"Escorts Limited Q1FY17 Results Conference Call"

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ANALYST: **MR. RAGHUNANDHAN NL – QUANT BROKING PRIVATE LIMITED**

MANAGEMENT: **MR. RAVI MENON - CEO - ESCORTS AGRI MACHINERY**
MR. S. SRIDHAR - CEO - ESCORTS CONSTRUCTION EQUIPMENT
MR. DIPANKAR GHOSH – CEO - RAILWAY PRODUCT DIVISION AND ESCORTS AUTO PRODUCTS
MR. BHARAT MADAN - GROUP FINANCIAL CONTROLLER
MS. JYOTI KHATUKA -HEAD TREASURY

Moderator: Good day and welcome to Escorts Limited Q1FY2017 results conference call hosted by Quant Broking Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

Before we start I would like to add that some of the statements in today's discussion will be forward-looking in nature. I would now like to hand the conference over to Mr. Raghunandhan of Quant Broking. Thank you and over to you Sir!

Raghunandhan NL: Thank you. Good evening everyone on behalf of Quant Capital I welcome you all for Escorts Limited Q1 FY2017 results conference call. I also take this opportunity to welcome the management teams of Escorts Limited. Today we have with us Mr. Ravi Menon – CEO, Escorts Agri Machinery, Mr. S. Sridhar – CEO, Escorts Construction Equipment, Mr. Dipankar Gosh – CEO, Railway Equipment Division and Escorts Auto Products, Mr. Bharat Madan – Group Financial Controller, Ms. Jothi Khatuka – Head Treasury along with the investor relations team at the company. We would start the call with brief opening remarks from the management followed by an interactive Q&A session. At this point I would request Mr. Madan to make his opening remarks. Over to you Sir!

Bharat Madan: Thank you Raghu. Ladies and gentlemen a very good evening to you all. Thank you all for joining us on the earning call for the first quarter ended June 30, 2016. A snapshot of company's quarterly performance is as follows:

Turnover at Rs.1,051.4 Crores against Rs.959 Crores last year up by 9.6% led by volume growth both tractor and construction equipment volumes. Tractor volumes were up by 10% to 16,363 Tractors as against 14,875 tractors last year. Construction equipment volumes were up by 45.5% to 739 machines against 508 machines last year and the quarter ended June 2015.

EBITDA at Rs.87.8 Crores against Rs.57.6 Crores last year was up by 52.4%. EBITDA margin now stands at 8.4% versus 6.01% last year in quarter ended June 2015. The major reason for increase in EBITDA margin is the 244 BPS reduction in material cost from 70.34% to 67.9%. Finance costs went down by 5.7 Crores to Rs.11.2 Crores as compared to quarter ended March 2016. The total debt outstanding as of June 2016 is Rs.184 Crores is down from Rs.355 Crores in March 2016 because of reduced working capital during the season.

PBT before exceptional items stands at Rs.72.5 Crores up by 94% against Rs.37.4 Crores last year. There is an exceptional item of approximately Rs.6.3 Crores in the quarter on account of VRS of 50 plus employees. The company reported a PAT of Rs.47 Crores versus Rs.35.2 Crores last year up by 33.5%. PAT margins now stands at 6.3% versus 3.9% last year and quarter ended June 2015. EPS have reported at Rs.3.94 against Rs.2.95 last year same quarter.

Moving on to segmental business performance starting with the agri machinery business domestic tractor industry volumes grew by 14.6% to 1.63 lacs tractors as compared to 1.42 lacs tractors last year same quarter mostly driven by southern market. Our total volume went up by 10% at 16,363 tractors whereas last year 14,875 in quarter ended June. Industry in our strong market north and central grew by 1% whereas industry grew by 37% in the opportunity markets of south and west.

Our domestic market share stands at 9.9% in quarter ended June 2016 against 10.2% last year same quarter, although we have gained market share across nine states out of twelve states, our overall domestic market share is down by 30 basis points due to inventory correction of about 1,500 tractors in this quarter and growth disparity is strong at opportunity markets.

EBIT margin in agri machinery stands at 11.3% up by 205 basis points against 9.2% last year primarily due to material cost reduction initiatives and higher volumes. The market response for the newly introduced models under power track and form track brands has been positive and encouraging for the subsequent quarters.

Our market share increased from 9.9% to 11.1% in 41 to 50 HP category in quarter ended June. With our global transformation within 2020 we launched 12 new tractors in 12HP to 110HP range under flagship brands. Apart from being aesthetically superior, fuel efficient and powerful, new range of tractors comes with CRDi engines that are in compliance with international emission norms to address global markets by designing, developing and making them in India.

