



## “Escorts Limited Q3 FY16 Earnings Conference Call”

**February 02, 2016**



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**MR. SUNIL SAKSENA – CEO, ESCORTS CONSTRUCTION**  
**EQUIPMENT**  
**MR. DIPANKAR GHOSH – CEO, RAILWAY EQUIPMENT DIVISION**  
**& ESCORTS AUTO PRODUCTS**  
**MR. BHARAT MADAN – GROUP FINANCIAL CONTROLLER**  
**MS. JYOTI KHATUKA – HEAD TREASURY**  
**AND**  
**INVESTMENT RELATIONS TEAM, ESCORTS LIMITED**

**MODERATOR:** **MR. RAGHAVENDRA JAIPURIA – PERFECT RELATIONS**



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**Moderator:** Ladies and gentlemen good day and welcome to the Escorts Limited Q3 FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raghavendra Jaipuria of Perfect Relations. Thank you and over to you sir.

**Raghavendra Jaipuria:** Thank you. Good evening and thank you for joining us on Escorts Limited Q3 FY16 results conference call. For today's call the management would be represented by Mr. S Sridhar – CEO, Escorts Agri Machinery, Mr. Sunil Saksena – CEO, Escorts Construction Equipment, Mr. Dipankar Ghosh – CEO Railway Equipment Division & Escorts Auto Product, Mr. Bharat Madan-Group Financial Controller, Ms. Jyoti Khatuka – Head Treasury and the Investor Relations Team at Escorts Limited.

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

**Bharat Madan:** Thank you Raghavendra. Ladies and gentlemen very good evening to you all. Thank you for joining us on the 3<sup>rd</sup> Quarter earning call for financial year 2016.

A snapshot of company's quarterly performance is as follows; turnover at Rs. 888 crores against Rs. 1,046 crores last year, down by 15%. This is primarily due to drop in both tractor volumes and construction equipment volumes. Tractor volumes went down by 16% to 13,319 tractors as against 15,881 tractors last year same quarter. Construction equipment volumes went down by 13% to 698 machines against 801 machines last year same quarter. EBITDA went down by 30% to Rs. 34.1 crores as against Rs. 49 crores last year. EBITDA margin now stands at 3.8% versus 4.7% last year. The fall in profitability is due to lower volumes as compared to last year. Material cost went down by 229 basis points to 69.2% as compared to 71.5% last year. Finance cost went down by Rs.2.5 crores to Rs.11.2 crores as compared to Rs.13.7 crores in quarter ended December 2015. The total debt outstanding as of December '15 is Rs.443 crores down by Rs.38 crores against Rs.481 crores in the beginning of this year. The company reported PAT of Rs. 20.5 crores as against the profit of Rs. 35.7 crores last year. PAT margin now stands at 2.3% versus 3.4% last year in quarter ended December '14. EPS is reported at Rs.1.72 for the quarter ended December '15.

Moving onto segmental business performance; starting with the Agri Machinery business, domestic tractor industry volumes went down by 1.5% to 1.39 lakh tractors as compared to 1.41 tractors last year in the same quarter. In line with our expectations industry decline has come down and the signs of partial recovery are visible. If this trend continues, a positive budget for agriculture and the normal monsoon could trigger a full recovery in the second half of this financial year. In this quarter, the industry in the South and West region which are our weak markets, registered a growth of 22% and the Northern Central region which are our stronger market witnessed a degrowth of 13%. Therefore, our domestic volumes also went down by 14.3% to 13,250



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units as compared to 15,455 units last year. We have also reduced our channel inventory by approximately 1100 tractors. Our market share stands at 10.1% for YTD nine months as compared to 10.3% last year.

Continuing with our strategy to offer innovative products we had launched Euro 45 and Euro 50 series under Powertrac brand and classic cities under Farmtrac brand earlier this year in 41 to 50 HP category. The market response for all the newly introduced models has been very positive. Our market share increased from 9.9% to 10.7% in 41 to 50 HP category in Q3. The new models are creating product pull demand amongst the perspective buyers, going forward in the current fiscal we shall continue to bring new products. EBIT margin in EAM marginally went down to 6.8% against 7.8% last year due to fall in the volumes. We are on track in our projects in reducing material cost and better margins are expected once the industry turns the corner.

Coming to the construction equipment business; the construction equipment industry witnessed a growth of 4% in the first nine months of the current financial year and our served markets declined by 6%. During Q3 the industry has witnessed a growth of 13% on the back of growth in certain product segments which includes excavation, road compaction, material processing and completing equipment. However our served industry volume went up by only 2%, the Pick and carry Cranes and Backhoe Loader industry went down by 3% and 1% respectively however the Compactor industry has gone up by 32%. As the overall industry has started to recover we expect that going forward it shall trickle down to all of our served market segments.

Our total volumes manufactured and traded products combined went down by 13% to 698 machines against 801 machines in last year same quarter. Our performance is better than industry in Pick and Carry and Compactor segment where our volumes have grown by 4% and 39% respectively. However we have lost market share in the Backhoe Loader segment from 4.1% to 2.1% because of increase competitive intensity and the price discounts. We have not participated in the price discounts. The revenue however has gone down by 16% to Rs.119 crores from Rs. 141 crores due to lower volumes. EBIT losses also have widened from Rs.1.7 crores to Rs.7 crores due to inverse sales mix. Some sectors of the infrastructure industry like roads and mining are looking up resulting an increase in demand for excavators and compactors. The Backhoe Loader market and crane market which is key for us has not started growing as yet although the pace of decline has reduced.

In the short-term, industry sentiments look better especially in light of the number of road projects having been awarded and the rate cut by RBI. However as expected the structural revival in the industry is only going to happen by the next year.

