



“Escorts Limited's Q3 FY'19 Earning Conference Call”

January 28, 2019



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*Escorts Limited
January 28, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Escorts Limited Q3 FY'19 Earnings Conference Call hosted by Phillip Capital (India) Private Limited. As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Nitesh Sharma from Phillip Capital (India) Private Limited. Thank you and over to you, sir.

Nitesh Sharma: Thank you. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited. I welcome you all for Escorts Q3 FY'19 Earnings Conference Call. I also take this opportunity to welcome the management team from Escorts Limited. Today, we have with us Mr. Bharat Madan -- Group Chief Financial Officer; Mr. Shenu Agarwal -- Chief Executive Escorts, Agri Machinery; Mr. Ajay Mandahr, Chief Executive -- Escorts Construction Equipment and Mr. Dipankar Ghosh -- Chief Executive, Railway Equipment Division along with the Investor Relation team of Escorts Limited.

We would start the call with the brief opening remarks from 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. Over to you, sir.

Bharat Madan: Thank you, Nitesh. Ladies and gentlemen, a very good evening to you all. We are giving the snapshot of the company's quarterly performance which is as follows:

Revenue for the quarter is up by 37.4% at Rs.1,655.1 crores, the highest ever quarter revenue as against Rs.1,205 crores last year same quarter led by volume growth across all three businesses. Tractors volume up by 36% to 25,743 tractors as against 18,930 tractors last year same quarter. Construction Equipment volumes up by 30% to 1,413 machines against 1,087 machines last year same quarter. EBITDA at Rs.200.5 crores against Rs.145 crores last year is up by 38.2%. EBITDA margin now stands at 12.1% versus 12% last year same quarter ended December '17. Finance cost is up by Rs. Rs.1.7 crores to Rs.4.3 crores as compared to quarter ended December '17. However, the total debt outstanding as of December '18 is Rs.239 crores, this increase is due to increased working capital requirement during this high growth festival season.

This quarter we have an exceptional income of Rs.10.91 crores on account of transfer of our rough terrain crane business to the joint venture with M/s. Tadano Limited on a slump sale basis net of value of asset transferred and associated cost incurred for affecting the business transfer. PBT from continuing operations after exceptional items at Rs.210 crores, is up by 62.2% as against Rs.129.5 crores last year same quarter. The company reported PAT of Rs.140.1 crores versus Rs.92.0 crores last year, is up by 52.3%. PAT margin now stands at 8.5% versus 7.6% last year in quarter ended December 2017.

Just for the information of all the investors, this has been the highest ever profit the company ever achieved in a quarter in the history. So, this is something which is stupendous performance. The EPS for the quarter is reported at Rs.11.72 against Rs.7.70 last year same quarter.

Now moving on to the segmental business performance:

Starting with the Agri Machinery business, domestic tractor industry volumes grew by 19% to 2.17 lakhs tractors as compared to 1.82 lakhs tractors last year same quarter. Our domestic volume went up by 34% at 24,720 against last year 18,418 in quarter ended December. Industry in strong markets in North and Central India grew by 29% whereas industry grew by 6.3% in upholstery markets of South and Western India. In line with our guidance, we have gained market share across all major states. Our domestic market share stands at 11.4% in quarter-ended December '18, up by 130 basis points as against last year same quarter. During the quarter, our product mix has been adverse, having sold more products and less than 40 HP category against last year. Besides Farmtrac and Powertrac mix during the quarter was at 36 to 64 against 37 to 63 last year. That has also marginally affected the margins for the quarter which now stands at 14.3% against 14.6% last year. During the quarter, we have added 47 new dealers in India, taking a total dealership count at the end of the quarter at around 920. We expect domestic tractor industry to grow by 10-12% in the current fiscal.

Coming to the Construction Equipment business:

Our served industry grew by 19.4% in Q3 FY19 with respect to Q3 FY18. Material Handling segment have been the biggest gainer in Q3 FY19 with growth of 35% followed by compactors in road segment with 26% growth and backhoe loaders with 16% growth. Our total volumes in manufacturing and traded products went up by 30% to 1,413 machines in quarter ended December '18 against 1,087 machines last year same quarter. EBIT margin for Q3 ended December '18 is at 3.5%, up by 27 basis points as against 2.2% in same quarter previous fiscal. In line with our strategy to move our products up in the safety value chain. During the quarter in Bauma Conexpo 2018 we had launched three new products, namely Hydra NXT 13, Next Gen Hydra Pick-N-Carry Crane with better maneuverability, high stability, duct utility and better visibility. EC3664, a mini compactor in 3-ton class powerful mini compactor with highest gradability and steadiness and EC5511, a compactor in 11-ton class. Going forward we expect that our served construction equipment industry will continue to grow at 13% to 15% in medium-term.