With normal monsoon predicted this year tractor industry growth for the full year 2016-2017 is expected to grow by 12% to 15% and we also likely to grow in line with the industry.

Coming to the construction equipment business, the construction equipment industry has recorded tremendous growth of 58% in Q1 FY'17 with respect to last year. All segments like us earth moving material handling, road construction, completing enquiry has seen a positive movement, backhoe loaders, Crawler Excavators and cranes and compactors leading the race. Our served industry especially backhoe, pick and carry cranes and compactors went up by 61% in Q1. Backhoe loader have seen a biggest gainer in Q1 with a growth of 67% followed by compactors which grew by 42% and PNC Pick and Carry cranes which grew at 37% in Q1.

Our total volume manufactured and traded products went up by 45.5% to 739 machines in quarter ended June 2016 against 508 machines in last year same quarter. In Pick-N-Carry segment our volumes have grown by 46% mainly led by low and high truck cranes. A positive swing of 545 bps on Y-o-Y basis has seen in EBIT margin in Q1.

We affected price increase of approximately 1% across all product categories, we saw a significant 66% growth in exports, going forward we expect that our served construction equipment will continue to grow at same pace as seen in last quarter and will be launching new innovative products products/variants to cater growth of growing market.

Coming to the railway division, revenues are up by 11.9% to Rs.54.4 Crores in quarter ended June 2016 against to be 48.7 Crores last year same quarter. The EBIT margins are also up by 462 basis points at 17.3% against 12.7% last year. This is primarily due to favourable product mix and reduction in fixed cost. Order book for division stood at Rs.100 Crores, which will get executed, in next seven to eight months.

BMBS first fitment order is executed and for axle mounted disk brake (AMDB) first trial order of 2 sets has completed 18 month filed trial in Q1FY17. In addition to this we have further executed 65 sets of axle mounted disk brake (AMDB) order in Q1FY17.

Lastly the auto division achieved a revenue of Rs. 20.1 Crores in quarter ended June 2016 against Rs.28.46 Crores last year same quarter. EBIT losses have gone down on the quarterly basis, a positive swing of 149 basis points on a Y-o-Y is seen an EBIT margin in Q1. Our focus is to increase sales in higher margin segment to achieve breakeven. We are also looking for its strategic partner for this business. Now I request the moderator to open the floor for Q&A session.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Mr. Raghunandhan. Please go ahead.

Raghunandhan NL: Congratulations Sir, on a great set of numbers. Can you please highlight the reason for improvement in the gross margin, would it be contributed by cost reduction initiatives and how much more can these initiatives contribute going ahead?

Bharat Madan: So the two key reasons for the margin improvement is one obviously the cost side the material side, that this quarter we also did not see inflation setting in, which was expected earlier so that has also helped and obviously the Shikhar project, the cost reduction project which the company was doing so the benefit of that, now project is just got over in June. So the full effect of that project is likely start coming in from this July onwards and June also saw very good impact, which is coming in material cost, actually got reduced by almost 200 plus basis points. And the other significant factor was obviously the volume so we almost get 16,000 plus volumes so if you remember with our overall cost initiatives was also based on a base volume of 65000 annualized tractors, so this quarter we actually get that run rate so which is a positive sign. So I think all these factors are actually helped us in improving the margin in tractors this time.

Raghunandhan NL: Sir in the investor presentation the promoter statement alludes to strengthen marketing this question also gains relevance as Mr. Ravi Menon had earlier been the Director of marketing at John Deere Sir can you highlight your initiatives on the marketing side for tractor?

Ravi Menon: I think there are two or three initiatives, which are taking primarily. The first one is the focus on geography. So as you know that we are strong primarily in the northern part of India and so the focus will be in two steps, one is to look at couple of two of the western states and one eastern state which will give us, which is namely Gujarat, Maharashtra and West Bengal where we think that we have a good opportunity given the product portfolio that we have, this is one and the other focus states would be AP and Karnataka in the south where we already enjoy between 3% and 5% market share at this point. I mean improvement over the last two years. So that could be the geography focus. As of now we also have a lot of initiatives, which we are taking on the network because we have seen that the large number of about 280-odd dealers are giving us a significant percentage of our share. We want that number to go up to take care of the growth that we will have in next year and the coming years thereafter. So there are network initiatives, which are being taken in those areas. Three, we have products now which are very strong in the high margin segments namely the 50 plus category and we believe that that will be a significant contributor going forward. These major three initiatives that we would be taking namely geographical focus, network and product category focus.

Raghunandhan NL: Thank you Sir. One of your product launch of ALT 5000 is eagerly awaited can you give us the timeline Sir?

