"Escorts Limited Q3FY15 Earnings Conference Call"

February 12, 2015

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Raghavendra Jaipuria: Thank you, Karuna. Good morning everyone and thank you for joining us on Escorts Limited Q3FY15 results conference call. Please note that Mr. Sridhar will not be able to address the call today due to a medical emergency on the family front. For today's call, the management would be represented by Mr. Sameer Tandon – Chief Sales & Marketing, Escorts Agri Machinery; Mr. Sunil Saksena – CEO, Escorts Construction Equipment; Mr. Dipankar Ghosh – CEO, Escorts Auto & Railway Products; Mr. Bharat Madan – Group Financial Controller; Ms. Jyoti Khatuka – Head, Treasury & Investor Relations Team at Escorts Limited.

We will start the call with brief opening remarks from the management followed by an interactive Q&A session. Before we start, I would like to add some of the statements that we make in today's discussion will be forward looking in nature. At this moment, I would request Mr. Bharat Madan to make his opening remarks.

Bharat Madan: Thank you, Raghavendra. Ladies and gentlemen, a very good morning to you all. Thank you for joining us on the third quarter earnings call for financial year 2015. A snapshot of company's quarterly performance is as follows:

Turnover for the quarter has increased by 5.4% on quarter-on-quarter basis to Rs. 1,046.4 crores. This is primarily due to increase in volumes both tractor and construction equipment as compared to Q2FY15. Tractor volumes at 15,881 units sequentially up by 5.8% as against 15,013 last quarter and correspondingly down by 16.6% against 19,047 last year. Construction volume at 801, sequentially up by 7.2% against 747 last quarter and correspondingly also up by 8.7% as against 737 last year.

The EBITDA sequentially up by 46.1% to Rs. 49 crores against Rs. 33.5 crores in last quarter, but it has gone down by 31% against 71 crores last year. The major reasons for the fall in profitability as compared to last year is lower tractor volumes. The company reported a PAT of Rs. 35.68 crores as against post VRS loss of Rs. 7.85 crores in Q2; however, the profit was lower by 21.7% correspondingly. We continue to bring down our finance cost which was lower by 12% compared to last year at Rs. 13.7 crores. Our total debt outstanding as of December 2014 is Rs. 451 crores.

Now moving on to segmental business performance:

Starting with the agri machinery business, domestic tractor industry volumes went down by 22% to 1,41,844 tractors as compared to 1,81,599 last year. This is primarily due to low crop yield coupled with the low crop prices. The wholesale price index remained flat and food inflation touched zero value in Q3 which is lowest in the last 5 years. Our domestic tractor volumes also went down by 18% to 15,455 tractors; however, our export volume went up by 91% to 426 tractors. The slower decline as compared to the industry has resulted in increase of market share from 10.4% to 10.9%. We have been able to increase our market share in our strong regions as well as our weak regions. In line with our strategy to become market leader in higher HP segments, our tractor volumes in (+50) HP grew by 55.6% as compared to last year. Our market share in this segment also grew from 5.9% to 9.1% in Q3. This segment also grew by 2% and therefore its share in the total industry has increased to 7% against 5% last year.

Continuing with our strategy to offer innovative products, we have launched two new products, India's first Anti Lift Tractor, ALT under Powetrac brand and four wheel drive tractor under Farmtrac brand in Q3FY15. The Anti-Lift Tractor brings freedom from drudgery and life threatening situations for the driver while offering never before value for money for our customers. ALT is having the first-mover advantage in the medium haulage segment. In the long run, we planned to extend the current ALT range and bring new products for this growing segment.

Comptrac four wheel drive tractor which is called FT6050 four wheel drive is a strategic step in the direction of becoming the technology leader in the customers mind. The intent is to develop the four wheel drive segment in India and become the segment leader. In nutshell, the pioneering models under the Farmtrac and Powetrac brands are commanding an unmatched recognition due to superior and fulfilling performance in the markets. In the subsequent quarters, we are expecting to increase our market share with a help of new product launches.

Escorts agri machinery also received a national safety award for the year 2014 from National Safety Council of India. This is the second consecutive year that we got this award. EBITDA margins in the agri machinery have went down by 165 basis points to 7.8% against 9.4% last year, primarily down due to low volumes, but it went up sequentially from 7.1%. We are on track in our projects in reducing vertical costs and better margins are expected once the industry touched the coroner.

Coming to the construction equipment business, the overall construction equipment industry seems to be bottoming out. As per the ICMA, the total CE volume has gone down by 0.6% to 12,655 units in Q3FY15 as compared to YTD FY15 drop of 11%. In the served industry segment, industry volume went down by 8.2% to 7,876 machines from 8,577 machines last year whereas our volume went up by 9.3% to 776 against 710. Our total volumes manufactured and traded was combined went up by 8.7% to 801 machines in this quarter from 737 machines last year. In construction equipment, backhoe loaders and cranes have led the growth. Backhoe loaders grew by 20% year-on-year in an industry decline of 10%, while the cranes have grown by 16% much faster than the industry. Our backhoe loader DigMax II has been well established in the market and we are climbing the ladder fast from number 6 to number 4 position in the backhoe loader segment.