Coming to the Railways division:

Revenues at Rs.96.6 crores in quarter-ended December '18 are up by 34.1% against Rs.92 crores last year same quarter. EBIT margin is up by 690 business at 19.9% as against 13% last year same quarter. Going forward in current year we will be executing orders for new products with more import content which may lead to some adverse impact on margins in short-term though

in the medium to long term we will be able to mitigate the impact with gradual localization of these components. Order book for this division stood at more than Rs.450 crores as of 31st December 2018 which will get executed in the next 13-15 months.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to two things: First is in terms of our RM cost it has gone up substantially on QoQ basis. Apart from mix, is there any other factor which have lead to this and can you also talk about the price increases which you have taken in tractors?

Bharat Madan: There are two reasons for this actually if you look at quarter-on-quarter performance, one obviously the inflation, what was happening is in the last one year if you look at the kind of inflation we have seen on the material cost that is almost 5.5-6% range and we have been able to pass on the impact to the market, but it will pass on an absolute amount. So that also impacts the percentage of material cost. So if you compare really against last year, so there is an impact of almost 1.5% on account of passing on the inflation, some with the lag because we are passing on the same amount, not in the same percentages which is impacting the margin slightly. The second impact I would like to mention is about the mix because we have some also subsidy-based orders which have been executed during the quarter which is a good top line in terms of the realization has improved but in terms of the margin they are slightly lower which is also affecting, there is obviously the mix which I talked about in terms of selling more tractors in the less than 40 HP category with in Farmtrac like we mentioned we have introduced tractors in the sub-40 category which was a segment we are not operating in. So that is also affecting the margin besides the mix of Farmtrac and Powertrac which is slightly skewed, obviously we look at quarter-on-quarter also it is about 1% swing which has happened which is also affecting the margin, so which has led to all these material cost increases happening if we look at quarter-with-quarter.

Jinesh Gandhi: The price increase which you have taken?

Bharat Madan: We have taken roughly 1% price increase in this quarter, but that was taken after the season was over, so by end of November.

Jinesh Gandhi: Have you taken anything in Jan?

Bharat Madan: There is no price increase in Jan. As of now we do not see really much impact coming in from the inflation, now the commodity prices are softening, so we do not see really that pressure will continue going forward.

Jinesh Gandhi: Can you update us on the dealer inventory going into Jan 2019 and the demand which we are seeing in Jan, is there any change in the trend?

Shenu Agarwal: So, as far as dealer inventory is concerned, we have spoken about it previously also that in number of days we have substantially reduced dealer inventory in the last about three years and I think right now we are sitting at the best dealer inventory, which means the lowest dealer inventory in terms of number of days. I think we will continue to kind of be at both levels and we feel that probably in the industry we should be at the best when it comes to number of days of dealer inventory write-down.

Jinesh Gandhi: Dealer inventory would be about four to five weeks or lower than that?

Shenu Agarwal: It will be close to 3-3.5-weeks.

Jinesh Gandhi: For the Jan month, has demand picked up?

Shenu Agarwal: So December and January are looking pretty much the same, right, so I think there will be more pickup in the absolute demand from March but overall Q4 as we had earlier said, would be kind of 0-3% growth in the industry and the main reason is because of the high base last year with the last year's industry growth in Q4 by about 49%. We are sitting on the high base and that is the reason that this time we may not see that much growth in the industry in Q4.

Moderator: Thank you, sir. We have a next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: My first question is on the RM cost. Like you said RM cost has started to decline from December onwards. So do we see any benefits coming in the fourth quarter and so basically how are our contracts structured with the vendors?

Bharat Madan: Yes, normally we have a benchmarking which normally goes with a lag of about a quarter. So any impact in this quarter will get reflected from the next quarter. So any changes which has happened in the December quarter will be affected from 1st of January. But the softening of price which will happen in Jan to March quarter will get reflected only from 1st of April.

Hitesh Goel: December actually the commodity cost have declined. So we should see some benefit coming to in the fourth quarter or it should be in...?

Bharat Madan: We look at the weighted average of the quarter, so in October and November 2018 they were high, in December it has gone down. So that may not really have much impact positive in this quarter but yes we expect probably April onwards it will look better.

Hitesh Goel: Any issues which has happened on tractor demand because of NBFC issues, also Mahindra Finance in their call was saying the tractor demand is very buoyant and you are saying that we

are expecting only 0-3% growth in 4Q FY19, so is there any financing issues in that industry, what is basically scenario right now?

Shenu Agarwal: I do not think we have not felt any issues with respect to financing, I think the credit is abundantly available, there are no red signals from any financiers that we work with and we work with most of them. So I do not think financing is going to be an issue. Answering your other question about what Mahindra said, I think our estimates for the whole year is about the same. So I think in Q4 probably we both are talking about the similar kind of industry growths.

Moderator: Thank you, sir. We have next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I just had clarification on this industry growth. Now clearly when you spoke last time you are guiding to a higher growth for the industry and this seems to have come off in the commentary that you gave now. Is there any change that you are seeing in the underlying demand and you think F20 growth could be pretty soft? And also the subsidy business that you spoke about, now are you seeing the roll-down in the subsidies which is kind of having an impact on the overall volume numbers for the industry?