Ravi Menon: I think it could be premature to say that at this stage but I am sure we will be able to give you some news very shortly.

Raghunandhan NL: Lastly one more query. Tax rate is higher at 27%. What is the expectation for full year also what is the R&D benefits or other tax benefits available to us? I was under the impression that we could get a tax exemption of up to 100 Crores per year.

Bharat Madan: There is some slight reduction in tax. There is some the spend in R&D are not being allowed by government by the tax department, now especially the spends which we do on the overseas consulting for further product development so to that extent the reduction actually has gone down. So our expectation is for this year may be 60 to 70 Crores to this sort of benefit which will get on R&D expenses account, so that is why we have seen the tax rate has actually moved up, but for full year basis our expectation is that will continue to be in the range of 25% to 30%.

Raghunandhan NL: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Chintan Modi from Motilal Oswal. Please go ahead.

Chintan Modi: Thank you for the opportunity Sir. Sir on the tractor business our volume growth for the quarter was 10% against which our value growth was just 6%, so I understand there would be some change in the mix if you can just highlight what was the mix and how it has changed on year-on-year basis?

Ravi Menon: I will answer it in two parts: firstly, you talked about the growth, the growth was is because of two reasons. One is that if you look at the kind of growth rates that have been witnessed in the southern markets they have been in the range of very high double digits like somewhere states like Andhra and others have had 70%-80% growth whereas the northern states where we are stronger has had slightly lower growth or in some cases negative, so that is the reason why we have not probably the kind of growth that we would probably have like to have over all that is one. Number two, I think that in the last quarter we have seen, there are two brands which we run with, Farmtrac and Powertrac and while Farmtrac is a more premium product, which is sold largely in the northern part of India mainly Punjab and Haryana the Powertrac brand sell as a mass product across the country in the bigger markets like UP and MP. So when these states were growing obviously Powertrac did pick up and that is the reason why you see it slight reversal in the kind of mix that we typically would otherwise have.

Chintan Modi: Can you share what was the mix for the quarter between FT and Powertrac?

Bharat Madan: FT was 45% this time and Powertrac was 55% against last year corresponding number of 50-50, so it a swing which has reversed this quarter.

Chintan Modi: Do you think that this mix what was in the first quarter will continue for the year ahead or it will again come back in favour of FT will pick up basically?

Ravi Menon: No I think if you look at the kind of growth that the northern markets are witnessing at this point from a negative of say 15% or 16% it has now come down to 0% or even positive at 2% in states like Haryana and others. Uttar Pradesh on the other hand has also grown so with the FT markets coming up we expect an improvement in Rajasthan as well which is still negative but we hope that with some rains that that would also change. So when these FT markets pick up I think the ratios would go back to where they originally were.

Chintan Modi: You mentioned that there were 1600 tractors which were in the inventory correction so is it a right understanding that if I add back those 1600 tractors our volume growth could have been higher?

Bharat Madan: Yes, so if you look at our retail numbers the growth is 19% so if you account for the stock, the wholesale numbers have grown only 11%, with the 1600-odd tractors which were done in this quarter.

Chintan Modi: Secondly coming to the construction equipment side we did good amount of growth in volume terms so 739 units so can you share what would be the breakeven in construction on a quarterly basis?

Bharat Madan: This quarter the earlier break down if you talked about was 250 machines but that was obviously with the given mix. Now in this quarter the mix has actually gone negative so like you said, we sold more of the Pick N Carry cranes which is the hydra machines were contribution is very low, if the same mix continues our breakeven 325 machines, now this is not really at 250 today but if the mix improves and obviously the breakeven levels will come down.

Chintan Modi: Going ahead what I was trying to understand is that our EBITDA losses were not significantly reduced in spite of this number getting closer to the breakeven level so am I missing something in that?

S. Sridhar: Not so I think EBITDA margins are say something like negative 10 Crores or something like as almost as become half compared to the quarter-to-quarter basis and this quarter will be the first quarter where we will be EBITDA breakeven will happen. We will settle into a positive territory this quarter and this quarter is not the best quarter. The best quarter starts from Q3 and Q4. So I think this negative story will effectively end with Q1.

Bharat Madan: Actually if you look at full year basis we are looking at construction equipment also reaching a breakeven on a full year basis, H2 is likely to do better.

Chintan Modi: That is, it from side. Thank you.

Moderator: Thank you. We take the next question from the line of Dhawal Doshi from Phillip Capital. Please go ahead.

Dhawal Doshi: Congratulations on the good set of numbers. Sir first of all with regards to construction equipment so what gives us the confidence that from Q1 to Q2 we going to be breakeven so what is really going to change on a sequential basis?