Coming to the railway division; revenues are up by 30% at Rs. 50.8 crores as against Rs. 39.1 crores last year. The EBIT margins are also up at 12.4% against 2.3% last year. This is primarily due to favorable product mix and reduction in fixed cost. Order book for this division stood at approximately Rs.60 crores which will get executed in the next 3 to 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 opportunity our endeavor is to expand our product lines either through enhanced development or through technology partnerships. In terms of new products we got the development order for Axle-mounted disc brakes in the second quarter which has been partly executed and the balance will be executed in the coming months.



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Lastly the auto division achieved the revenue of Rs. 16.5 crores against Rs. 25.5 crores in the last year due to lower exports and replacement market sales. EBIT losses ours correspondingly gone up from Rs. 4.7 crores to Rs. 6 crores on the back of lower sale. In the short-term our focus is to increase the sales in high margin segments to achieve breakeven. I request the moderator to open the floor for Q&A session.

**Moderator:** Our first question is from the line of Nishit Jalan from Kotak Securities.

**Nishit Jalan:** My first question is on the tractor industry. As we are expecting around 12% to 14% decline, but I think in the first half and also in the second half we have not seen any growth despite lower base. So do you think that the industry situation has worsened further in the last 2 to 3 months?

**S Sridhar:** Let me explain the industry based on the last quarter discussion. I think the way we have planned was almost like a flat industry for Quarter 1 and Quarter 2 and in Quarter 3 our own expectation was of 7% industry growth which should go up to something like 11% to 12% growth in the Quarter 4. This is what we had planned and shared last quarter too. Now looking at the kind of a position what we were anticipating what exactly has happened against the growth of the first two quarters offer no surprise. The Quarter 3 what we had expected was around 7% growth against that what has happened is -1% or its just stagnation what we have seen. Now what exactly happened here, even the recovery signs what we thought should have happened in the Quarter 3, is it really happening when it is a flat. That means overall a low base effect itself is accounted and there is no growth happening. This is the source of anxiety. Actually if you look at the data little deeper, this has got two components, what we call South and West which almost contributes something like 47%-48% of the business which has actually gone through a growth. The South and West together has grown 20% and the North has gone down to the extent of 13%. So overall I think even though it shows something like minus 1% some zone has grown and some zone has not grown, even in the month of January the pattern is continuing. That means half of the country has already started registering growth. The growth will only accelerate with the months to come. The issue is when the Northern portion of India will also join the growth rate from -13% to positive and start participating in the growth then the turnaround will become complete. As far as we are concerned I think uptake has already started even though it has started in the half of India. So with that kind of a background against a 12% growth rate what we expected for a Quarter 4 now we would expect that to be anywhere around 7% to 8%. That means there is some moderation in the growth rate but it is not completely a reversal this is the industry situation.

**Nishit Jalan:** Just a follow up, South and West have been strong, any specific reason? Because the monsoon has been weak in South as well. So is it due to low base effect or you are seeing some incremental pick up on the ground as well?

**S Sridhar:** It is very difficult to predict in terms of what will happen. All the signals whatever you were getting from South and West was not really positive before. But in addition to the signal it's the best thing for us if you look at the data itself, when it happens first month it can be exception. Now the data what I am sharing with you is four months that means the growth has already started, 20% growth, I'm not only talking about Quarter 3 it has already taken place roughly from the month of January. That means this turnaround in south and west is real.



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Now the only question is what happens to North which continues at the same 13% degrowth. So I think it is better to go by the data rather than by the feel factor or the signals what the market puts out.

**Nishit Jalan:** My second question is on the profitability. What kind of benefit from raw material commodity cost have you seen this quarter? If I look at the tractor segment on a sequential basis EBIT margin has remained flattish although there has been a decent growth in revenues and probably there would have been some benefit of commodity prices? So is there anything, what am I missing here?

**Bharat Madan:** If you look at Quarter 2 to Quarter 3, there is no major change which has happened on the commodity price. And normally in the commodity prices the way our purchasing is structured we get a benefit with lag effect of a quarter. So whatever prices have gone down in October to December quarter will get the benefit in the next quarter. However from second to third quarter there is no major change on the commodity prices for us but from the third to fourth quarter we see a major benefit coming in. So probably you will see impact coming in the Q4 where the material cost actually will come down. On Q3, overall if you look at material cost front, there has been a slight negative into the product mix otherwise from the deflation itself we have got about 1.5% advantage of the commodity prices in Q3.

**Nishit Jalan:** From operating leverage we should have seen some margin benefit because the volumes are up, the revenues are up significantly on a Q-o-Q basis.

**Bharat Madan:** Because of product mix which was slightly negative there is 1.2% negative impact on the material cost in this quarter which will get actually corrected in Q4, so this is the impact where the model mix was not really healthy in Q3 and that impact will get corrected in Q4 so it will be back to the 68% level sort of material cost next quarter.

**Moderator:** We will take the next question from the line of Raghunandan of Quant Capital.

**Raghunandhan:** Continuing the previous question, the product mix which has turned adverse, can you please elaborate on that?

**Bharat Madan:** The sale like I said we use two brands Powertrac and Farmtrac, in this particular quarter which is more market for the Powertrac brand so sale of Powertrac has been more than the Farmtrac, this mix has turned slightly negative on that account resulting in some drop in the contribution which is effected in the increased material cost. Otherwise on the other cost initiative which was on the material cost reduction and deflation, I think those benefits are continuing to accrue even in this quarter.

**S Sridhar:** This is historically true for this quarter also. But one interesting development is in Powertrac our significant volume which is almost 80% of our business we get it from less than 40 HP that is the market where we do very well. But in the last quarter and now what we have started doing is we introduced one interesting product called Euro 45 & Euro 50 and Euro 50 kind of tractors we never had under Powertrac category. So that was already launched, I think it started getting a significant volume. That means volume could be 1500 current level it can



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go up to even 2500. The advantage of having a tractor which is at a 50 HP tractor even if I priced it attractively, the margin per unit is much better than having a typical 35 HP tractor.