On the back of this increased volume, our revenues also increased by 8% to Rs. 141.3 crores. In order to achieve breakeven by Q4FY15, we have made significant progress in the quarter gone by. We affected price increase across all product categories, achieved higher spare sales and increased our channel outreach. Correspondingly, positive swing of 82 basis points and sequentially positive swing of 769 basis points at EBIT level has been achieved. We have also started initiatives in the cost reduction in the material cost through VA/VE initiatives and product rationalization activities which shall give results in the subsequent quarters. We are hopeful of achieving breakeven by Q4FY15.

Coming to the railway division: Revenues at Rs. 39.1 crores, up correspondingly by 17.7% against Rs. 33.2 crores last year same quarter and down sequentially by 17.4% against Rs. 47.3 crores. The margin down by 731 basis points sequentially and 155 basis points correspondingly to 2.3% is down due to low sales and poor product mix. Our order book for this division stood at Rs. 40 crores which will get executed in the next 3-4 months. Given the government's focus on revitalizing the Indian railway, we are very excited on the future outlook of this business. To capture the opportunity, our endeavor is to expand our product range either through in-house development or through technology partnerships. Bogie Mounted Brake System (BMBS) has successfully completed the trails and we are awaiting the final approval from Research Design Standard Organization. We also got the developmental order for Axle Mounted Disk Brake recently and we are working on the same.

Lastly, the auto division achieved revenue of Rs. 25.5 crores against Rs. 29.4 crores last year and Rs. 26.8 crores sequentially. We have achieved a positive swing of 1,342 basis points at EBIT level and losses for the quarter half to Rs. 4.7 crores against Rs. 9.4 crores last year. This is mainly due to the VRS done in Q2 and other cost initiatives specifically aimed at increasing productivity and reducing losses in auto product division.

With a focus to achieve breakeven in profitability, we have kick-started a turnaround program with the help of a leading consultant as against our expectation of achieving a breakeven as early as Q4FY15. There is a lightly delay of 3-6 months in achieving the same and for this division. Now I request the moderator to open the floor for question and answer session.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: As you said that in the last few months because of lack of MSP hike at the ground level, overall food inflation has been on the lower side and which in turn also impacting the tractor demand, but structurally speaking down the line if government is focusing more on productivity improvement rather than the MSP led route. In the longer run, definitely it is a better alternative. So from a tractor sales perspective, how do you see this transition process affecting tractor demand and how long you expect this weaker demand on an absolute basis to sustain?

Sameer Tandon: See, the MSP has not declined really. What has declined is the market prices. The government has not reduced any MSP so far.

Basudeb Banerjee: I did not say the decline, I said typically the exorbitant rates of hike that did not happen.

Sameer Tandon: The market prices for all commodities have been lower and the reason of these commodity prices lower more are due to the global glut in the commodity prices not only to India because the food production over last 2 years globally has been quite high. So that is what has brought down the prices and also the lower monsoons of the last year. These were the two major reasons where things have not gone in the favor of agriculture industry. Now what we see is that the last 2 quarters have seen the significant downward trend, but going forward it should start moderating and maybe two more quarters you may see a sluggish growth or maybe not growth at all, but the second half of the next financial year, we could start seeing turnaround. Also the fact remains that the last 2 quarters if you really see were on the base of very high growth in the previous year in the same quarters. So that also would get moderated and we feel that maybe in 6 months to 8 months' time, we should start seeing the tractor industry too growing.

Basudeb Banerjee: And any specific pockets or states you are seeing the pain being on the higher side more than expected?

Sameer Tandon: Right now, it is all over the place, industry is lower. The Southern markets are doing little better than the Northern markets at this moment because of the monsoons were little better off in South this time than what they had the impact in the Northern and the Western States.

Basudeb Banerjee: And sir last thing, you said that because of the cost cutting initiatives, you have improved your construction equipment margin by almost 770 basis points quarter-on-quarter, how much of this aspect is sustainable? Can we see ECE EBIT to be closed to positive in the coming quarter or one can expect it to go back to those (-7%) level sooner than later again?

Sunil Saksena: Just to tell you, in fact note itself is pretty clear. Just let me tell you here, it is sustainable. Second most important is products which we have recently launched like the DigMax II now has started gaining ground and you can see that in the earthmoving segment per se you would find that the largest segment happens to be backhoes and there we are beating the market. The market has actually declined almost by 10% whereas we are growing by 20%. So there is a big gains that is happening in backhoe for Escorts. Second thing is on the cranes also a similar feature is observed where the market is almost growing at about 5%. We are growing much better than the market. We are almost double now. So in terms of the prices realized, this has happened over a period of time and with that, we have not lost any market share or volume, in fact we have gained. So to that extent, it gives us a confidence that this is a feature which will continue for times to come and therefore along with the fact that we are really attacking our raw material cost and other costs, we expect this benefit to continue and flow into the next few quarters.

Basudeb Banerjee: And sir any update on the divestment of the auto component division?

Dipankar Ghosh: As of now, we are primarily focusing on restructuring the business to make it to black.

Moderator We move onto the next question that is from the line of Arvind Sharma from Citigroup. Please go ahead.

Arvind Sharma: Sir, my first question would be on the tractor industry. How do you see your pricing scenario as of now, both for your company and industry wise because with the volumes declining on a declining demand as you noted, have there also been a slight bit of concern in terms of pricing?