S. Sridhar: See first and foremost this is not a Q1 to Q2 phenomenon. This is about a last year same quarter to this quarter itself is a substantial jump. That means the loss whatever we are talking about say, like 10 or 11 Crores has already had come to 5 or 6 Crores. It has already become half, that half is becoming much more much better, positive is what we are seeing so there is a continuous phenomenon. This is not a one odd phenomenon. Second even assuming the figures to grow at the same rate same thing like 740 units say like 750 units what we are planning for this quarter then there is a mix change, see the safe cranes which used to be the biggest of contributing unit which was much less in the Q1 and that we expect to improve much better in Q2 substantial in Q3, so that sustaining a very high volume plus increase in the mix these two will significantly contribute in terms of making a negative EBITDA into positive EBITDA. The spinoff will be seeing in Q3 and Q4 because that is the best quarter. If you do something like a 750 then expectation should be 1000 plus will be the Q3 and Q4 will be much better than Q3. This is the way it progresses.

Dhawal Doshi: Okay. Sir I am sorry which crane you mentioned will improve I missed that name?

S. Sridhar: It called safe cranes.

Dhawal Doshi: Okay and apart from safe cranes you said also further improving mix so by that you mean to say backhoe loaders improving more?

S. Sridhar: See there are two elements to it, one is when we are talking about with reference to Q1 to Q2, Q1 the backhoe loader itself is not a very substantial story. I am talking about with reference to Q1 to Q2 the mix of safe crane itself will get you the better mix and to a better EBITDA margin. Now when it comes to backhoe loaders story which is the breakthrough story in the sense from a level of 1% or 2% market share we now to do which is something which is substantially different to become a major player, so those kind of actions are already initiated. This is what I have spoken about a last time. I said give me two quarters effectively you would hear the story from Q3. That product is getting launched by September 1, so September will be the first significant month entry into, what you called backhoe, it means from the level of talking 15 or 20 which is not talking a language of 50 plus stabilizing at 100 plus is the kind of a journey will happen. The moment it touches something like 200 you will see this we will also becoming backhoe loader segment 2% to 3% story into an 8% or 10% story making us a number two player in the country, so that is the kind of a journey. But I indicated last time that work is under progress I think may be by October or November when we have a conference I think I will confirm you the performance.

Dhawal Doshi: So this is a new product in the segment is what you talking about?

S. Sridhar: Correct.

Dhawal Doshi: Sir just coming on to the tractor segment you mentioned that the retail growth was 19% versus wholesales of 11% given traditionally the July, August, September are weaker months do we see a similar kind of retail growth continuing and if that growth is there then the retail would we also see that in wholesales?

Ravi Menon: Typically, these are two months which are weak and August especially is the very weak month in the tractor segment so retail and wholesales will be significantly lower, so for example in July the industry is expected to be in the range of around 37,000 or 38,000 tractors only as against a very big number which we saw in June. So these two numbers will be lower in this and so this quarter will be much lower than the quarter but what we are expecting is that by reduction of stock we were actually building up for the season moth in October and so that was the objective of the stock reduction.

Dhawal Doshi: No Sir what I meant was on a Y-o-Y basis so I agree on a sequential basis the numbers are going to be quite weak but on a Y-o-Y basis if I were to compare it with last July-August so we are almost at the end of July so you would have a sense in terms of the Y-o-Y is the growth similar to what was there in the last quarter or the growth on a Y-o-Y basis are weak?

Ravi Menon: It will be lower than the first quarter so it will be high single digit rather than 15%, which we saw, in the first quarter.

Dhawal Doshi: It will be high single digits for these months.

Ravi Menon: But of course with the caveat that if September goes well that could become double digits also.

Dhawal Doshi: So can you just elaborate some of your plans in the export market so what are the new geographies that we are looking or what are the changes that we doing, Okay 13 new products are being introduced but can you just elaborate a bit on the strategy for the export market because you were talking in last call you mentioned big numbers as far as overall exports were concerned but in the first quarter we did not have too much of a delta in terms of the export volumes?

Ravi Menon: So what we have done is we have launched the products we had International Day here a few weeks back where we did two things. One is we launched those products and we expect the commercial availability of those products sometime around August, some of the main products which you require namely the 75HP and 90HP etc., so these are products which will then go into the market from August onwards so we will see a significant pull from that month on. The other thing is that on the international day we signed up with almost a good number of dealerships in Africa and Asia where we see the good potential for some of the new products which are coming out, so that was the second one. Third is I think that we have also strengthened that the team that we have on the ground where we have placed people in certain of the geographies which are important to us and so with all these three actions I think we should do significantly better from the month of August onwards.