Shenu Agarwal: As we said in the last call also, I think we maintain that view that there are no fundamental actually factors that are affecting the industry right now as far as we are concerned. So when we talk about availability of credit or the sentiment at the ground, these are all positives although there are some worries about lower sowing of the Rabi crop, but we do not think that is going to impact the industry too much at this point in time. Whatever negative impact has come in sowing, that has largely come in the south where we traditionally have a lower market share. So at least Escorts would not get affected by too much. As far as the estimate for the whole year, we had given earlier, that is right, we had said we will probably see industry growth of 12% to 14% or 15% for the whole year, but now we are saying about 10%-12% for the whole year. So there is a couple of percentage drop that has factored in, in the last couple of months and that is probably because of slower growth than we were expecting in November and December. So we think that will continue. As far as Q4 is concerned, there is not a major change. Earlier also we gave an estimate that because of the high base last year in Q4 the industry may not grow that much this year. So, we are revising our estimates to about 10-12 now for overall year.

Gunjan Prithyani: Would you share anything on the subsidy business, not with respect to escorts, but industry because that has been a key driver for growth in last year, do you think that there has been some roll down in subsidies in certain states and that can have an implication on the growth?

Shenu Agarwal: No, I do not think there would be a roll down on subsidies, in near future everyone is expecting government to rollout actually more stocks to the farmers and therefore I think either in the form of subsidy or otherwise there would be greater support from the government side to the public

community which would actually have a positive effect. So even in Q3 ending December the industry benefited quite a lot from the subsidy-related sales.

Gunjan Prithyani: Anything you would like to share for '20 growth outlook?

Shenu Agarwal: As we said in the last call, I think we will be in a better position to give you an outlook around February or March, about that once we have some initial forecast of the monsoon coming in. So I think that would be the better time to give a forecast.

Moderator: Thank you, sir. We have next question from the line of Mitul Shah from the Reliance Securities. Please go ahead.

Mitul Shah: Sir, my question is a follow up on, as you said that FY20 right now you would not be able to guide, but just broadly on the industry perspective, not from the Escorts perspective, the monsoon deficit is much higher in south and western, and on the other side barring just two to three players, most of the players are having inventory in the range of five to six weeks. So in that situation sir, how do you see next one or two quarters at least from industry point of view for the tractor segment?

Shenu Agarwal: From industry point of view, I think there is going to be a very positive momentum in the industry at least in the next six months going up to June or July which is the kharif kind of sowing season. We do not see any problems until then. The Q4 lower estimates are only because of the high base of last year because as I said last year industry grew phenomenally by about 49%. So on such a high base I think we are not estimating a growth more than 3-5% in Q4, but going forward Q1 and Q2 of next year should be pretty buoyant as far as we are concerned. Now coming to the west, south, or geographical phenomena, you are right that in the last three to four months or may be slightly more, we have seen North and East industry growing much faster than the South and West industry. Even in December we had the same phenomena. And the reason is of course availability of water in both the areas is not good, there are several areas in South and West which are kind of undergoing a drought situation and that is not going to change at least until the fag end of the monsoon. So Escorts is certainly going to be benefited from all these factors because the industry is going to grow much higher in areas where we are much more dominant and therefore we are very confident that we will continue to grow better than the industry as we have for the last three or four quarters now.

Mitul Shah: My second question is on the construction equipment side. We have already started saying industry declining since last two to three months. So on the construction equipments side how do you see in terms of the cyclical reversal and on the margin side outlook for next year?

Bharat Madan: If you look at the numbers for last quarter there was some impact which happened because the NBFC issues and the number really went very short for us, but from the last two weeks of December we saw the demand again coming back and normally we have seen the second half is normally the strongest quarter and March typically is the very strong quarter for Construction

Equipment business. So we expect again the momentum will continue, at least this quarter we expect there will be very strong momentum, though for next year we are expecting because some election coming in and there will be some stagnation which may happen for few months, so there will be some temporary impact of five, six months, but still we expect the industry should give double digit growth next year or two. I think on the margin front, we have given a guidance of 4% to 5% sort of margin rate for construction for this year which we very much expect will be maintained. So we have seen normally the maximum volume really comes in the last quarter which really could be a good quarter. So overall the margin will get improved and that improvement we have seen happening in the last three quarters also. And for next year obviously the continuity to the improvement in margin will remain, as we said we are moving up the value chain and also looking at selling the higher range products, so that journey should continue, so obviously within the long-term actually margin which we have given for construction business for example FY'22 is about 8% to 9% sort of margin and we are still talking about 4% to 5% this year. So obviously there is a scope for improvement which will continue to work on going forward in the next two to three years.

Moderator: Thank you sir. We have a next question from the line of (Pratik Rangnekar from Credit Suisse). Please go ahead.