Sameer Tandon: So the pricing is under pressure in the industry, but we have increased prices with effect of 1st of January this year to a tune of about 1.2%. The pricing increase is basically being augmented by new product launches which we have done and we feel that the markets we were not present earlier, we are trying to get into those markets with this newer product which go into a specialized applications which we had not participated so far.

Arvind Sharma: Sir my second question would be on your gross margin. I see there is an improvement of around 40 bps quarter-on-quarter. So how much of this gross margin could be attributed to the softer commodity prices?

Bharat Madan: It is very little. There has not been really an inflation on the commodity. So there has not been really a pressure on material cost. The improvement which you see on the margin front is 1) coming from the volume growth sequentially. So you see the tractor number also going up by about 6%, so there is a topline growth there. And 2) from the cost initiatives which we have done and what we have talked about in the construction business side is the turnaround which is happening and the auto business also where we cut down our losses by 50% basically because the VRS initiated in the previous quarter. So I think all these factors are led to this improvement in the margin. It is not really commodity.

Arvind Sharma: Sir there is one question if I may squeeze through on your construction equipment business, I see that year-on-year, and the realizations have been almost flat. So is it a massive product mix change that we are seeing on a year-on-year basis? Are we correct in assuming that?

Sunil Saksena: In fact that is precisely what we have corrected in the months that have gone by. We have corrected the realization substantially for all our products.

Arvind Sharma So that is in order to gain better market share if that is the reason?

Sunil Saksena: Correction of price is upward revision.

Arvind Sharma: I was talking about on year-on-year basis.

Sunil Saksena: Yes, year-on-year also, we have increased both the volume, the market share and also the price.

Arvind Sharma: So maybe it is more on the mix part that the blended realizations have almost remained flat.

Bharat Madan: So that is basically was our mix.

Moderator: Thank you. We have next question from the line of Amin Pirani from Deutsche Bank. Please go ahead.

Amin Pirani: Sir my question was on the 50 HP plus segment, can you just remind me what it is as a part of the industry based on 9 months or the quarter whatever number you are comfortable with?

Sameer Tandon: So as far as the 50+ segment is concerned, that is the segment despite industry decline it is showing a growth so far. The total industry volume out of about 600,000 tractors which you can look at it per year, with this year may turn out to be about 5.7 lakhs or 570,000. It would be around in between 37,000-38,000 tractors would be the segment which is 50+ HP segment. And as far as Escorts is concerned, we have almost doubled our market share over previous year in this segment. So we were at around 4.5% and we have come to about 9.7%-10% now.

Amin Pirani: Which is quite commendable because it is almost equal to your overall market share. So in this segment, is there any specific player from whom you are gaining market share? In this segment, is the market structure different from what the overall market or is it the same player who are 1, 2, 3, 4?

Sameer Tandon: This market is actually in terms of market share is led by Sonalika and followed by Mahindra's. So if you really look at it, they have very close fight between two of them and then the other players who are international players like John Deere and New Holland used to play as well quite strong in these markets. So if you really see our competition has been more with John Deere because our pricing is very premium. Sonalika plays in the same segment at the bottom with a very low pricing. We play at a premium. So our competition here has been with John Deere and we have seen that we have gained quite a bit on account of the new product launches which we have done in past 1.5 years.

Amin Pirani: Okay, fair enough and sir just on the overall pricing environment in the industry. I know you mentioned that you have raised prices, but are you seeing a similar trend from other players or are you seeing an increase in discounting because of the low volumes or do you feel that despite low volumes, market has been quite disciplined in terms of pricing?

Sameer Tandon: See, as far as the basic price increase has happened by both of us, the leader also has increased the prices and we as well have increased. So both of us have increased prices, but discounting in the market is bound to continue because when the sentiments are lower, people would like to make up volumes from clipper**.** We have taken a very different stand for last almost 2 years on this and what we are trying to bring in is at the same time trying to bring in product which offer more value to the customer, trying to bring in something which is different. Bharat spoke about it that we have just brought in an Anti-Lift Tractor which is something very unique which in industry had never happened earlier. So that would mean a little bit of a drop of our margin in that product because that brings in a lot of new features, lot of new things into it, but it does not bring in any price down. So that is the way we are trying to approach the market where we feel that we will not discount but we will bring in propositions for the customers where he benefits a lot and gives us a unique category or a position.

Amin Pirani: And sir just lastly, in the past we have seen that the usage of tractor for non-farm users has been going up and down. How do you see that currently and what is the outlook on that given the government's thrust on lot of infrastructure projects. Do you think that, that could increase in the coming 12 months and would that support tractor volumes more than maybe agriculture would?

Sameer Tandon: See, the commercial and the agri usage of the tractor is today if you really see it is 50%-50%. In some segment, it could be 40%; in some segment, it could be 60%, but it remains more or less very close to each other. Agriculture sentiments may take time to come up but if infrastructure starts improving, of course the commercial usage will increase and the tractor specifically in the little higher horse power should increase and at this side, as I already explained to you, we have a little better positioning today where we are gaining. I think should be a good news for us if that happens.

Moderator: Thank you. We have next question from the line of Ajay Sethia from Centrum Broking. Please go ahead.

Ajay Sethia: Just had one question on how are the inventory levels on the overall industry side and maybe for you?

Sameer Tandon: So you are talking about tractors?

Ajay Sethia: The inventory situation for the industry and may be for Escorts.