Dhawal Doshi: Okay so on a full year basis you would looking at a substantially higher growth compared to FY2016 or how do you see it off, when can we reach FY2015 levels as far as the exports are concerned?

Ravi Menon: See last year we sold around 700-odd units only but that was not a very good performance but we would expect to do significantly higher than that and again one of the key issues here is that we also have some institutional orders in Africa which we expect to get, I think the information should come in somewhere around September so that should add to the kitty in a big way.

Dhawal Doshi: So as I said Sir, when are we looking at getting to the FY2015 run rate as far as export volumes are concerned which is closer to 2200 plus?

Ravi Menon: 2200 we will be able to give you a commitment I think in the next call because it is also basis what we get from institutional orders in Africa. But definitely 1500 to 1600 is clearly visible at this point one or two orders from the institutions should swing it into the numbers, which you have indicated.

Dhawal Doshi: Sir lastly on the railway division, I am sorry I missed in the initial remarks which Mr. Madan was mentioning you mentioned we execute 65 sets of AMBS this quarter?

Moderator: Excuse me Mr. Dhawal Doshi requesting you to please return to the question queue for further questions.

Dhawal Doshi: I will join back.

Moderator: Thank you. We will take the next question from the line of Amit Goela from Rare Enterprise. Please go ahead.

Amit Goela: Mr. Madan, thank you for the opportunity and congratulations on a good set of numbers. I have one question regarding your VRS. Is it still open or now you closed it and how many people would have taken VRS?

Bharat Madan: No scheme is still open so this was targeted at very specific segment of the people in specific category so last quarter was about 51 employees have opted for the VRS now the scheme is still continuing to Q2 so balance the overall bucket we have planned for this scheme was about 20-odd Crores so 6.5 Crores have roughly have got executed in the last quarter and we expect the balance will happen in Q2.

Amit Goela: Okay so how many people will go Sir totally then?

Bharat Madan: Roughly 100 – 120 is the sort of number, which we had in mind.

Amit Goela: Thank you all the best.

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

Mitul Shah: Good evening and congratulations Sir for a very strong performance. Sir I have two questions, one is on the railway segment, railway segments operating margins are highly volatile what would be stable margins going forward in FY2017 second half or FY2018?

Dipankar Ghosh: Though we had a very nice quarter this particular quarter I mean we can expect at least something in the range of 12% to 15% would be a fair estimate for our EBIT margin.

Mitul Shah: So this 17% is kind of challenging to achieve again?

Dipankar Ghosh: It can be achieved depending upon the product mix since the tender base business depending upon the tenders, which open up like we had very good products coming up from the Mumbai Rail Vikas Corporation, MRVC brakes we expects similar product mix even in Q3 and Q4 so that way we may be able to replicate that with same EBITDA level but as of now we see a steady at least 15% EBITDA levels.

Mitul Shah: Okay. Sir second question on this cost saving initiative as Mr. Madan said that the program started by June so I would like to know Sir what was the absolute number cost saving amount for the quarter and going forward on an average what one can take as a quarterly savings in absolute term?

Dipankar Ghosh: Even we started this project the idea was the base factor volume we were taking was about 65,000 numbers which was based on that year's volume and the idea was to cut down the material cost from a level of 70% to 73% from a level of 67-odd% so on a 65,000 volume basis roughly this constitute to about 200 Crores of material cost savings and I am happy to announce we already crossed the target so when we completed this project we were at 202 Crores of implementation of ideas and in the last two years already 187 Crores of accruals has happened on profit and loss account so you can expect this run rate will continue going forward on a full 200 crores basis this will get to the nun 65,000 average volume, that the volumes obviously fluctuate the impact will be slightly lower or higher depending upon the volumes move.

Mitul Shah: Sir what was this number for 2016?

Bharat Madan: Accrual was 157 Crores in FY2016.

Mitul Shah: Thank you Sir.

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

Prashant Biyani: Thanks for the opportunity. How much time will it take for us to establish decent present in the southern markets because we have been trying to do so for over the past two years in spite of that we have been missing significant growth that we are witnessing in the southern market or even at the western markets?

Ravi Menon: Thank you for the question. I think the challenge is that we have some good dealers already in the southern markets and wherever we are present we even enjoy sometimes at 15% market share in the geographies where we are. However, the question is that how many of them do we have? And the answer is that we do not have too many of them. So the challenge really is to move from something like 5.5% to 6% for example that we enjoy in AP is something like 10% and so what will that take that will take addition of something like say 12 to 13 dealers more of that caliber, the good news is that we have already identified the locations where we can get these volumes and we have already got I mean we are interviewing channel partners who could become possible channel partners with us but have we closed all of them? The answer is No. So probably it will take us the end of this year to close that part of the game and then it might take us another may be six months more to bring those dealers on stream and get them to reach the volumes which the other dealers who have already achieved.