**Raghunandan:** So this 1500 is the current monthly run rate?

**S Sridhar:** No quarterly. 500 per month on an average we started hitting it now.

**Raghunandan:** Broadly I was under the impression Powertrac, Farmtrac ratio is 50-50, so how has it changed in the current quarter?

**Bharat Madan:** It's about 60% odd to 40% ratio is this quarter.

**Raghunandan:** But assuming that we had plans to launch the ALT tractors going ahead then the share of Powertrac possibly could remain on the higher side so relating to that when are the ALT launch is expected, 45 HP and 50 HP?

**S Sridhar:** While the market is down what we have been preparing ourselves is we are preparing for certain offensive action in the marketplace. So the entire new product plan for Powertrac is almost in the completion stage. Last one what you asked for is something called ALT 5000, another 50 HP tractor can be a significant play in the haulage market which should be ready in couple of months either March or April would be the correct month to count on quantity. That means Quarter 1 should be the correct month for quantity action. So while Powertrac we have almost completed everything, Farmtrac also many more actions are due and that actions will happen only in Quarter 1 and benefit will be in Quarter 2.

**Raghunandan:** You are saying that Farmtrac actions will bring back our product mix more towards Farmtrac and then lead to reversal in margin.

**S Sridhar:** That both will be almost at 50-50 level only. Many actions are already executed, means September itself the execution is over for Powertrac so the last quarter only a warming up and next quarter will be a full month for Powertrac. The same thing for Farmtrac will happen at the lag time of at least a quarter.

**Raghunandan:** What is your view for next year for tractor industry?

**S Sridhar:** Whatever the evidence I have shared with you like for example current year first two quarters in a particular way and the Quarter 3, half of India is into high recovery mode and then what we do not know is the Northern portion of it and when it will also start participating in terms of growth mode. So even if it becomes neutral I think anywhere the growth rate of 5% to 10% is there. 5% industry growth rate is given; it can also be 10% which we don't know will get to know in another 3 months of time.

**Raghunandan:** You are saying this 5% to 10% growth only for the Northern region or for the entire industry?



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**S Sridhar:** Southern portion itself will go through a growth rate of 20% which is already happening now. Northern portion even if it becomes zero still it will register 5% growth, all over India I am saying. All India growth rate, you should count on minimum of 5% and it can also be a possibility of 10% which we will get to know end of one more quarter.

**Raghunandan:** I think if we look at historically or perhaps even in the previous con call you had been a little more towards the optimistic side or even if I just take the history whenever there has been two years of decline, the recovery is high as 15% to 25% kind of growth, so do you think that is impossible?

**S Sridhar:** No. I think the historical data if you look at it, briefly it has always been a four growth year and a three consolidation year; this is the pattern we have seen on three cycles over a period of 12 years. So the last one, last growth year was 2011 to 2012 and the last five years has been a stagnant except one 2013-2014 where industry hit at a very different level thanks to high food inflation, also the MNREGA program and also because of the election, all these things are a reason for an exception. Other than that the last five years has been stagnating at the level of something like 5.35 lakhs per annum. This only means the revival is already overdue last year that means it has to any case happen this year. With that kind of a trend happening the growth rate can be anywhere around 5% to 15%, even it can be 20%. 15% to what we had said it can be upward of 15%, now we are revising it to 10% to 15% because half of the country has revived and half of the country has not yet revived. The Northern portion of the country we would like to watch out for one more month, one more quarter. If that also starts participating in revival this kind of an upward trend of about 5% to 10% will at least get revised by another 5% to 7% upward. But the confirmation we will have it only by March.

**Raghunandan:** And our steps on improving the penetration in Southern and Western region?

**S Sridhar:** Many actions are there, marginal market shares are up, it's like 0.3% of a market share is up in southern and western market. In North we have what is 16% and in South we have something around 3% to 4% though it's a small market share increase in South, it's not fully compensating with the industry moving very aggressively in the South. I would still suggest that we may have to hold for some more time. If the industry is reviving then the competition intensity also will come down. When the competition intensity comes down that's the better time to develop market opportunity, otherwise today if I go for a very massive action in South and West it will cost lot of money and it is not even worth it. We will look for a better timing actually, currently I think we will have an average market share of something like 4.3%. But we know that it can easily be moved by at least by 2%, at least 6.3% we know we are ready but we have to wait for a good timing actually.

**Raghunandan:** The VRS happened last year; this year is VRS likely to happen by end of this year or in the current fiscal year?

**Bharat Madan:** The way the market has behaved this year and also the cash flow is really not that good, so this time we have taken a decision to defer it for the time being, so probably we will look at it next year.



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- Raghunandan:** Construction equipment volumes had increased QoQ whereas the EBIT losses have also increased and also on the construction equipment segment the capital employed has fallen QoQ by about Rs.10 crores, so were there any right off or reduction in working capital?
- Bharat Madan:** No it's a normal reduction so we realized some of the money which was stuck both on the receivable side as well on the inventory side. So it's more recovery activity which has happened and we are cutting down on our working capital in that business especially on the Backhoe Loader business.
- Raghunandan:** And EBIT margin?
- Bharat Madan:** EBIT margin, in the last quarter i.e. in Q2 we had a pretty good mix and we also had some credit items where the margins were pretty good, that was one of order which was not repeated this quarter. Thus in spite of increase in volumes we are looking at margin actually going down, so essentially the sales mix is the issue this quarter. But having said that I think our initial guidance of achieving a breakeven level at the level of about 750 odd machines still remains.
- Raghunandan:** And railways margin appear to be seasonal, December quarter margin seem to be lower than September quarter over past three years. Is there any such seasonality or is there any reason for such a drop?
- Dipankar Gosh:** Not really, actually it was more of a product mix and we also have few products where the imported content was pretty high, so that way the EBIT margins were lower and as we go for localization that will improve.
- Raghunandan:** On the tractor side, on the exports first 10 months we've had a decline and the volumes have been at 600 units odd, institutional orders you were expecting any progress on that?
- S Sridhar:** Unfortunately things have not moved our way, neither we are in a position to predict. So even though lot of orders are there in the pipeline from African markets but when exactly will they execute we are not in a position to predict, it can possibly happen this quarter too but very difficult to predict actually.
- Moderator:** The next question is from the line of Ashutosh Tiwari of Equirus.
- Ashutosh Tiwari:** Have you seen any increase in discounting in the segment because of the pain in tractors for last few months?
- S Sridhar:** No this stagnation what we are talking about is not about few months. Actually except in 2013-2014 the level what you are seeing is almost fifth year in a row. This kind of discounts happen over the period of time, it then gets created into a different product itself. So we do not see anything excessive that matters, whatever is prevailing is prevailing. I don't think anything which is becoming very different now, henceforth if Southern and Western markets are recovering you will see some of our competition's attention getting shifted into those reviving markets. This will only bring down the competition intensity even in our market, it is not going to aggravate.