Sameer Tandon: The inventory situation have been quite high in the industry for last maybe almost 6 months or so because the industry crashed quite big time and it was very big surprise. Since October when the industry started sliding and the preparation was that the industry would remain or would not decline so much so the stocks have been higher. Most of the players in last few months have corrected stocks have brought down. Our expectation is that the inventories in the market should be still around quite a bit, maybe 6-8 weeks type inventory should be still around.

Ajay Sethia: You are seeing 6-8 weeks and how would that compare with the normal level of inventory?

Sameer Tandon: It is usually 5-6 weeks.

Moderator: Thank you. We have next question from the line of Mitul Shah from Karvy Stock Broking. Please go ahead.

Mitul Shah: Sir I had a question on the market share. We gained market share in the tractor segment. So can you mention which are the regions wherein we gained the shares?

Sameer Tandon: We have gained share in some of our weaker markets as well this time. We have gained in States of Andhra Pradesh. We have gained in States of Gujarat and as well in States of Karnataka. We have also sustained back our market shares which we had in states of Uttar Pradesh and Madhya Pradesh, they are both big markets. There is a slight upward movement there. Also a quite good gain in the markets of Punjab. So overall, small change at different places with the largest gain is coming from Andhra Pradesh which is our weaker market and as well from Punjab.

Mitul Shah: Sir in this market, any likely chance of this market share improving drastically over next 1 or 2 quarters?

Sameer Tandon: We do not feel that drastic improvement in market share is possible at this moment, but we feel surely if the market starts turning around, we should start pocketing much better.

Mitul Shah: Sir my second question is on the RM by sales. This is despite with two price hike in the construction equipment as well as in the tractor side and decent volumes coming from the construction side and you also stated that commodity prices are more or less flat or decline. There is a sequential increase in the RM by sales, any specific reason for that?

Bharat Madan: Yes, Mitul, this is essentially coming because of product mix. Like you said we launched new tractors in this quarter where the contributions are high, but in terms of percentage, they are down. So the realization is much more. So that has led to this increase in this quarter, but going forward we expect this material cost will likely come down. So like we discussed earlier, the cost initiative which we have taken on the material cost front that will start bearing fruit from Q4 onwards. You will see the declining trend happening probably in FY16 definitely.

Mitul Shah: Sir, any ballpark number on RM by sales for FY16?

Bharat Madan: A lot depend on the product mix, it is difficult to say, but like I said we targeting at least 2% reduction on the material cost next year.

Moderator: Thank you. Next question is from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: Sir, just wanted to understand as and when the demand revives, specifically for South India what would be our strategy, what is our value proposition to the buyer to prefer Escorts tractor over Mahindra tractor which is an already established player there?

Sameer Tandon: See, the South markets if you really look at it, States of Maharashtra or Andhra Pradesh are predominantly high horse power markets and as I had already explained that in these markets or on this segments of higher horse power, we have started establishing ourselves and over a period of one year, we have doubled our market share. So our product positioning is right. We have products and Bharat also briefed about that we have come in with a four wheel drive tractor which also can do these applications much more efficiently. So these are the two armories which we are trying to use in these weaker markets in the South and as the market revives, we feel that, that should start giving a lot of benefit.

Sagar Karkhanis: And secondly on this construction equipment if you could throw some light on which geographical pockets where we are seeing traction?

Sunil Saksena: We have two products which are gaining grounds and where we operate largely backhoe and Pick n Carry. On both the products, we have good traction. Pick n Carry, largely in fact the markets where the industry volume is not growing or rather coming down has been largely Rajasthan and Gujarat. Gujarat was good in the first quarter, but after that it has come down. But other than that, across the range on Pick n Carry cranes, we have gained. So it is not confined to one particular area. Market share wise, it is a gain across. On the backhoes, largely again the markets down South for the industry is not very good and they are actually declining very sharply. On a growth of market share largely is coming from both the Western market, the Northern market and also some portions in the Eastern market.

Moderator: Thank you. We have next question from the line of Nishit Jalan from Nomura Securities. Please go ahead.

Nishit Jalan: I have two questions. Firstly, you mentioned that you have taken 1.2% price increase in January and commodity prices also look benign. So do you think that margins can improve from current doubles in subsequent quarters or do you see discounting increasing further which will in a way impact net realizations. And my second question is around when you say that industry outlook looks weak for the next two quarters. So what is your sense on the Rabi crop season? Is the sowing coming down for the Rabi crop as well?

Bharat Madan: Just to answer your first question on the inflation price increase front, see this price increase which we have done, we do normally with a lag. So this inflation is something which has already happened in the earlier quarters which we got passed on from the first of January. So January onwards, we do not see the inflation pressure to be there on the competitive side, so we do not expect any commodity inflation will happen in this quarter but this increase which has been done is essentially to compensate for the material cost increases which has happened in the past. So we do not expect any significant margin improvement happening because of this exercise. This is basically to maintain the cost structure at the same level.

Nishit Jalan: Sir if I may ask, what are the key costs which have gone up over the last like for which you have to take pricing increase or is it just discounting going higher that is why you have to take pricing increase?

Bharat Madan: The cost realization, the material cost, there has been an increase in the castings in the past so which was a major impact which was coming, in the entire casting industry at least in downturn as of now because already industry is going down. So that has been one thing which was under pressure where we had to pass on the price increases to the market because of that commodity price going up, so we had to likely pass it on to the consumers.