Prashant Biyani: Sir how much dealers do we currently have in AP?

Ravi Menon: We have I think 17 dealers.

Prashant Biyani: And we are eyeing around 12 or 15?

Ravi Menon: Correct. Because what we are is we are strong in the AP side, which is the Andhra Pradesh side, we are little weak on the Telangana part.

Prashant Biyani: So another six months for AP and then say another six months?

Ravi Menon: When I am talking to, you are talking of AP and Telangana combined.

Prashant Biyani: Yes, so say 15 or 18 months from now we should have decent present in only southern market?

Ravi Menon: Yes.

Prashant Biyani: Okay and in Q1 you had given an indication that 2300 units for export might be achievable so that guidance still hold to I believe?

Ravi Menon: No, like I said earlier we do have a visibility of 1500 to 1600 units as of now and then in the next call probably we will be able to give an indication of what happen to the institutional orders that we were going after. So that is a big chunk so we are not able to make a commitment as of now but may be in a month's time we will be able to do so.

Prashant Biyani: Would these institutional orders be recurring or these would be one time as such because then again say in FY'18 we might have some kick up in export volumes again?

Ravi Menon: The institutional orders are never recurring so they are always largely at one chunk which you supply over a period of time so especially if you look at some of the older orders that we have had you would get probably an order for 400 or 500 units and that would be spread over six to seven months that is how typically it comes in.

Prashant Biyani: Okay. That is, it from my side.

Moderator: Thank you. We take the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Thank you Sir. Sir on your construction equipment business you have seen a very strong growth so what makes you believe that this is going to sustain in the coming quarters as well?

S. Sridhar: No I think this is nothing very special. The last four years we have faced a strong recession and with that this growth is, it is completely an expected line. I really do not what has really surprised so this is only proving it, so this is not only this year we do expect this to continue for two more years definitely, since see we should also realize this is the first year after major revival so the real peak will happen somewhere around next year so I think the preparation has to be done more in terms of how to face the peak next year and year after the next. So it is more on that line so we should not be, at least we are not surprised internally.

Sarvesh Gupta: Understood Sir. And the three categories that you have mentioned for construction equipment backhoe loader, compactors and PNC which have all grown by handsome numbers how have your market share behaved in these three categories?

S. Sridhar: In the cranes we hold something like 47% at a 47% we hold the leadership position in the cranes and incidentally the cranes are the last ones to recover. What was the recovering being the road making equipments and the earth moving equipments and then cranes were No.3 and the revival happened in this kind of a pattern so the second one the significant one is the backhoe where our market share is something like a 2% so that is where we were and the compactors is the road making and that relevant segment we have something like11%. This is the various market shares what we have today.

Sarvesh Gupta: Understood. So you see this trend sustaining in this quarter as well as going forward as well right?

S. Sridhar: That is exactly what I said not only for this quarter I talked about two more years.

Sarvesh Gupta: Okay and still now this quarter has been good as well in this construction equipment?

S. Sridhar: This quarter means you are talking this month, this day?

Sarvesh Gupta: The current quarter, Yes.

S. Sridhar: I think there is no surprises, I think see what is rather what happens is the contractors because of the rains they do not get 30 days of work so that is an intermittent work so straightly a dip is a very invertible one, but we do not see the dip here. This only tells us when the revival happens in the month of half of September and October this can be a huge surge, so the surge can be such that people may even have a capability to meet the demand so I think the infrastructure industry, obviously it is reviving. I do not think its any surprise for infrastructure industry. I think the challenge internally is in terms of high contributing product category, how should we promote this? And more importantly this backhoe loader there is a singular JCB is a sheer monopoly from some markets are 75% to some market to 90% market share I think nobody is in a position to make a significant presence there. So I think a lot of effort is being done in those kinds of a category and when we succeed that evidence we have in Q3, I think that will predominately transform the construction equipment division of Escort.

Sarvesh Gupta: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Mithun Soni from GC Investment. Please go ahead.

Mithun Soni: Congratulations for the good number Sir. Sir just to spend little bit on these backhoe loaders so the product what we will be coming up with how do we intend to price it and when we talk to many of the financiers, who finance all these construction equipments they are like very focused only on JCB they do not want to finance any other products unless they get real support from the company. So how are we targeting to take care of that sort of situation also? So if you can just elaborate a little bit on that?