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- Ashutosh Tiwari:** You said that you are seeing more growth in South and West but can you just mention which are the states you are seeing more growth?
- S Sridhar:** States like Tamil Nadu, Karnataka, Andhra, including Orissa, West Bengal, all the markets together is growing.
- Ashutosh Tiwari:** South and West?
- S Sridhar:** Yes, South, West and also East, some elements we include are from Orissa and West Bengal also.
- Ashutosh Tiwari:** But what about Maharashtra and Gujarat?
- S Sridhar:** I'm including all this.
- Ashutosh Tiwari:** You are seeing growth in Maharashtra also?
- S Sridhar:** Yes.
- Ashutosh Tiwari:** Which are the States where you are mainly strong?
- S Sridhar:** We are strong in the other portion of States contributing around 65% of our market which we call as a strong market States like UP, Madhya Pradesh, Rajasthan, Haryana, Punjab and Bihar. These areas we generally do very well. We hold something like 16% in UP, in some markets we hold up to 18% to 20% market share, very close to leadership. But unfortunately in this market the swing is something like a 30%-35%. South has gone up and North has gone down so that is what is haltering. Otherwise if you look at market share data whatever I am having is in front of me. In every market except in three States this seems to have gained actually.
- Ashutosh Tiwari:** If we look at the last cycle when we saw very strong growth in tractors, it was driven by one thing is that global agri-commodity prices were going up and second also MNREGA led to increasing the usage of tractors. But both these things probably are not present as of now so you think that we can see is that kind of growth rate going ahead even if the tractor industry revives because of monsoon?
- S Sridhar:** What happens is like the way you are rightly mentioned one is food inflation, food inflation is a great sentiment enhancer and also good crop through water reservoirs and like MNREGA government policy when these things come together I think revival happens faster. But what we have to notice is even if there is no aid on this, it is fifth year, if a government policy support is there they should have revived much earlier. Even without a policy you will see half of the country is reviving. It is bound to happen of course there is a delay. So this is why last year I said, next year it can even by 15% there is a distinct possibility what I had conveyed couple of investor meetings before.
- Ashutosh Tiwari:** So this is mainly led by replacement demand essentially because the industry is now growing for some time in South that's why you are seeing the pick up?



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**S Sridhar:** Yes structurally you need the tractors, the tractors maximum life is 7 to 9 years, in a good season people even change it in 3 year, at a fifth year you are almost on the boundary conditions actually. So these things will start happening now and little bit of a food inflation which is also cropping up, may not be of the scale of global what we are talking about 2013-2014, little bit of food inflation and some government policy support. Crop insurance we consider as one of the sentiment enhancer, it's a good relevant program. Few actions here and there what we expect from the government also, all this together means to 5% to 10% is visible. Any upward revision is mainly after the seeing the budget, March crop situation we can then revise it upward. I don't see downward revision below these numbers actually.

**Ashutosh Tiwari:** If you look at last cycle when the growth was strong because non-Agri use of tractors increased that led to a lower lifecycle of the tractors, so are you seeing elongation of tractors lifecycle over last few years because I think non-agri use is coming down a bit?

**S Sridhar:** Rather I would say that more than non-agri use, agri use what happens is people have discretion, since they use only four months in the year at best there is no urgent need to replace that's where it gets deferred. So if agri use increases, there will be more purchasing power and then they will get in independently. The non-agri use percentage continues to remain at a higher level, that's why the ALT 5000 products are brought in. In last seven or eight years that has become a significant category, we need a participation we will do. But agri revival also means that it will go up actually.

**Moderator:** Our next question is from the line of Dhawal Doshi of Phillip Capital.

**Dhawal Doshi:** Just one clarification on the railways business. You mentioned order book of Rs.60 crores, right?

**Dipankar Ghosh:** Yes.

**Dhawal Doshi:** The presentation mentions it as Rs.40 crores.

**Dipankar Ghosh:** There is some printing mistake, its Rs.60 crores only.

**Dhawal Doshi:** So basically there has been no major accretion on a quarter on quarter basis more or less there?

**Dipankar Ghosh:** Yes.

**Moderator:** Our next question is from the line of Viraj Kacharia of Securities Investment Management.

**Viraj Kacharia:** First is on the construction equipment and railway segment both. What is the sense on the level of ideal capacity in the construction equipment? You mentioned about some initial signs of recovery from the road segment and government also mentioned about moving from 3 km per day to 13 km at the moment. So after what level of road construction on a per day basis should we see demand on new equipment's coming in?



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**Sunil Saksena:** In terms of the industry the demand for new equipment has just started in Quarter 3. If you look at the total industry it is grown by about 13% in this quarter, largely the demand being from excavators and road building equipment. Road building equipment volume wise they constitute just about 5% of the total volume, the largest volume comes from backhoes and excavators. So the growth has largely come from excavators as such and compactors which is road building equipment. These are the two which are really showing growth. Moving forward there are almost 21 odd varieties of equipments that are there out to of which almost 13 are showing growth by the end of Q3. What we expect is the trickle-down effect will further come up and all the 21 segments will start showing some growth. Overall inside the decline in the segments which are still negative has also come down.