Jatin: This is Jatin couple of questions from my side. One is you are right now at about 11.5% market share. What is the market share aspiration you have for FY'20 and what would be the main drivers of the same?

Shenu Agarwal: Jatin, we have few weeks to go, but we are very confident that we will be able to achieve about let us say close to 12% market share in this fiscal year. We are already about 1.1% gain as compared to last month in the first nine months which makes us the highest market share growth player in the industry, and if we continue that momentum for the balance few weeks, then we should be touching about 12% market share as last year our market share close to 11% or 11.1%. Now from base of 12 we certainly aspire to repeat the performance of this year, which is about let us say 1% market share gain again, so let us say somewhere between 12.5% to 13% is what we are going to target for FY20.

Jatin: A question for Bharat on FY'20 margin guidance and what are the key levers that one should look at for next year, we have spoken about there being further potential to improve margins. So just wanted to check as to how quickly you are kind of looking to realize that?

Bharat Madan: Directionally we obviously still think there is a scope for improving margin further, if you look at the base mix benchmark within the industry also, so we think there is still scope which is left on the table. So this year obviously we had given a guidance of improving our margin by about 100 basis points. So this quarter has taken slightly beating because some issue which we had on YTD basis, still we are better than that and we expect by the end of next quarter again for this full year we should be actually meeting the guidance. So like Shenu said we have an aspiration

to grow on market share as well as also improving on margin. So I think we are very much on target I think on those directions. We will continue to work on that. So again I think the plans for next year are still being finalized. So we cannot really give any guidance specifically, but obviously the journey is towards improving margin further from where we are today. So that journey will continue and we will see improvement only happening next year or two as long as our market share gains and the volume sustain.

Moderator: Thank you very much sir. We have next question from the line of Nitesh Sharma from PhillipCapital (India) Private Limited. Please go ahead.

Nitesh Sharma: Sir on the Railways business, we have touched upon at various points that we are looking at inorganic opportunity for another leg of growth. So any update, where are we on those plans?

Bharat Madan: There are few opportunities which are being evaluated as of now, but obviously nothing has been finalized so far. So obviously it takes a longer process to really evaluate and go through the entire process. So we are still exploring the options, there are few on the pipeline. So let us see may be in next three, four months if something materializes, definitely we will come back to the market and inform you guys.

Nitesh Sharma: On the construction equipment, can you help us with what percentage of financing would be via NBFCs?

Ajay Mandahr: 80-85% of the equipments are generally financed upward by NBFC.

Nitesh Sharma: So 80%-85% is solely NBFCs or it is a mixture of both banks and NBFCs?

Ajay Mandahr: Basically, if you ask me, our share is the biggest and then you have NBFCs and Shriram, those are the guys who play a bigger role in construction equipment. I would say it will be 80-85% refinanced by NBFC as of now as far as our equipments are concerned.

Nitesh Sharma: Despite such a huge junk being financed by NBFC, we have not seen a major impact on demand per se as compared to something like an MHCV segment which saw bigger impact?

Ajay Mandahr: I would not say that because there is some fund stress in the liquidity situation, but they are getting operated by some small players which are coming in a big way now, so that is taking care of much of made up by Shri or other smaller ones.

Moderator: Thank you. We have next question from the line of Shashank Kanodia from ICICI Direct. Please go ahead.

Shashank Kanodia: Sir, just wanted to ask in terms of September quarter end we had said some fresh working capital cycle resulted in some short term borrowing on our balance sheet. So what is the status as of date?

Bharat Madan: As I mentioned, our total debt as of end of December stands at about Rs.239 crores which is slightly up compared to the September quarter, because we had entered into a high festive season this quarter where the growth was very high; we have grown 34%, so obviously the dealers working capital also is reaching a stretch, so it is leading to some built up happening on account of inventory and little on our books too which has actually impacted this, but we expect I think by end of March we should be falling in line, back to the normal process.

Shashank Kanodia: What kind of short-term borrowings will end by March'19?

Bharat Madan: By March we expect it should be back to in the range of about 100 to 150 growth sort of range for the working capital side.

Shashank Kanodia: Then we should be generating excess of 300, 350-odd crores of cash flows from operations right this year. So how do you intend to spend that?

Bharat Madan: I think if you look at the overall cash flow cycle obviously there is some CAPEX which has happened besides the loan repayment, 40 to 45 crores with the long term loan which is getting repaid and about 150 to 160 crores sort of CAPEX which has happened and in top of that major money which has gone in two factors; one is obviously the high tax flow which we already obviously taken care of and then we have got some accumulation which we are facing happening on account of GST. As you know tractor industry continues to be in the inverted duty structure regime where your input taxes are higher than output tax. There is generally some accumulation which has happened for which the refund process is still on and the government has not really streamlined that process. So that is a result. We also have huge amount stuck in GST accumulation which means we are waiting refund from the government. So by March we expect that refund process to continue to start and surely we should end up by better situation, otherwise if the things get delayed further from the government side, then obviously there is some pressure on the working capital side. As of now we got close to Rs.130 to Rs.140 crores which is due from the government as refund on account of GST. So major borrowing you can say has been attributable to actually one of the reasons is also that.