S. Sridhar: I love your question but this is a strategic answer. I really wonder whether I can give you a brief answer anyway let me try. See whenever you have a monopoly like means the market share of 75% to 95% first thing what we should not do is we should not go for something called a direct attack. If you attack, we have a major problem because the entire ecosystem is made around the JCB so the first thing what we do is we start avoiding JCB. We will not do or we will not sell those customers where JCB is predominant one, rather what we do is something called runaway position. We try to run away from JCB. This is the way we will make a very interesting start but let me make a start this is also called gorilla, appear, disappear and all those things will happen so I wanted to leave you with some more surprises, all this I am trying to achieve with zero capex. My finance guy is sitting next to me actually. Without taking money from him but this is what is called something called tactical positioning. The moment I establish the success story of the tactical positioning in Q4 we will start investing heavy money to build the segment and that will create something called strategic position. All that I can this point of time is we are into the big game of backhoe loader once again. We were the ones we brought backhoe loader in to the country. We want to be a very significant player and that is where we are into the game now. So last quarter I was refrained I think now I can speak because the product will get lost in one more month.

Mithun Soni: Just to finish this, the product is going to be much more technologically superior product or you are going to play the pricing strategy, is it?

S. Sridhar: I think I appreciate your curiosity. I am worried that my competitor also will keep listening to you, so all that what I can tell you is when I am saying yes, I am creating the unique position first, there is something called inherent strength in the product, there is a DNA into our own design and the DNA will get accentuated and positioned it very nicely. The question what you asked was pricing. How does it matter on pricing when my market share is 1% or 2%? So these kinds of things are not really important but what is most important is am I in a position to create an identity for my own product and its own merit and we believe so the customer researches is strongly supporting. Whether it is a south Indian state or right in entry here I think the customer research is very strongly supporting the case we are creating a very innovative solution. I will say it is more like an innovative unique solution, which is unique of Escorts. So possibly I will give you a better case in after this quarter is over actually, by the time I want the product to be in the market place otherwise I will be unnecessarily disclosing far too much which is not called for actually.

Mithun Soni: Fair and my second question is with respect to tractors, just one verification, and one query. We said that during this quarter the Farmtrac share was about 45% versus 50% last year same quarter so is it fair to say that basically the growth in the Farmtrac was more or less flattish, so there was no growth and growth in the Powertrac was about 20% plus, is my reading correct?

Bharat Madan: Yes, so I think it will be correct.

Mithun Soni: Farmtrac is very premium product, not everyone is going to maybe looking it, but when we are going to South and all those other markets is Powertrac the main products what we are taking to make it pan India brand or are we looking at taking both the brands because managing two brands, creating two brands is also very expensive job also and creating the space in the consumer's mind, so which brand we will focus on when we are going to southern markets?

Ravi Menon: Both the brands will have to go together; it is not that we are going to left one brand out. We will have a very interesting product which we have got in the Farmtrac stable currently which we believe will be very good for some other specific applications which are unique to the southern part of India in rice specifically and also in some of the applications like sugarcane haulage, which is also very predominant in states like Karnataka, Maharashtra and Tamil Nadu, so given that product that we have now we are confident that we will be able to bring that volume up as well in the south apart from the fact that we already have models like Euro 50 and others which are already doing very well in the rice paddy applications, which are from the Powertrac side.

Mithun Soni: Fair, perfect, thank you very much.

Moderator: Thank you. We take the next question from the line of Dhawal Doshi for Phillip Capital. Please go ahead.

Dhawal Doshi: Just coming back to the railway question, I am sorry I missed the initial part, which Mr. Madan mentioned, so you mentioned something about AMBS and BMBS as well?

Bharat Madan: What I mentioned was in the first quarter we have executed trial order for Axle-mounted disc brakes, so the two sets have been completed the 18 months of trial period and we also in addition executed 65 sets of Axle-mounted disc brakes during this quarter.

Dhawal Doshi: 65 sets of Axle-mounted disc brakes and two sets of the entire BMBS?

Bharat Madan: No, two sets of Axle-mounted disc brakes are completed 18 months of trial, so there is a trial period which is there, the trial has not completed in Q1 and that completed 18 months, but in addition we also supplied them 65 more sets during this quarter.

Dhawal Doshi: And Sir the current order book of Rs.100 Crores, can I get a rough split in terms of the product segments?

Bharat Madan: New products are roughly 22% in this and the balance is for the conventional products.

Dhawal Doshi: So 22% would majorly be BMBS?

Bharat Madan: BMBS and Axle-mounted disc brakes.