Nishit Jalan: Okay and on second, the Rabi crop thing?

Sameer Tandon: So the Rabi sowing if you really see has been more or less align with what normally happens. The wheat which is the largest Rabi crop, sowing is down by about 1.5%-2% but the crop conditioned as of now looks very good and we feel that the crop should be alright as we go further because the harvesting would happen in the April. You do not see much of an issue as of now.

Nishit Jalan: So sir when you say that the crop looks good and the harvesting will happen in April, so do you see an upside risk to your estimate that there is two more quarter of pain left because can we see some revival during the harvesting season of Rabi during April- May?

Sameer Tandon: See, the harvest may improve a little bit of where it is. So that is what I said that the decline today which is on a tune of about 20%-25% today may start showing some revival and you may have an year-on-year decline type of maybe 10%, 11%, or maybe 5% but I do not see it moving very much up because the competitive pricing does not seem like moving up so high and the food availability if you really see is quite good. So the grain storage with the government today in India or across the globe is quite strong.

Moderator: Thank you. Next question is from the line of Viraj Kataria from Securities Investment Management. Please go ahead.

Viraj Kataria: Yes, most of my questions have been answered, just one or two more. On the sub 25 HP, we earlier vacated from the segment and then we re-entered through outsourcing to a third party. Given the margins are relatively lower than what we usually own in a 50 HP tractor, on an overall margin basis, how do we see the role of sub 25 HP?

Sameer Tandon: So sub 25 HP is not a margin story at all. So I do not think when you sell a tractor for 2.25 lakhs, you expect a very big margins on that. It is about that this segment has been rising and there is a huge segment of marginal farmers who today also may like to own a tractor and that being the case what this segment or the product where we have gone into brings in is more footfalls to our dealers specifically in those areas where the land holdings are very small or marginal, where people would come in and we expect that you can start up a relationship at a very lower value and bring that customers up as he progresses. So that is the addition which we are looking at, it is not a margin story at all.

Viraj Kataria: Yes just two questions on that. So for us on a relative basis, do we see sub 25 as a smaller role compared to our focus on 350 HP and above and do we have any plans to expand product portfolio in that segment?

Sameer Tandon Yes so above 50 HP remains the focus and we want to do that because our goal is to be number 1 in that segment, so we would keep focusing on doing that. We would be supplementing more products as well in the sub 25 HP range where some new products, more products will add in where we would like to create some differentiation and look up for an opportunity how could we differentiate ourselves in their as well and create a position for ourselves.

Viraj Kataria: Again those will be through the third party which we are manufacturing.

Sameer Tandon: Sub 25 would always remain a third party production.

Viraj Kataria: So in terms of pricing, it will be again on the same front as say or the Mahindra or the Sonalika, everyone usually sells, is it?

Sameer Tandon: Yes, we would be competitive but to be true to our brand, we will always have a premium over peers in that segment as well.

Viraj Kataria: Okay and just last question again on the segment itself like if we were to see the trend over last couple of years in the 22 HP segment, mostly all players have been vacating from that segment, now over last 1 or 2 years incrementally we have seen, all major players launching products in the 25-30 HP segment, so is it that are we seeing some kind of presence towards 25-30 versus sub 25, what is driving that if you can just throw some color on that?

Sameer Tandon: See as the economy grows, the horticulture as well improves and most of the tractors which were saying about which is 22-25 HP segment are mostly the niche segment where the horticulturists are trying to buy these tractors and this is a new segment which is coming up.

In this segment, we also have an offering which is a very premium offering where we sell a Ferrari tractor which we bring in and we sell it in India which is a very premium offering which we have right to do it. So specifically for the orchards and vineyards, these are the things which are coming up and also when you have vegetables and other fruit orchards, this is the segment which is likely to grow. So we are also trying to participate there as well both ways, one is on the top with a Ferrari brand and on the bottom side with an outsourced tractor as we just spoke.

Viraj Kataria: Any appeal on the other agri equipment's which you are planning to roll out?

Sameer Tandon: No, we were restricting ourselves right now participating in the tractor market majorly. We have been working on crops solutions but that is right now at a very nascent stage, nothing to talk about right now on a business front there.

Moderator: Thank you. We have the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Just a follow-up from a question earlier, when we compare our tractor usage between agri which is farm and non-farm, you gave the ratio as almost 50:50 but we get a very different ratio from different players. So could you just throw some light as to like some of your competitors talk about HP 20, so why this so much of a divergence, is this a Escorts specific number that you are giving or it is very difficult to ascertain non-farm usage in tractors?

Sameer Tandon: So I cannot really talk about what others give the numbers? What we can tell you is the market is that way, of course the ownership of the tractor if you really talk about may be in the ratio which you just said which is 80:20. In the infrastructure or in the terms of commercial guys, mine tractors maybe above 20% but the usage of the tractor when you talk about the owner remains the farmer who uses it as a machine to earn his income and he leads that tractor into commercial usage. So the usage is much higher than the ownership in the commercial space. So it is the farmer who owns it and he uses it but he uses more for commercial purposes that is how we see the market.

Binay Singh: Right and sir secondly like clearly it seems that one of the reasons why tractors are entering a slow cycle because of weak crop prices. So when we look at our last 5-year growth of tractor which has been significantly higher than the last 10-year CAGR mainly because MSP hikes are very high globally, crop licenses were trending up. Now in your sense, do you think there were chances that we would actually go into a very prolonged slowdown cycle if the commodity prices or the crop prices do not revive like leaving that outside, the question is any other driver that you see which can lead the industry back to 15%-20% growth?

