balance Rs.250-odd crores for implements and the balance for tractors.
- Pritesh Chheda:** Tractor sales in India?
- Bharat Madan:** That is right, so about 10,000 - 12,000 tractors odd they did last year.
- Pritesh Chheda:** So those who are imported and sold into India?
- Bharat Madan:** That is right. So, some of those models now we will start manufacturing in the manufacturing JV from July or August this year and then they will start selling to the sales company once the production starts, and the import will stop there.
- Pritesh Chheda:** And even construction equipment would be imported, right?
- Bharat Madan:** So, construction equipment is still being looked at from the feasibility study perspective. So right now, yes, there is an intent to go into that field and there is intent to do some sourcing of those products when they do joint manufacturing with us. But as of now, like I said, it is still in the planning shape. So maybe another three to four months, we will have more clarity and we will come back to you.
- Pritesh Chheda:** This Rs.900 crores revenue, what will be the EBITDA and profit of this Kubota India?
- Bharat Madan:** So, right now, this is only a trading organization, that too most of the stuff was getting imported and not being made in India. So, margins have been pretty low. But like I said, as we start manufacturing in India, the margins will improve which is the plan.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** Is there any kind of restriction on Kubota to increase their stake further or in future they can think about increasing their stake as well?

- Bharat Madan:** Obviously, there are restrictions, they cannot increase the stake without the consent of the promoter, where the control continues to remain with existing promoter of the company. So that restriction is part of the agreement which we have with them.
- Moderator:** Thank you. The next question is from line of Ankit Sancheti from Axis Securities. Please go ahead.
- Ankit Sancheti:** My question was related to the selling of Kubota tractors in India. Where do they exactly sell right now, and which are the primary markets that they are present in?
- Bharat Madan:** Their stronger markets are the southern and western region where we are actually weak, so that is why we said this partnership is very, very complementary to each other. We are very strong in the north and central market and they are pretty strong in southern and western market.
- Ankit Sancheti:** So, the rice tractors and specific to those...
- Shailendra Agrawal:** Their products which are lightweight tractors, so they are known for vineyard or orchard compact tractors as well as for paddy tractors.
- Ankit Sancheti:** Okay, then they should prove good, strong holding in the western and southern markets for us also?
- Shailendra Agrawal:** Yes, what they are producing in our joint venture, they have multi-utility tractors also. But still we will be complementing very well with the kind of product they are selling. But we have different channels, and so there is no as far as the...
- Ankit Sancheti:** So, there could be synergies in selling also, right, the channels could be merged in the future because you have a 40% stake right now?
- Shailendra Agrawal:** Right now, there is no kind of plan of combining or any synergy, but yes, we can learn from each other, they can learn how efficiently we are managing our channel and efficiency, cost protect and all that, we can also learn from the system processes. But yes, as far as the backend is concerned manufacturing, joint development, product development, sharing of aggregates, those kinds of opportunities are there for us to improve our products.
- Ankit Sancheti:** And my second question was related to exports. Any areas you can highlight on African and European markets that you said that you will be exporting from July onwards if I am correct?
- Shailendra Agrawal:** Yes, right now where we are products are ready and we are continuously improving as far as the emission norms also is concerned is, South Africa market and European market, and just the beginning of Thailand markets some of the applications. So, these are three markets. Over time we will work on markets where like Turkey where we will have to create some joint manufacturing and ultimately to US market where we will jointly develop the products.

Moderator: Thank you. The next question is from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.

Sameer Deshpande: So, I would like to know what is the farm implement size market and what is the standing of Kubota particularly in this harvester combines, transplanters which you say they are selling about Rs.200-odd crores, so, do these products have significant potential in India or are there any other farm implements also, because these other two items are like harvester combines and transplanters, they are very large capital intensive items and they need a large farm size which in India is not the case where you have small farms, so, what are the other products which will be useful in farm implements in India from that Kubota, can we get any more technology in that?