Shashank Kanodia: What will be the CAPEX guidance for FY'19 and '20?

Bharat Madan: FY'19 we expect the cash flow wise it will be somewhere rs.150 to 160 crores though next year like we said the plans are still being firmed out, but we expect it to be anywhere between Rs.250 to 300 crores total requirement.

Shashank Kanodia: Lastly, on a dividend distribution policy, if you can throw some light?

Bharat Madan: Dividend distribution policy, you can look at our website, we uploaded a revised policy only I think about a week ago, which exactly looks at distribution improving and there is a band which has been defined, within that will be really looking at the growth factor and other initiatives. So

obviously the idea is to improve; as the cash flow improves, so the distribution will improve and within that band which has been defined in the book.

Moderator: Thank you, sir. We have next question from the line of Aryn Pirani. Please go ahead.

Aryn Pirani: Hi sir, my first question is just going back to the FY19 volume growth expectation for the full year. While I appreciate the fact that 4Q is significantly high base to be very honest because this is something which was well known, not just you, but other participants in the market also have had to reduce their full year forecast say after October or November, so is it just because festive sale was not as per what earlier the growth was expected or is it just a marginal correction in the guidance? And my second question is your market share gain this year. How much of it can be attributed to market share gain in individual region and how much it is just a mix because obviously the areas where you are weak have not grown as well, so mathematically you should have seen a market share improvement anyways?

Shenu Agarwal: Let me answer the second question first. So there has been a benefit of the mix in terms of the overall market share, but that is limited to only about 0.2% or 0.25% out of total of 1.1% in the nine months. So the rest of it has come from individual state market share increases. For example, on YTM basis in Haryana we have increased more than 2%, MP is more than 1%, UP is like close to 1%, so is Gujarat, Northeast, Odisha, Maharashtra, Karnataka and Tamil Nadu. So all these states we have increased market share substantially and most of them above 1% and sometimes even above 2%. There are only like three or four markets or states where we have either retained or lost market share otherwise in most of the markets we have gained market share. So that is I think the answer for the second question. The answer to the first question is that, there is no substantial change in the Q4 actually estimate. From the very beginning we thought that the Q4 industry would not grow beyond 5% and right now also we are saying something between 3 to 5 may be, but mostly that is like the seasonal sales which we thought will grow much more than it actually happened. Our growth was pretty substantial even in the season, but I am talking about the industry right now and the industry did not grow that much. I think one of the factors was also that we did not probably consider, our estimate was inventory levels with the competition which we were little bit surprised that they are sitting on such a high inventory getting into the season.

Moderator: Thank you, sir. We have a next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: My question is that you did CAPEX of about Rs.150 to 160 crores for this year and for FY 20 you have guided for Rs.250 to 300 crores right. So what would that CAPEX lead to because I was just trying to understand is it to do some joint venture or like where exactly CAPEX is going for in FY'20?

Bharat Madan: If you look at our earlier guidance for the FY19 CAPEX we have given guidance of Rs.300 crores CAPEX happening in this year, out of which major portion was Rs.100 crores which is going in setting up the capacity for our machining center which was about rs.100-odd crores. Orders placement has happened in this year, but the cash flow which is supposed to happen this year, has got delayed to next year now which is the major investment which will happen, so roughly Rs.80 to 90 crores will get spend really on that account only next year. Then obviously going forward we have some product development plan which are already there. So we already have been indicating capacity expansion which will be happening now. So JV obviously we will separate the investment, so we already have this announced for what we will have investment of close to Rs.300 crores, out of which Rs.120 crores is 40% will get contributed by Escorts which is over and above this CAPEX which will happen, but on the CAPEX side, the product development plans which are in place across all three segments, whether it is Railways or it is construction equipment as well as for the tractor business. Because of spillover which has happened from the current year to next year, so the CAPEX overall guidance will remain in that range.

Bharat Gianani: So machining will help you to improve your margins or how should we get that?

Bharat Madan: Machining will help us in improving capacity. So, I think one of the reasons which we are facing today is the working capital issue because the high inventory buildup in Delhi which we have to do to plan further high seasonality volumes happening in few months, for example, typically we are seeing very high volumes in September or 2.5-months and our capacity was not really in line with those numbers. So we had to carry inventory for large number of months which actually impacted the working capital cycle which is the same situation we are really facing now if we have to plan for the next September season which again we are expecting will be good. So that is something which is actually impacting us. So once your capacity is set, we expect the production level probably will improve in those months, so will need to carry lesser inventory. So overall there will be good impact on the cash flow side. Your borrowing level will actually come down and lead to some positive cash flow happening there.