Sameer Tandon: See I do not think the slowdown is for a long, it is very short, the reason being that the tractorisation in India is still not too high. There are still a lot of regions in India specifically Eastern, some of the Western markets as well, and the Southern markets where the tractorisation is very low and that has to pick up. So these regions will start contributing much rapid growth, plus as well the labor shortage and the labor, the way it is not coming in for the farm will also drive mechanization upwards in the horsepower and that is the reason we are saying the higher horsepower also increasing, so both the ways these are positive things to do. Now if you look at the commodity pricing, yes last 5 years has been very high but the pricing today also on the commodity side if we really see is not very poor. It has more to do with that it had gone up to high and crashed down, but if you really see profitability for a farmer per acre is not bad if you look at it 3-4 years comparison, it is not still bad at these prices. So the prices are not that they have become very bad, in comparison it has gone down drastically and that brings down the sentiment and that will stabilize we feel in 6-8 months' time.

Binay Singh: Sir just lastly one question like your wholesale volumes are down 17% for December quarter, would you share some bit on the retail side because you said that there are a lot of inventories there is going on that how will be the retail sales down for December quarter or so for you or for the industry?

Sameer Tandon: See when the industry is on a decline at this point of time, I do not see that anybody should be able to increase the inventories in the market because I do not think channel has a capability to take furthermore any time when the industry is declining. You can build stocks only when the industry is going up, not down. So I do not see that there would be much of a difference between retail industry and the wholesale industry at this point of time.

Binay Singh: Sir lastly could you comment a little bit on your capacity, what is your capacity now?

Bharat Madan: From the tractor business, our capacity is today 100,000 units a year.

Binay Singh: It is great.

Bharat Madan: And the utilization level is in the range of 60%-62%. But this quarter was slightly lower at 56% for tractors.

Moderator: Thank you. We have next question from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Sir I just wanted to take forward the previous question coming from the fact that the breakup as you highlighted between the industrial usage and farm usage, you were saying that at 50:50. If I say to take you back to say 2009-2010 levels, what could be the breakup at that time in the industry?

Sameer Tandon: See, it has been steadily going up for last decade or so. So I would say that in terms of commercial usage of tractor a decade back would be or maybe about 15%-20%, about 20%, it has come in a decade to about 45%-50%.

Nishant Vass: Sir actually what I am trying to take out of this question is that from that period we have always seen tractor and cycles are probably having 2-3 years of an upcycle and probably getting a dip year and we probably this year has been a sudden surprise. Now from a decadal perspective, would you think that the growth on a CAGR basis obviously from the industrial side would have been probably higher double digit, usage basis, and the agri side will be probably mid-single digit? Now going ahead if you are at 50:50, what is your expectation from the industry from another say 3-5 year perspective of growth and could you breakup between industrial and agri on there?

Sameer Tandon: So it is not really an industrial usage, it is more of a commercial usage.

Nishant Vass: Yes, exactly commercial usage.

Sameer Tandon: As I said that it is more farmer buying a tractor and using it for commercial purposes, renting it out and using it on that. So for this industry, the sentiments of agriculture are very important even if the market has to see revival both ways because if the sentiments are not higher, the farmer is not very positive, it is not like that that he would start buying tractors for industrial usage because he does not have a connect, he uses it, and he buys it and he uses it. So I think that as it start using it, more impact you could see when you see more for commercial purposes, you would see an impact on the segment wise where the higher HP segment starts improving faster than the lower HP.

Nishant Vass: But from an industry growth perspective, what would you think is a number because some says in 2009-2010, I do a CAGR we were around 7%, do you think we could be same or we could be lower?

Sameer Tandon: I think on a CAGR basis, we should expect 7%-8% in growth step.

Moderator: Thank you. We have next question from the line of Prashant Biyani from SPA Securities. Please go ahead.

Prashant Biyani: Sir in the last quarter we have not passed on full cost on certain new tractors that we had launched, so has that cost being passed on fully now?

Bharat Madan: Not yet. Some part is still left. So I think we are waiting for the industry revival to happen and we will be able to fully pass on to the consumers.

Prashant Biyani: How has been the response for the new tractors that we have launched?

Sameer Tandon: So far we have seen the response has been very good. We have been seeing a quite good movement upwards on the tractors there, but the market sentiments are lower. So the volume numbers we will start seeing and big numbers picking up only when the market sentiment revives.

Prashant Biyani: By when are we going to have a proper distribution setup in the Southern and Western parts of India?

Sameer Tandon: So we have started doing it specifically, the way we looked at it in the Southern part, we wanted first what setup we have to make it profitable and to be able to stand up and that creates a model type of place where people start doing it and then we start attracting more talent or more people around there and go for a very strong channel network. We have started adding up and I see in a period of a year or so, we should start seeing the market share moving up a little better pace than what it is today.

Prashant Biyani: But any timeline as to by when we can have the proper setup in every major markets?

Sameer Tandon: So as I said that in places like Gujarat and AP, we have moved our market share already by almost a percent in these places. We have added up, so next year is a year where we are going to put a big thrust on getting better representation in most of these geographies.