Shenu Agarwal: So, as we have said, we have identified this area as a major strategic opportunity between the two companies to develop this implements business. We are working on a roadmap of what kind of products we will have. Of course, some products are already there with Kubota which we can look at, but we are not going to be limited on those two products only which is harvesters, transplanters, we are looking at a bouquet of products in implements and attachments, so that roadmap is being worked out and we will be able to throw some more light in it as we go along.

Sameer Deshpande: Because that will help in improving the productivity particularly?

Shenu Agarwal: Definitely.

Sameer Deshpande: I think Kubota is also in construction equipment, they have this small backhoe, etc. So, will that also form part of our product line going forward?

Shailendra Agrawal: Right now, to my understanding backhoe is not their product, backhoe is complementary which they want to use our products, but mainly they are into mini excavators, they are the world leaders; 3-tons, 4-tons kind of excavators. So right now, the business is not so much in India, it is 1,000 in a year, but they hope that in future that can be growing business where like the worldwide business is quite big as far as Kubota is concerned.

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

Jinesh Gandhi: Just to clarify, given the three separate entities in India now for Escorts and the JV, the manufacturing JV will eventually be doing manufacturing of tractors and components, whereas implements sales will happen through the sales JV, is that correct understanding?

Shailendra Agrawal: Yes, so manufacturing JV will have tractors or in future implements or construction equipment, whatever comes in over time, even the sourcing of components will be done by manufacturing JV and all sales will be done by the sales JV which is just Kubota brands.

Jinesh Gandhi: Kubota brands sales in India and outside?

- Shailendra Agrawal:** Yes.
- Jinesh Gandhi:** Secondly, you also mention about the money which is coming by share sale. Will be used for developing all the three businesses.
- Shailendra Agrawal:** No, it is mainly related to the future projects which will jointly work from Kubota for manufacturing of Kubota tractors and for Escorts tractor for improving Escorts plants, mainly Agri investment. Whether it is Kubota or for Escorts, it should be Agri investment.
- Jinesh Gandhi:** Can you give any update on any supply chain disruption which you are witnessing because of coronavirus?
- Shailendra Agrawal:** So, right now, we have some imports from China, but I think over time that will solve it. We do not see any kind of big China disturbance as of now.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock. Please go ahead.
- Priya Ranjan:** Just one thing on the Kubota. That how much export they are doing from Thailand or Japan as of now?
- Bharat Madan:** We do not have an idea. That is not our company in which we have invested. It is in Japan; it is their own company. In Thailand they have their own subsidiary as well as JV.
- Shailendra Agrawal:** In Thailand they have high majority. So, it is difficult to say how much percentage, but it is a very major majority.
- Bharat Madan:** In Thailand, they got almost 80%.
- Priya Ranjan:** We will be complementing their Thailand plant, or I mean it will be just additional?
- Bharat Madan:** So, there is a product integration which has been done which they want to source from India for Thailand market. So those products will get exported from India to Thailand.
- Shailendra Agrawal:** Right now, we are still in feasibility and development stage.
- Moderator:** Thank you. The next question is from the Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani:** Just two questions. Firstly, what is the current investment that has gone into the manufacturing JV?
- Bharat Madan:** So, we already invested Rs.300 crores, from Escorts side, we have 40% partner, so Rs.120 crores has been invested from Escorts in the last one year and rest Rs.180 crores has come from Kubota.