**Viraj Kacharia:** So in our per day construction, if you just purely look at the road sector, after what level we should see the demand for new equipments improving significantly, right now we are somewhere around 13-14?

**Sunil Saksena:** 13-14 is total. In the road building in fact the growth is much higher. You talked about capacity utilization; overall the industry is operating at ~33% capacity utilization so capacity is not a problem in the industry.

**Viraj Kacharia:** What I really meant was, in terms of the idle capacity which is there in other equipments in the system and incrementally whatever awards we have seen from the government from the road sector and similar for the railway sector, after what level we should see the demand for new equipments or new orders from railways coming into picture because there might be significant amount of idle equipment which is still lying in the system and therefore any incremental awards really reflect on new equipment demand for us?

**Sunil Saksena:** You are talking about railways or you're talking about road?

**Viraj Kacharia:** I'm talking about roads and I'm talking at the same time about railways.

**Sunil Saksena:** On the road sector we are already seeing a push up on the demand which means utilization of capacity, in fact order books are pretty good on compactors which is the equivalent of road roller as you call it. There the order book is fairly decent, we also have good growth coming up in the allied equipment for road building which means some of the concrete equipment mixers, batching plants where there is a growth also. Simultaneously compresses and other things which are used in a similar kind of industry is also growing and so also in the excavator. So you will see not just capacity utilization but there is no idle equipment now and the growth in these areas has started.

**Viraj Kacharia:** In terms of demand, is the current project flow in terms of the road awards is it sufficient to keep the momentum going or we need more new awards in the road sector further to see growth in the construction equipment segment for us?

**Sunil Saksena:** No I think the positives that are already announced around work is increase in per day km, already from 3 per day km the road sector is going to see about 18 km per day by the exit of March and the target is to reach 30 per day km by first quarter of next year so that itself will see a substantial amount of growth. And money flowed

towards some of the initiatives taken by the government in the areas of power, in areas of coal and in areas of smart city development, all these areas where funds have started coming there is already a movement. So overall one sees that by first half of second year we should see the entire industry moving up.

**Viraj Kacharia:** Similarly, on the railway side how is the flow going there because we have been able to get around Rs.50 to Rs.60 crores of order book for last couple of quarters. So from a sustainable perspective do we need to see new more project announcements from the railway side to keep this kind of growth momentum?

**Dipankar Gosh:** Actually there is a lot of growth; there is a lot of investment happening in different segments. The advantage what we have is that we are almost placed in each and every of the segment where there is growth, the only thing for example, the locomotive 2 factories which are announced in Bihar. But there is a time delay of maybe 2-3 years till the factories are set up, till we are able to supply but we have the products in our portfolio, one. Second is that the LLP Alstom coach where we are a primary supplier that quantity produced per year is increasing drastically, for example now you have RCF Kapurthala, RCF Raebareli and there are two new other factories which have also started producing this particular thing. Similarly the wagon builders are also producing AMUs for the Indian Railways, so that way we see a lot of equipment coming in and since we are into the component space we see that we will be able to not only sustain but also grow in whatever products we have. And parallelly to answer your last question that we have introduced two new products, one of them the bogie mounted brake system has just recently got an approval and we feel that we should be able to commercializing starting from April. Also other prime product called Axle mounted disc brake also we have started commercializing and selling it to Indian railways. So that way we see that we can maintain the traction and also we can increase on whatever we are doing now.

**Viraj Kacharia:** I have just one more question on the tractors side. If we see the trend in the NBFCs and now we have seen increasing number of NBFCs taking the repossession route, given the kind of significant cash flow constraints you have seen at the farmer level. So considering that and considering that the liquidity at the farmer level is pretty much tied at the moment--even if the recovery were to happen considering a normal monsoon scenario what gives us confidence that we will still expect 5% to 10% kind of growth?

**S Sridhar:** We are not making an estimate, actually what we are looking at is reflecting on the data. For the last four months the half of the country is already registering a growth rate of 20%, this is no more a guesswork. Now will it continue or not is the guess what we have to do but four months is a pretty long time. This will start showing a pattern, so the South and Western portion of it what we are seeing this kind of a growth rate is here to stay definitely. Now what we do not know, the negative growth rate of the other half of the country is registering is to what extent it will come down, it was registering something like 20% to 22% negative now it has come down to (-13%), when it really comes down to a (-7%) or 0%, is the only area we don't know. I think that we will get to know in the month of March. If the Northern negative comes down to minimal and the Southern sustains itself, means that the growth rate of something ~8% types. So the probability of 7% or 8% is over 60% industry growth rate for next year.



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**Viraj Kacharia:** When we say about the Southern market growing in high double-digit, as you mentioned it's been four months of high double-digit growth so what exactly has been driving growth in those regions because if you see the overall cropping and the monsoon data, it's not been that favorable in those markets as well. So what has actually increased subsidy in those markets provided by the State Government, what are the factors driving it?

**S Sridhar:** Nothing of that sort because overall, the country itself is suffering from poor sentiment today. We think nothing can be positive, monsoon is negative, we think everything is a problem, drinking water is a problem it cannot grow in the way we are getting a negative signal but the truth underground is registering positive. It is not one month. This is where I said after four month of continuous growth rate, we should no longer suspect the recovery in South and West because it is no more guesstimate, it is actually happening, if you look at the data with five years of stagnation in terms of tractor recovery 2011-2012 onwards the stagnation has started except one year so it has to grow this is what we have shared with you even two quarters before. Unfortunately, North has not performed the way we have expected otherwise by this time the recovery would have been full-fledged.