Prashant Biyani: Regarding the auto ancillary segment, we have seen pickup in the automobile industry but our segment revenues are showing no signs of recoveries, so any thoughts on that?

Dipankar Ghosh: Yes, as I said that in the previous question out there, we are primarily focusing on actually restructuring our portfolio because since the focus is to become black first and then introduce products while we are restructuring some of the loss making products, we are also working on contribution improvement on the products which are already there with some of our OEMs and particularly the export segment and the after markets.

Prashant Biyani: What would be the new product that we are planning and some product that we are trying to shed?

Dipankar Ghosh: The new products basically what we are planning are in the same particularly from the segments like in the Defense and also in the European aftermarkets, while some of the products what we are trying to shed is products which we do not see much of a margin because of the low volumes.

Moderator: Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Regarding this construction equipment segment, you said that you are gaining market share in the backhoes and cranes. So these backhoes are basically mainly used, in construction equipment like or it is used in the mining segment?

Sunil Saksena: No, they are largely used in earthmoving project. So it is valid both for construction and let us say some amount of highways where things can get built. So lot of earth carriage happens.

Ashutosh Tiwari: So I mean it is not so much into the mining machinery basically the coal mines and all?

Sunil Saksena: No, mining is largely the reloaders and the excavators where you can see there is a good traction in this year. It is just about started.

Ashutosh Tiwari: So you are not present over there, you are mainly present in this construction equipment.

Sunil Saksena: Yes, we are present in material handling and in earthmoving, there are several products but we are present in backhoes process.

Ashutosh Tiwari: Regarding the cranes, are they used in mining as well or what you supply?

Sunil Saksena: They are used in open mines for example stone quarries and things of those nature. They are not used in hard core mines per se.

Ashutosh Tiwari: In which tonnage range you mainly supply?

Sunil Saksena: We are in the low tonnage up to 20 tonnes.

Ashutosh Tiwari: Regarding this tractor industry, in which States you see more pain currently for industry as such? Definitely it is down throughout but which states you are seeing more pain off recently?

Sameer Tandon: So the markets in Rajasthan, MP, and Haryana, these are the 3 States which have been de-growing much higher than the other parts. Like MP for the last 2.5-3 months had been degrowing by almost 50%.

Ashutosh Tiwari: What would be the main reason behind this decline which you are seeing in MP?

Sameer Tandon: See again MP and Rajasthan, both of these places are hugely rain fed, the monsoon sentiments were wrong, bad since the time of monsoon. Also, they are very soya dominated states where the soya is a very big cash crop and soya has fully damaged in last 2 times in these places, twice it has got damaged. So that has brought down the industry sentiment quite a bit there.

Ashutosh Tiwari: What about UP, how is the market because I think Soybean prices also down over last year, how is that market doing.

Sameer Tandon: UP also is degrowing but it is not at the same pace as other markets. UP is becoming little more mature market. It does not show a very high growth and it does not show a very high de-growth as well, but of course it is also de-growing but not at the same pace as other of these bigger markets.

Ashutosh Tiwari: What would Karnataka and AP, you mentioned is probably doing well for you, how is the market in AP and what is the market in Karnataka particularly?

Sameer Tandon: So AP, Karnataka and Tamil Nadu markets in last 2 months, we have seen they have grown a little bit but AP has been also degrowing but at a lesser pace than other markets. So AP degrowth has been a story of about 15%-16% which has started degrowing now in last one quarter but we feel that AP should start seeing revival quicker than other places.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: What have been our net debt levels as on December?

Bharat Madan: It is Rs.451 crores.

Saket Kapoor: Including the working capital?

Bharat Madan: Yes, including working capital.

Saket Kapoor: What is the working capital then sir if you could specify that?

Bharat Madan: Rs.254 crores.

Saket Kapoor: And what is our repayment due as on March if any?

Jyoti Khatuka: We have term loan repayment of Rs.65 odd crores, Rs.60-65 odd crores in next year.

Saket Kapoor: That means for FY15-16.

Bharat Madan: That is right.

Saket Kapoor: For South India particularly, we are not very dominant and we have been trying over the years to gain some market shares. How have the working being in South India because you in earlier commentary has also mentioned how is the gain that is coming in the tractor industries from South India. So what is our current market share vis-à-vis last year? How are we gained, performed in South India?

Sameer Tandon: So again I will reiterate, we have launched in period of last 1.5 years a lot of products which were specifically suited for the South. We have tried to bring in more value for those customers there to try to change the way they have been practicing as well. So there is a lot of focus which we have put on. As I said in markets of Andhra Pradesh, we have moved a market share by about a percent and in States of Karnataka, we have moved it by about half percent by about 0.5% is what we have moved up in these places and we have tried to provide solutions to customer care in terms of like Andhra Pradesh is obviously paddy belt, try to give them very specific solutions on paddy and trying to build in on that there and in Karnataka, they have orchids of areca nut and all those things. So we have tried to build it on that platform there where we have tried to bring in products which give us premium and as well we start growing up and expanding from there.

Saket Kapoor: Sir my last question is regarding your construction equipment part, so what actually lead to this lower EBITDA this time because if you take the turnover parts, although the turnover has improved but it is the negative EBITDA lowering that has actually contributed to the numbers and how are we looking forward also in the coming quarters to improve on that?