- Riken Gopani:** So, this should have been primarily towards the capacity creation, right?
- Bharat Madan:** Yes, that is right.
- Riken Gopani:** And what have you outlined as the plan for the next three years from that JV?
- Bharat Madan:** So, that again depends on what sort of product development happens over there. So right now, we are starting with two models of Kubota in that company and which again will have requirement of the product development CAPEX which are being incurred in the JV next year and year after. And as the product portfolio grows, obviously, the investment required will also go in that entity. Right now, like I mentioned in the sales company, the other models are likely getting imported now. But as the volume grows and it makes sense to do the manufacturing in India, so that localization will happen and that will need investment for them. And that will also help them in growing their margin. Right now, they imported products, give them enough margin because they are still being traded and exposed to a lot of exchange this. But once we have the sourcing in India and localization happens, then the margins will also improve in that company.
- Riken Gopani:** This manufacturing JV which will support either ours as well as Kubota's requirement, is there a sort of ROE that has been predetermined that this entity should make this much ROE or so, how is that arrangement going to take shape in the longer term?
- Bharat Madan:** So we had a short-term plan where we said at least in the first year when we do, the JV should not incur any losses, so there will be transfer pricing mechanism which will help us in absorbing both the partners of their own product cost, but as we go forward and the volumes increase, then obviously the JV will start absorbing the cost and then we will start working on some markup structure, but as of now is not in place
- Riken Gopani:** Just one clarification, is there any call option as a part of the agreement that Kubota gets in terms of further increasing stake by treasury shares or any other structure?
- Bharat Madan:** No, there is no call option against the promoters.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** One clarification, you said that this Rs.1,000 crores which are coming from Kubota will only be used for making products in the JV?
- Shailendra Agrawal:** No, we said only for Agri business both for Kubota and Escorts.
- Hitesh Goel:** In the JV basically?

- Shailendra Agrawal:** Not JV. JV and Escorts Limited. You can use both companies for agriculture business, tractor and implements and all other businesses either for Kubota JV or for Escorts Limited it can be used anywhere.
- Hitesh Goel:** You said this money will not be used for dividend payout, of this Rs.1,000 crores which is coming...?
- Bharat Madan:** The company has enough free cash I think to use that. So, we do not need to really ...
- Shailendra Agrawal:** And we have a lot of investment plan over time, we will be investing a lot on the JV in the coming new products.
- Hitesh Goel:** The asset turn generally is a 3x in this business. So, are we looking at Rs.3,000 crores kind of business over the next five years for this Rs.1,000 crores investment because why is Kubota bringing such a big investment upfront when the balance sheet is already good, that is what I want to understand because you have not crystallized your plan, but if you can give us some sense on the plan because it is a very big investment compared to the size of Escorts right now, and what can this investment lead to in terms of revenue and all if you can wherever you crystallize the plan and maybe tell the investors, that will be quite useful?
- Bharat Madan:** Hitesh, like we mentioned, so both those companies are in the process of putting together the business plan for next five years. So, it is in next three to four months we will have more clarity and where the capital allocation is happening, which product category we are going into, which company will do how much investment and how much revenue streams will come in. As it is, they are already doing Rs.1,000 crores sale in the sales company. So, already has about 5,000-odd crores Agri business in Escorts. And look at the last three to four years history, both the companies Escorts as well as Kubota have grown market share in India. So, we think the growth potential is huge. I think the revenue generation which will happen from this Rs.1,000 crores investment. In my view, I think it will be more than 3x.
- Moderator:** Thank you. The next question is from the line of Shaukat Ali from Asian Market Securities. Please go ahead.
- Shaukat Ali:** Just wanted to know one thing about how holds the 40% stake currently in the KAI which you are going to get later?
- Bharat Madan:** Right now, it is a JV with Sumitomo Corporation which is another Japanese company and we believe Sumitomo who wants to exit the JV and Kubota will buy out the stake in that company and to become the 100% arm. And once they do that from Kubota will buy 40% stake into the JV.
- Moderator:** Thank you. The next question is from the line of Jeet Motwani from Pinpoint Asset Management. Please go ahead.

Jeet Motwani: Just one clarification. So, this manufacturing JV you said they are setting up a capacity of 50,000 tractors, right?

Shailendra Agrawal: Yes.

Jeet Motwani: And till now Escorts has invested Rs.140 crores and Kubota has invested Rs.160 crores, right?

Bharat Madan: This is a 60:40 JV; Rs.300 crores investment has gone into JV, out of which Rs.180 crores is from Kubota side, Rs.120 crores from Escorts side, they are 60% owner in the JV.

Jeet Motwani: So now this is a company which basically you are saying will manufacture components for global sourcing any new product. So, this is the manufacturing company which will do all incremental manufacturing which is not related to tractor business for Escorts India, right?