Bharat Gianani: Any update on the treasury size you would want to give like for some acquisition or JV you had to in I think 2 or 3 quarters back sold some treasury shares, so any update on that for like you alluded to some investment opportunity in Railways, so any thought on that you would like to share at this point of time?

Bharat Madan: First of all, like in this year we announced two joint ventures, so one on the construction equipment side with Tadano Limited which is for the high end crane and second with Kubota for the tractor business where again both the JV will need initially capital of almost Rs.170 to 180 crores which obviously will grow from the sale proceeds which we have accumulated from the treasury sop which we sold about a year ago. Like we said, Railways, we have some deals in the pipeline which are getting evaluated. Obviously if the deal materializes then there will be requirement of cash which obviously will get used from this and for any reason there is a high

requirement is depending on the evaluation or really finalized for that particular transition. So there maybe need for further. So we expect that need probably will be addressed with the kind of accrual which we expect will happen in the cash generation which we expect to happen in the next year. We do not see in the short term there will be need to really further dilute the holding and sell more shares, but obviously it will all depend on what sort of Railways really come on the table. So as of now it is very difficult to quantify that amount.

Moderator: Thank you. We have next question from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Sir, my first question goes on the new products. For the last quarter the new products that is the Atom tractors and the rice specialist tractor, can you share how has been the sales and how is the outlook going ahead for these products?

Shenu Agarwal: For the Atom, I am just talking about last quarter to this quarter, last year in Q3 we did not have any sales and this time we are touching close to 200, which is about 60 to 70 a month. Of course, there is higher potential but as I explained in the last call also that there are couple of reasons that we are going slow with this because this is the completely new platform and a completely new kind of category of tractor that we are producing and therefore we want to make sure that the tractor is treated well in the markets before we scale it up. In nine months of the year, last year, of course, we did not have any sales and this year we have done just over about 500 tractors on the Atom. Same situation is with paddy tractors, Paddy Special that we have now spread it into about four or five states, we started with the couple of states, but there is a great acceptance of it as well as the Atom, and therefore we are now slowly spreading into other markets, for example, Atom, we have also now given in J&K for Orchard, etc., some of the tractors we have given to some Orchard markets in M.P. So, we are moving out of Maharashtra for Atom and out of Odisha and A.P. for the Paddy Special.

Raghu Nandan: What was the volumes for Paddy Special?

Shenu Agarwal: I do not know those right now, but I think maybe about couple of hundred for the nine months, but I will have to confirm that to you.

Raghu Nandan: Sir, initially we had launched it in the 47 HP segment. Any plans going ahead to expand the product range and bring in more products in that segment because as I understand it is 1 lakh unit market per year?

Shenu Agarwal: This is a four-wheel drive tractor; the Paddy Special is not a traditional two-wheel drive tractor. So the market that you just mentioned is like the total market of two wheel drive and four wheel drive. We have also entered the market from the top end side with this tractor. Of course, we have other two wheel drive tractor, the traditional tractors that we also sell in paddy markets like. So it is not just that only with this tractor we are kind of addressing the paddy market but of course this tractor is much better suited for paddy and that is why it is called Paddy Special,

other tractors are like more general purpose factors. So, the ideal tractor for paddy is about 45, 46, 46 hp. So, right now we will just go with this one and will not spread ourselves too thin but try to scale this up into as volumes.

Raghu Nandan: Sir, in the coming months, what are the plans on the product launch side?

Shenu Agarwal: We have launched few more kinds of products in this quarter, but they are not kind of category creators, but they are kind of products which have fill some minor white spaces in our portfolio or have added some extensions to the current products. So that is one. But there are a couple of major launches that are slated for next fiscal year, that is one on the Powertrac side and one on the Farmtrac side. I cannot divulge any details right now because of confidentiality, but there are going to be a couple of mega launches next year, one from Powertrac and one from Farmtrac.

Raghu Nandan: Do you expect the share of Powertrac to keep increasing in the portfolio?

Shenu Agarwal: The last few months or the quarter Farmtrac has also started growing quite a bit especially in this last quarter Farmtrac also had a reasonable growth as far as market share is concerned and of course volume. So Powertrac will for some more time grow faster than Farmtrac and the reason for that is because Powertrac caters to almost every kind of district or market in the country while Farmtrac is quite limited in its geographical coverage as of now. So once we start expanding Farmtrac distribution network into areas where there is no network for Farmtrac right now, then Farmtrac will also catch up with the rates of growth that Powertrac is enjoying right now.

Raghu Nandan: On the agri side, we have been taking some cost reduction efforts on the raw material cost. Have all the benefits come through or how much more is left to come on the cost reduction?

Shenu Agarwal: The cost reduction is a continuous journey and you would have seen that like more five to six years constantly we have been achieving significant cost reductions in our material cost through various programs. So, going forward also, we will continue to do this. I think normally on an average if you see we do gun for about couple of percentage on the raw material cost, not on the sales value. So I think that trend we will continue to kind of achieve even going forward.