Bharat Madan: As I had mentioned in my statement, there or 3-4 reasons what we have done, we have taken a price increase across categories and in the construction equipment business and is also the increase in the spare part sale which has happened in this quarter which we are trying to sustain going forward as well and we also increased our channel in terms of total number of dealers, outlets where we are getting presence. So these measures we expect besides the cost initiative which were taken along with the consulting firm which is actually helping us in turning around this business. So we expect that the margins are sustainable and going forward we expect to be in black on this.

Saket Kapoor: Sir this trend had continued for January month also?

Bharat Madan: In fact January has been much better than the last quarter.

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

Sameer Deshpande: Results have been fairly better compared to the overall situation in the tractor industry, but I would like to know two things. In the tractor sales, do you see the trend improving if the interest costs are lower aggressively as expected over next 6 months because of the lower food inflation as well as industrial and commodity oil prices etc. so what is the correlation because I think 80% of the tractors are sold on loan so if the interest cost comes down by about 0.5 or 1%, do you see any betterment in the sentiment?

Sameer Tandon: See the interest cost, the interest in tractor loan are very high already and so it really does not make too much of a difference if you really ask me because at the time the farmer gets a loan, the interest rates applicable to him are from 18%-24% which remains very high. So I do not think the lowering of interest cost would make too much of a difference, but yes the liquidity improvement may make more difference if there is a little bit better cash flows specifically in the rural market.

Sameer Deshpande: Second question is for construction equipment, Mr. Saksena since you mentioned you have increased the prices, have you increase the prices of backhoes or cranes?

Sunil Saksena: Both in product categories.

Sameer Deshpande: But it is from January onwards.

Sunil Saksena: No, it was in the beginning of the quarter.

Sameer Deshpande: So in this Q4, do we expect to be positive on the net level also in construction equipment segment level?

Bharat Madan: Yes, like you said we are expecting EBIT should be positive, the volumes we expecting will happen so we are expecting it to be in black.

Sameer Deshpande: So you will be marginally positive on the construction equipment side in this quarter expected. And do we see real improvement on the ground level demand of roads and constructions or if you can just talk?

Sunil Saksena: Yes, if you really look at the construction equipment rather the earthmoving and construction, there are several categories, the earth moving consists of things like backhoe loaders, excavators, loaders or things of those nature whereas material handling is largely the cranes. You also have the road construction and material processing. So like some of these equipment's like material processing which is screens and static crushers and wheel crushers, they have started to look at growth. Also some amount of traction on the road building has just about started to happen. So you see a growth in areas like compactors and on excavators and loaders largely because of coal, also there has been a change. So what you see is there is a partial revival of some of the product categories not across, so for example the backhoe continues which is a general purpose machine I would say. It continues to have a 16% kind of decline, in fact 20% until now. So some segments depending on what is moving in infrastructure are showing improvement, I would not say dramatic growth but some amount of growth and particularly for the third quarter what we find is equipment's like loaders and excavators are showing some amount of traction.

Sameer Deshpande: Again our market share is improved to around 5% or so in backhoes?

Sunil Saksena: No. Our market share has improved. We are not very high on market share. Out of the 10 players, we used to be about 6th position, we have now jumped up to 4th position.

Sameer Deshpande: I wanted to know what the net debt is because cash and cash equivalents on 30th September were Rs.517 crores. If you take the short-term loans and advances and cash and cash equivalent together and our debt is mentioned to be around Rs.450 crores, so our net debt is, what is the figure of net debt?

Bharat Madan: Now the short-term loans and advances are normal in the normal course of business. So these you cannot count it as a cash but yes they have been cash equivalent of close to Rs.250 crores. If you look at net debt, it can be close to Rs.200 odd crores.

Sameer Deshpande: And anything on the railway front because this time there is big fall in profits.

Dipankar Ghosh: Yes, actually railway has a lag effect. In the Q2, there was some major tender not being finalized so that way the order booking was low. Thus in Q3, we had a drop in topline and consequently the profits were down but Q3 we again see a huge order booking. So the Q4, we expect to be pretty good and with good margins also.

Sameer Deshpande: Normally that is a quarter, last quarter is always better for this construction and overall infrastructure also, so it should be better for railways also.

Dipankar Ghosh: Railways, usually the Q3 is always better. This time the Q3 was not good because the Q2, there was a lot of confusion about railway board being restructured and all those stuffs. So there were no major tenders, wagon tenders and everything was not finalized. So we did not see a good Q3 but as I said Q3 order booking was very good, so we hope that Q4 would be very good for us.

Sameer Deshpande: The profitability will be better.

Dipankar Ghosh: Yes, the profitability should be better.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Raghvendra Jaipuria. Thank you and over to you sir.

Raghvendra Jaipuria: Dear participants, please note that those who have queries with regards to the agri machinery division and would like to interact to Mr. Sridhar can write again to us and we will be happy to arrange a call for everyone early next week. The date and time will be communicated to you from the Investor Relations Team at Escorts Limited or by me. Now I would like to hand over to Mr. Bharat Madan for his closing remarks.

Bharat Madan: Thank you, ladies and gentlemen for being present on this call. I would like to mention that we distribute our earnings release through our website www.escortsgroup.com. So do refer to our website for our earnings releases as well as other details and this transcript will be available on our website after some time. Also you can visit our social media pages for the latest company news, developments, etc. We will meet again in the beginning of new fiscal. Thank you very much and have a good day.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Escorts Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.