Bharat Madan: No, what we said is this manufacturing JV is set up to make tractors which will be used by both Kubota as well as by Escorts. Kubota brand tractors will get sold through their own sales company which is the company in which we are now going to buy 40% stake and Escorts brand tractors will get sourced by Escorts and is sold to Escorts only. In future if any manufacturing happens for new products in tractors or in implements space or in the construction equipment space or if any component sourcing happens, that will happen through the manufacturing JV only.

Jeet Motwani: So, the three new lines can be component manufacturing, construction equipment and Agri implements for which the manufacturing will be done in this company?

Bharat Madan: That is right.

Jeet Motwani: Now, suppose if the capital requirement of this manufacturing company for all further requirements are say let us say Rs.1,000 crores, Escorts Limited will invest Rs.400 crores, right?

Bharat Madan: Whatever investment 40% by Escorts.

Jeet Motwani: So, in that case, Rs.1,000 crores that is coming to us, of which Rs.400 crores will go as our share of investment, it is not that the entire Rs.1,000 crores will be used?

Bharat Madan: No, as we mentioned, so we are still in the process of making the business plan for next five years, and once the plans is ready in three to four months where the capital is getting spent.

Jeet Motwani: Yes, my question is for that Rs.1,000 crores Kubota will bring fresh Rs.600 crores, Escorts will invest Rs.400 crores, right?

Bharat Madan: We did not say the Rs.1,000 crores is going to be used entirely in the JV. We said Rs.1,000 crores can be used in Escorts and in JV. Now if JV...

- Jeet Motwani:** But your share in that JV if it is Rs.1,000 crores will be 400 crores, right?
- Bharat Madan:** The balance Rs.600 crores can be used in Escorts. So, the money that can be used whether in Escorts or it can also be used in manufacturing JV
- Moderator:** Thank you. The next question is from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar:** Escorts is buying a 40% stake in the sales entity. Given the sales channels meant to be kept separate between Escorts and Kubota, how does this Escorts investment in the sales entity, what is the strategic intent of this picking up a 40% stake in this Kubota sales entity, if you can throw some light on that, how does it fit in the overall scheme of things?
- Shailendra Agrawal:** So whatever profitability we monitor and manage in the JVs, it has to be end-to-end. So, from the product development to supply chain sourcing, manufacturing, transfer pricing and finally sales in the market. So what we are saying is that it is a complete ownership and joint management of the JV so that we can grow it profitably and also there is a synergy of how we can learn from each other best practices, whether it is on the back end on the frugal engineering and the kind of supply chain base we have in the front end, they can learn from us how efficiently we manage our front end, how we manage our dealer and we can learn from them some development of dealers and the kind of quality of dealers. So those kinds of learning can be there. But overall managing sales as well as manufacturing is advantageous in terms of better relationship and growing the JV profitably adding value, both in sales and manufacturing.
- Shyam Sundar:** But the sales channel will be kept separate for Kubota and Escorts at least in India?
- Shailendra Agrawal:** Yes.
- Moderator:** Thank you. We take the last question from the line of Jayesh Chandra Gupta from JM Financial. Please go ahead.
- Jayesh C Gupta:** While all of my questions are being answered, one question sir, Kubota leasing in Thailand which is quite successful, so how what is our plan in terms of leasing business, are we trying to draw synergy from Kubota in that front also, just a general outlook?
- Shailendra Agrawal:** So, Kubota SIAM is successful, yes, they are working together for more than 40-years and that is a long story and SIAM has been very influential in Thailand as well. So similarly, we want to make the story big and just not a JV for tractor manufacturing, we want to be big in terms of complete mechanization of tractors in terms of off-solutions or maybe longer term implements and other businesses. So, we also want to make it a bigger story in the coming years.
- Moderator:** Thank you. I now hand the conference over to Mr. Madan for closing comments.



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Bharat Madan:

Thank you, ladies and gentlemen for being present on this call. For any feedback or queries, please feel free to write into us at Investorrelation@escorts.co.in. Thank you very much and have a good evening.

Moderator:

Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.