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

Chirag Shah: I have a question on financing. Can you indicate what kind of rate increase that have happened of late because of this NBFC issue both in construction equipment and tractor market?

Shenu Agarwal: Ajay can comment on the construction but on agri we have not seen any shift in the rates because of this issue. As I have clarified in the previous call also, we have had no signals from the NBFCs around tractor financing. I think one reason could be that it is priority sector lending for banking and also the other reason is that the portfolios are pretty much in good shape as far as tractor

financing is concerned. So, there has been no or insignificant shift in the rates because of this issue.

Chirag Shah: Even loan to value ratios would have been largely stable?

Shenu Agarwal: Loan to value ratio have been improving a little bit. So earlier like on the KYC based financing most of the banks would hesitate going beyond the 65 to 70% but I think slowly we are reaching close to between 70 and 75% now on KYC based financing.

Ajay Mandahr: On the construction equipment, no change in interest and LTVs are at same level; 75-85% depending upon the case.

Chirag Shah: One last question is on the replacement tractor or the used tractor. We are reading that there are some issues cropping up in the used tractor market. Are there any signs you are seeing or these are one-off cases that the farmers are not able to dispose their older tractors and the change is now getting affected?

Shenu Agarwal: We have not seen anything like this. I think this could be one-off news from somewhere. In fact, our used tractors stock at our dealerships in terms of number of days is at its lowest level ever.

Chirag Shah: Just a clarification; you indicated 3.5 is the inventory with dealers as on December. Is it a normalized inventory or it is on the lower or the upper end of the side?

Shenu Agarwal: It is about normalized.

Moderator: Thank you. The next question is from the line of Prayesh Jain from YES Securities. Please go ahead.

Prayesh Jain: What would be the share of spares and implements in your revenues for the nine months?

Bharat Madan: 8-9%.

Prayesh Jain: Could you throw some outlook on the exports for the tractors business?

Bharat Madan: On exports, like we have given a guidance that we were targeting to do close to 3,000 on tractors this year, looks like we should be in line, so should be able to really reach there and for long term we have given aspiration of touching 8,000-10,000 tractors for FY'21-22. So, we are looking at good growth happening in the next three years.

Prayesh Jain: Which particular geography that you are looking for growing at a much faster rate?

Bharat Madan: This year for example Europe has really helped us in growing volume, which we are open. So on this new launches on the compared tractor segment is helping us in getting good volumes on

exports and as a geography like our focus has been on Southeast Asia, Africa and European countries, Mexico, Brazil and North America. So these are the few continents, countries which we are focusing on.

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

Aabhash Poddar: Just wanted to understand, when you have a slowdown in the growth, you see higher discounting. So just your thoughts on discounting, what has gone through in Q3, your expectations on Q4 as well YoY comparisons that would be helpful?

Shenu Agarwal: It is hard to give a generic answer to this because different players have different strategies about discounting. I would not want to name any specific players but there are one or two who have resorted to some extra discounting in the last few months but I think more or less I would say the competitive intensity is pretty much the same as we had seen in the last three or four quarters, there is no big shift.

Aabhash Poddar: So for you as well for Q3 and Q4, the discounts YoY would be comparable and that would not have gone up too much, right, would that understanding be correct?

Shenu Agarwal: That is right, the Q4 discounts may go up slightly with respect to Q3 but then in last year Q4 also the discounts were a little bit higher because of the year-end but there has been no significant shift in the discount.

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

Jinesh Gandhi: My question pertains to tractors. You have talked about increasing contribution from subsidy sales in third quarter. Would you be able to quantify that for industry or Escorts?

Shenu Agarwal: I do not think we would like to give subsidy number separately right now, but you know that Escorts has not been participating in much of government related sales or subsidy related sales so far and this is only the first time that we have started taking it. So, one of the states had a large subsidy program and Escorts participated this time for the first time and we bagged the lion share of that state subsidy sales. Of course, subsidy-led sales comes at a slightly lower contribution of margin than our regular retail sales but it does add to our market penetration and our market share growth and volumes.

Jinesh Gandhi: Any reason for change in strategy on subsidy related participation?

Shenu Agarwal: Part of our Vision 2022, 15% market share plan. One of the levers is also to participate in government-aided states sales because if we have to do 15% we cannot leave a major chunk of the market out and as somebody else was also saying that subsidy related sales and absolute

volume has achieved a meaningful kind of proportion out of the total industry sales. So on case-to-case basis, we are making our decision, we are looking at profitability that state offers in such schemes and the kind of volume that we can derive, for example, we did participate in Assam subsidy-based scheme and as I said we took a lion share of that volume.

Jinesh Gandhi: But for industry it would be a sizeable chunk or not really?

Shenu Agarwal: We think this fiscal year would be close to about 10% of the industry would have gone to government or subsidy-led sales, that is about 80,000 to 90,000, it is very difficult to kind of pinpoint a number here because there are variety of subsidy sales, some are real subsidies and some are like very-very normal kind of subsidy programs and some are directly supported and some are supported indirectly. But more or less about 80,000 let us say for the year out of 800 plus 1,000 industry for the year.