**Viraj Kacharia:** Right. And on the dealer side, what kind of incentives and support are we providing, if you can just throw some light on that. And also we are seeing a trend of dealers pushing sales on increased credit with a couple of channel checks and we got a sense that there is trend of dealers providing tractors on credit basis to farmers, if you can just provide some idea on, is it the industry wide trend or is it just still in some pockets.

**S Sridhar:** See if I were to tell industry wide nothing has changed from last year to this year since this is not the first quarter of stagnation nobody can play game for five years in a row whether it is discounting or credit these things are almost stabilized. Having said that those companies were in house finance will have a greater flexibility in terms of giving tractors at a very low down payment. Companies like ours who are dependent on NBFCs we cannot push all our cases at a rock bottom down payment. So, there is some disadvantage for those do not have in-house finance but the patterns are stable. There is no difficulty, people have money, despite of all this itself there is a growth. There is no special incentives, not only from us, there is nothing special from the whole of the industry. So the difficulty levels are same but the recovery is also real.

**Moderator:** Thank you. Our next question is from the line of Siddharth Mehra of Nomura.

**Siddharth Mehra:** Sir, first I have couple of questions on the tractor segment, have we seen any pricing action in the tractor segment in the last few months?

**S Sridhar:** See last few months is nothing unusual, this is the point I wanted to tell you again and again. If at all anything happen, things should happen something like 18 months back. So there is nothing unusual happening in this quarter. Everything what has stabilized, stabilized play is what we are seeing. We are not seeing anything unusual.

**Siddharth Mehra:** Okay. But given that now you have launched the Euro-47, Euro-50 tractors in the 40 to 50 HP category, average ASP should hardly increase given that their realizations will be higher than your average realization?



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**S Sridhar:** Of course this is in line with our thinking of moving the horse power higher, participate in a higher category. That also means that realization goes up alongwith margins. So this will substantially go up for example, if I were to give you one idea between 41 horse power to 50 horse power the Powertrac category which is almost 50% of our category in general use to contribute only 20%. If you look at the quarter three it is something like a 37%-38%, substantial increase we will start seeing in 45 to 50 horse power.

**Siddharth Mehra:** Okay, understood. Sir, secondly on longer-term like if we consider the industry level the 40 to 50 HP segment mix has been going up very significantly in the past few years but the 50 HP and above segments seems to be stagnating or coming down, can you give some idea why is the only one segment has been doing well while other segments which also comes under higher HP space but still we continue to see that segment continues to contract.

**S Sridhar:** See if you look at from 2003, 2004 onwards, above 50 horse power use to be only 3%, almost by 2010-2011 it reached to ~10%-11%. In 2011-2012 an emission norm got introduced, so many of the tractors were at the bottom line case they got classified themselves as 50 horse power and less so, this from a picture it shows like as if the 50 horse power and above is coming down, the truth is not that. Even at 7% today many of these are accounted more into a 45 horse power to 50 horse power. But the higher horse power moment is real actually. So what use to be 35 horse power has become 40-45HP it starts moving up.

**Moderator:** Thank you. The next question is from the line of K. Poddar of KB Capital Markets.

**K. Poddar:** What is the future projection on the auto ancillary segment?

**Dipankar Ghosh:** The auto ancillary segment, we are actually trying to bring down the losses as far as possibly for this Q4 and we have been looking for strategic partners to divest that business, the search is already out.

**K. Poddar:** Okay. But do you see any kind of growth in turnover or it will be more because of downsizing this is getting breakeven.

**Dipankar Ghosh:** We are primarily now interested in reducing the loss, we do not see immediately an increase in the turnover.

**K. Poddar:** Okay. But this reduction is loss because of some downsizing or because of at the value engineering?

**Dipankar Ghosh:** One is downsizing second is we have also rationalize our portfolio whereas been a lot of rationalization within the customers and also we have done quite a significant amount of cost reduction within that particular division so that way we have been able to reduce the losses.

**K. Poddar:** And the sense you are giving us is that the growth will really happen when you get a partner I mean till that point of time it will be more of a low key affair is it?



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- Dipankar Ghosh:** Yes, I mean because we want to infuse some strategic partner to take it to the different level. As of now we will try to continue it as it is.
- K. Poddar:** And do you have a time line for getting this partner?
- Dipankar Ghosh:** As of now we see at least another three quarters but I cannot make a more forward-looking statement here.
- Moderator:** Thank you. The next question is a follow-up from the line of Raghunandan of Quant Capital.
- Raghunandan:** Just wanted to understand what has been the CAPEX spends so far this year and with how much will we complete this year?
- Jyoti Khatuka:** We spend something around Rs.32 crores still for the nine months and the plan for this year is around Rs.55 crores.
- Raghunandan:** And broadly this run rate could continue for next year?
- Jyoti Khatuka:** As the growth picks-ups we probably might see for more CAPEX.
- Raghunandan:** And the areas of spend broadly would be?
- Jyoti Khatuka:** It would be primarily tractor unit where we have different small-small projects going on.
- Raghunandan:** Okay. So it would be mainly on the new products?
- Jyoti Khatuka:** Yes, new products and railway would also be there.
- Raghunandan:** Sure. And above 50 HP we use to have a market share of 10% which has come off to 6%, again would it be because of the region mix or is there any other reason?
- S Sridhar:** No, actually it is more like an inside story rather than the market story for this area. The product what we use to have called 6055, there after reaching some stage we wanted to create very different variant for markets specific action unfortunately last quarter we could not do it. So we actually depleted certain market stocks but were not prepared for launch that has happened only December end. So this quarter you will be seeing us coming back very nicely and the quarter one I think will go into the 10% kind of a market share once again but we are also targeting a lot of growth in that segment so, some maneuvering will happen.
- Raghunandan:** And sir, just one of the earlier responses which you gave, volume mix broadly between Powertrac and Farmtrac was 50%-50% but would the revenue mix be as something like 20-80 is that what you are referring to?
- Bharat Madan:** Not so much. No, there is a 2%-3% gap between the two in value and volume terms. Just to correct myself because I said I think, 60-40 on Powertrac, Farmtrac ratio. So I got the exact number it is 57 to 43 Powertrac to



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Farmtrac ratio for this quarter. The normal which is about 52-48 sort of range, so this time the string was more in terms of Powertrac.