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

Raghu Nandan: I was trying to understand on the cost reduction effort side. Any levers left on the employee cost reduction, any plans to restart the VRS programs?

Bharat Madan: As we had indicated last time also that VRS program obviously has been put on hold. We do not want to go beyond a point because financially it does not start making sense but if you look at in this quarter number also in terms of manpower cost, we are very much there, I think it is close to 7, 7.2% sort of manpower we report in this quarter. So as and when we are able to maintain the top line growth which is what I think the focus has been, we think the manpower cost will fall in line. So the efforts have been internally to obviously affect the cost and the level which we were having more or less at the last year level and we hope the same efforts will continue next year two. Industry average has been in the range of 6-7% sort of manpower cost and we are almost reaching there now. So I think beyond appoint it will become difficult to really squeeze it further. What we expect maybe another year or so, gali will give us another shot and after that we think it should get stabilized at this level.

Raghu Nandan: On the investment timeline on Kubota and Tadano, what would be the investment in FY'19, FY'20, would it be something like Rs.50 crores this year and the next year Rs.100 crores out of the total Rs.150 crores to be invested?

Bharat Madan: Tadano has already happened. So, it is about 30 Crore injection which has happened there initially and obviously in the next 8-10-years plan has been about Rs.150-200 crores investment for our JV, out of which our share will be about 49%. For Kubota we expect the first funding will happen probably sometime in this quarter, say by end of February or middle of March, which will be initially Rs.60-odd crores and then the second round will happen in the next fiscal in FY'20, so total 120 crores injection will happen there. So overall in these two JVs it will be

close to 150, 160 crores investment between current and the next year and obviously going forward depending on the requirement or the capacity related requirement pans out in those JV.

Raghu Nandan: Sir, like what is the nine months CAPEX?

Bharat Madan: Nine months CAPEX so far cash flow has been close to Rs.100-115 crores.

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

Sameer Deshpande: If I look at the tractor figure for the nine months for this year, our sales have been about 25% growth over the last year. I think it is double the industry average growth?

Bharat Madan: That is right, industry growth is about 13%, so growth is 25% so far.

Sameer Deshpande: Definitely it is commendable and now our markets particularly north, east and central, not affected by the rains in adverse way to a large extent. I heard that the Q4 overall we are mentioning that Q4 being a higher base, the growth may not be as high as 20, 25%, etc., but if the industry is expected to grow at about 3-5%, if we continue with the same standard for the last nine months, do we expect a double digit growth at least in the Q4?

Bharat Madan: If you are talking about Escorts per se, I think what we talked about for the industry number obviously for the next quarter. So obviously like Shanu mentioned earlier, so our aspiration is to grow further on market share. So obviously that has to happen. So we have to grow better than the industry. If the industry grows at 3-5% level, obviously, we are looking at doing a double digit growth in next quarter too. So I think the overall sort of growth which you see is happening in the last nine months so that may not be possible in Q4 though our outlook still remains bullish for the next six months on this tractor industry volumes.

Sameer Deshpande: So, at least a double digit growth is expected in the Q4 also, that is good. This Railways we have order book of Rs.450 crores which is also a record if I am correct. So what is the period of timeline for execution of that Railways order?

Bharat Madan: So timeline we mentioned it is about 13-15-months. So this Rs.450 crores is the order book as of 31st December though subsequently we got further orders. So if we see the current position they are sitting at order book of more than Rs.500 crores actually as of now. So our order book is pretty healthy. So we expect the execution is now I think the key, it will happen over next 13-15 months.

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

- Shashank Kanodia:** Just wanted to mentioned a product profile in the Railways equipment space. So with the new age trains with high speed, so does our content per vehicle increase or how does it go about?
- Dipankar Ghosh:** Yes, with the new age train like the train-18, the first train-18 we do not have a product out there, but in the subsequent train-18 we do expect to have our products with a collaboration with our South Korean partner. Obviously, this high-end trains will have high speed brake systems which we have already geared up for supplying to Railways and also to the metros.
- Bharat Madan:** As we grow on our products range, obviously the idea is to have a better share of pie of the overall component in this space both in the wagons and coaches and locomotives front. That is what we have been working on and Dipankar has been trying to do.
- Shashank Kanodia:** What is the growth rate that we can expect for the next three to five years given on a big expansion CAPEX mode?
- Dipankar Ghosh:** We still maintain that we should be growing at the rate of at least 20-25%.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Madan for closing comments. Sir, over to you.
- Bharat Madan:** Thank you, ladies and gentlemen for being present on this call. For any feedback or queries, please feel free to write into us at investorrelations@escorts.co.in You can also visit our website and social media pages for the latest company news, development, etc., We will meet again in the next quarter. Thank you very much and have a very good evening.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, [that concludes today's conference. Thank you for joining with us and you may now disconnect your lines.