**Raghunandan:** So 57 would be the volumes for Powertrac?

**Bharat Madan:** Yes. And 43% for Farmtrac. Only for this quarter, for this quarter Q3.

**Raghunandan:** Okay. And the revenue would be like not majorly different you are saying only 2%-3% different?

**Bharat Madan:** Yes, so about 3% lower so about 54%-46% in terms of value terms.

**Raghunandan:** Okay. And sir, like on the construction equipment side how would be the product mix between cranes, excavators, cranes compactors and backhoe loader this time around?

**Sunil Saksena:** Yes, majority of the volumes obviously come from cranes, almost 70% of our volumes and the remaining is between compactors and backhoes.

**Raghunandan:** Sir, backhoe loader if I remember correctly in the past we had taken certain write-offs in that segment I think it was related to that DIGMAX I, just wanted to understand whether all those write-offs have already been done and nothing more to be expected, would that be a right way of looking at it?

**Sunil Saksena:** Yes, DIGMAX I is history for quite some time back, what you see in the backhoe loader market is first of all it is still to grow and it is one of the most voluminous segment within the industry and therefore what you see is a total industry not growing at the pace that it is expected to. The DIGMAX II in terms of the markets where we are supplying has been a success in terms of performer fuel efficiency and typical niche applications that it had. What you saw also was not just DIGMAX I as such, what you also saw was this industry like any other industry runs on retail financing and some of these financiers resort to some kind of a repossession and throwing in the market in a cheaper way which actually affects the new machine sale so that is what really happens and that really mounts up some amount of pressure at the dealer end, where we will have to really help to reduce the stocks. So in the past what you saw was that phenomena which is now cleaned-up substantially.

**Raghunandan:** And assuming after a five-year decline in the industry assuming the next year there is a possibility of a recovery I mean broadly what kind of growth would you look at?

**Sunil Saksena:** See it is directly related almost sung on to the GDP growth rates. The predictions during this Excon ICMA launched study, ICMA is equivalent of TMA in construction equipment industry, they had launched a study and they have projected a CAGR of about 8% to 9% over next five-year within that the expectation is next year it should be higher.

**Moderator:** Thank you. Our next question is from the line of Saket Kapoor of Kapoor & Company.





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- Saket Kapoor:** Coming to your point in which the Southern market has grown leap and bounds so what are the total numbers of tractors sold in the Southern market not for our sense but the entire tractor industry as whole? Just to get a base number sir, what is the base there so 30%.
- S Sridhar:** See normally it is 36% to 38% of the industry size, southern now it may be little more 6% swing so another 6% we got higher in this quarter.
- Saket Kapoor:** That means around 40% of the total tractor industries.
- S Sridhar:** Yes.
- Saket Kapoor:** And others a break-up also if you could provide will be very helpful. The Western region, Northern and Eastern.
- S Sridhar:** No, when we are saying southern and west, we give it as a one set.
- Saket Kapoor:** Okay. Southern and West is at one set is 42%.
- S Sridhar:** Yes.
- Moderator:** Thank you. Our next question is a follow-up from the line of Dhawal Doshi of PhillipCapital.
- Dhawal Doshi:** Sir, just wanted to understand you mentioned plans for Farmtrac which are going to be worked out in Q1, what are those and what is the entire product gain that we are looking for the Farmtrac segment?
- S Sridhar:** See so far the approach has been only profit maximizing and we have been avoiding direct competition that use to be a game line till two years back. The last two years we also created a lot of products which can take on the mainstream players. The ALT series is one such, Euro series is another one and this Euro 45 and Euro 50 is to directly take on the biggest player in the tractor industry. So, like Powertrac has completely geared up in terms of taking on the competition to do a volume play that means to increase a market share is a target and already it is under implementation. The similar thing on Farmtrac also we are working on, this will help in terms of attacking certain players and the mainstream high volume players means some 45 horse power to 53 horse power those kind of actions are on pipeline. But beyond that it's still like a five months away so I cannot disclose full detail but once we launch those products this will have an impact on our market share to that extent I would like to share it with you now.
- Dhawal Doshi:** Okay. So is it going to be existing products which are going to be refreshed or all new products that you are going to be coming up with?
- S Sridhar:** That is sensitive information but the current product will not be challenged.
- Dhawal Doshi:** And sir, lastly can you give me the ALT volumes for the quarter?



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- S Sridhar:** I think we do on an average of 500 per quarter on ALT 4000, real horse power for ALT Haulage, Tractor 50 horse power that should be counted on from April onwards not now.
- Moderator:** Thank you. We will take the next question from the line of Sameer Deshpande from Fairdeal Investment.
- Sameer Deshpande:** I would like to know what is the outlook for the Rabi crop and wheat acreage as I have been reading has been significantly reduced this year so, is it going to have an impact on our January to March quarter in a big way?
- S Sridhar:** Actually the signals are as usual like what has happened in South what is happening in North complete mix to signal, the temperature is warm, there is no rain and all these things we keep on hearing. But having said that at least one packet in Madhya Pradesh is showing a very good sign up recovery. So as I said, this signal is one thing and what is happening in the market is another thing. I would suggest that still we wait up to March for registering our sharing with you our full-fledged recovery. As far as quarter four is concerned we do not see anything adverse it should be decent quarter actually, so let me not put up quantity for it. Quarter four should be a decent quarter because in case I said that the growth rate whatever talked about 7% or 8% seems to be overall forgiven. Other market will continue to be relatively under stress but we are very hopeful whether it is quarter four or quarter one or quarter two is a matter of detail, direction seems to be a full-fledged recovery to that extent we can authentically share it with you.
- Sameer Deshpande:** Okay. But normally the January to March quarter is a weak one?
- S Sridhar:** Generally, yes.
- Sameer Deshpande:** But this time it maybe something more than (+11,000) which we had last year.
- S Sridhar:** We cannot put a quantity for it but it should be a decent quarter I do not think it will be a worrisome quarter.
- Sameer Deshpande:** Okay. Because the shrinkage in volumes is reducing, that is the main thing so there should be some recovery. And secondly, I wanted to know about this other income which we are showing in the quarterly results. What is the major component of the other income?
- Bharat Madan:** Yes, actually it is an interest income which we charge then credit to the customer through the dealers. So what is happening is since we have been reducing our exposure to the dealers and reducing our receivables and their dealers have been shifted to the banks directly where they take the loan directly from the bank rather than taking risk on our balance sheet so the exposure is going down and because of that the other income is also going down.
- Sameer Deshpande:** No, see we are having about Rs.15 crores quarterly other income so annualized we had some Rs.65 crores in the last year.



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**Bharat Madan:** If you look at our balance sheet there cash and bank balance you look at the total number it comes to almost Rs.250 crores cash and bank lying with the system. So the income generated on that gets part of other income, some amount out of which, which is not accessible to us because the money is under Escrow arrangement because of some old issues but the interest income on that is still accruing. These accruals actually form part of the other income now besides the channel income that we get.

**Sameer Deshpande:** Okay. So the last year in Q4 we had other income of Rs.25 crores plus. So this time also interest income component that will come is going to be a high level?

**Bharat Madan:** So last time there was a one-off income because there was refund which we got from income tax on which it is Rs.5 crores – Rs.6 crores extra money which we got so that we counted for in March which will not happen this year. So our normal run rate is about Rs.4 crores to Rs.5 crores a month as a normal income which will continue to accrue.

**Sameer Deshpande:** And the last one is regarding these loans, we are having some Rs.443 crores which has been mentioned in our release. So what was that loan figure in September?

**Bharat Madan:** September, I think it was Rs.463 crores.

**Moderator:** Thank you. Our next question is from the line of Mitesh Shah of OHM Group.

**Mitesh Shah:** Considering how would the penetration of tractors be there in the Southern and the Western markets, so considering that would South and West continue to be your higher growth in tractors compared to the Northern region?

**S Sridhar:** Theoretically yes, because in terms of penetration it is less in South and West but generally what happens is overall if you look at CAGR wise 1% or 2% more it would not be very high but when it recovers what happens in South and West enabling happens much better. Finance penetration, structure, these things are much better in South and West including Maharashtra, Gujarat and all this. So every time, if you look historically we call these as volatile States, when the growth rate happens the growth rate even with 30% and 40% an imaginable growth rates happens to this kind of an area, it is less to do with the penetration, more to do with that environment enabling environment finance, all other areas.

**Mitesh Shah:** So if the growth recovers South and West could have a higher delta compare to the North part of it?

**S Sridhar:** Yes, which should count on.

**Mitesh Shah:** Okay. And second question was considering our last five years the industry has been subdued with only FY14 registering at 20% growth, what sort of confidence does Escorts and the industry sees, that when the growth comes back it will sustain for another two years or three years may be 10%-12% growth each year but what gives you a confidence that it will sustain for a couple of year and whether not break down.



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**S Sridhar:** Okay. I think I cannot share the industry but I will share our own outlook because we spent a lot of time on data analytics myself directly not with others actually. Many of this what happens we have to look at the history and then take a moderate step. If you look at the history, four years of growth has happened before stagnation, this is the pattern we have seen again and again so this year instead of three year of stagnation it has become five-year stagnation and after five year of stagnation which we should look at it is again a four year of growth is the right estimate. When you say four year of growth rate the optimistic estimate will lead you into something like a 80% growth rate, realistic estimate will take you to a 60% growth rate and pessimistic only 40% that means a CAGR of something like a 10% is realistic estimate, this kind of things are given again the only discussion is what is first year and what is fourth year so that is what is moderation but otherwise we should look at something like a 10% CAGR for next four years is a kind of number where we take it internally for our own planning.

**Mitesh Shah:** So cycle should continue for at least three years on that basis understanding part of it.

**S Sridhar:** Four years it should continue.

**Mitesh Shah:** Okay. And sir, third question is primarily considering our PBT for nine months was around Rs.76 crores why there has been no tax provision on that part of any specific benefit?

**Bharat Madan:** So we had some carry forward amount losses which were available and there is also R&D investment which we do every year on which we get a weighted reduction of 200% both on capital spend as well on the revenue spend, our R&D is recognized with the DSIR so we are eligible to get this rebate. Roughly up to Rs.80 crores to Rs.100 crores is zero tax liability on the government. So any profit which goes beyond that then only we start paying the normal tax rate so that is where the effective tax rate varying depending on amount we get on PBT.

**Mitesh Shah:** So after PBT of Rs.100 crores our tax liability would be minimal 3% to 5%.

**Bharat Madan:** Rs.80 to Rs.100 crores depending on what is the sort of level of spend which we do on the R&D in that year.

**Moderator:** Thank you. I now hand the floor back to the management for closing comments. Over to you, sir.

**Bharat Madan:** Thank you ladies and gentlemen for being patient on this call. For any feedback and queries, feel free to write to us at [investorrelation@escorts.co.in](mailto:investorrelation@escorts.co.in) I would like to mention that we distribute our earnings release to our website [www.escortsgroup.com](http://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 sometime. You can also download our Investor Relation App from Goggle Play Store and Apple iTunes. You can visit our social media pages for the latest company news, development, etc. We will meet again till next quarter. Thank you very much and good evening.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Escorts Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.