Dhawal Doshi: Okay fine and with your budgeting of close to 65,000 units of tractors for this year, would it be fair to assume we are looking at probably 10% plus or margin similar to this quarters for the tractor agri machinery?

Bharat Madan: Let me clarify, we did not say we are budgeted for 65,000 tractors, 65,000 tractors were a basis on which the material cost initiative was started that was 13, 14 years' time. And we are not saying it will be 65,000 volumes, but yes, since the first quarter has been good, the first quarter we seen the same run rate which was actually initially planned in 2013-2014, so that is why you saw the margin going to double digit. Now obviously the volumes remain high, the margins will remain in that category, but if the volumes go down which probably can happen because we are not looking at 20%, 30%, 40% sort of growth rate in this year then probably the margins will come down.

Dhawal Doshi: Thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Yogesh Agarwal from HSBC Bank. Please go ahead.

Yogesh Agarwal: Hi Sir, firstly one clarification, you mentioned growth rate to slow down to single digit for the industry not for you right?

Bharat Madan: This growth was only for Q2 we mentioned, not for overall, overall we are still looking at double digit growth for the industry as well as for the company.

Yogesh Agarwal: I was surprised you mentioned that you have corrected inventory, we would have assumed now that the monsoons are good, you would be looking to increase the inventory in the first quarter, so is that the prebuying is already done, so you decided to reduce inventory?

Ravi Menon: No, in fact, if you look at typically what happens is that this is a cyclical business and there are two peaks typically, one is somewhere in the area of April, May, June that is the period, different months for different geographies and the other one is typically October, which is a festive season, so the expectation is that because all the festival this time fall in the one month of October and therefore, you have to prepare yourself to be able to catch that peak smartly. So these are actions, which have been taken to ensure that that happens.

Yogesh Agarwal: So for the industry itself also inventory would have come down in first quarter you would assume?

Ravi Menon: It is difficult to make a guess on that because how much retail people do is your guess is as good as mine, so while we have some rough numbers, we are seeing some kind of activity of that sort from some of the competitors, not all.

Yogesh Agarwal: Okay and Sir finally just to reiterate once sometime back you mentioned that monsoons are good since we already had two very bad years' growth could be even 20%, 25%, so would you want to hazard a guess now for this year as well as for FY2018?

Ravi Menon: Firstly I do not think we ever discussed a number of 20% or 25%, so if at all we did then that correction we need to make at this point, so the first quarter was 15%, we expect high single digit or if we see some surge in September may be close to be a double digit growth and then on I think it will depend on how big the peak in October will be because that will really define the third quarter and of course the fourth quarter is expected to be good given that the monsoons are strong already, so we could look at something like a 10%, 12% growth or little above that if at all for the year.

Yogesh Agarwal: Got it, that is very helpful, thank you Sir.

Moderator: Thank you. We will take the next question from the line of Deepak Jain from Shubhkam Ventures. Please go ahead.

Deepak Jain: Can you just give a slightly longer-term outlook now that you have shown in this quarter a very descent margin, so when do we expect a double-digit margin, what was that timeframe, which you are earlier also reiterating?

Bharat Madan: You are saying for the tractor business or you are saying for the company as a whole?

Deepak Jain: For a company as a whole?

Bharat Madan: So company as a whole we have now reached EBIT margin of about 8% in this quarter but obviously the major contributor to this tractor business, which is almost 80% of the contributor on the topline and where margin extension has happened and if the volume continues to be in this line then obviously we will continue to be in the double digit in tractor business and the railway, and construction reaching a breakeven level, you can expect maybe in the next year only company can look at reaching that sort of number.

Deepak Jain: Thank you. That is all.

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

Chirag Shah: Thanks for the opportunity, Sir one question on discounting trends at the ground level, what kind of trends you are saying over there?

Ravi Menon: I think what has happened is that there is some level of discounting, which is happening in terms of general regular schemes, which happened because the first quarter is typically strong for most of the players, but we do not see anything abnormal happening in the industry, so I was little surprised at your question.

Chirag Shah: Because that was the precise question with Q1 with peak season going away how do you see it is happening in Q2 things playing out, so you are not seeing any major worries as of now in the system?

Ravi Menon: No, because typically the volume itself for example the month of July or August would see overall industry volumes in the range of say 37000, 38000 to 40000 or maybe a little low and August would be lower than that, so these are significantly lower numbers then what you have seen in the first quarter, so I do not see a very big issue in that.

Chirag Shah: You had indicated that your CRDi technologies on your tractors, which are now, are benchmarked at international levels also for that, so what is the incremental cost that you had to incur for this upgradation or using CRDi in tractors for the same product versus the earlier product?

Ravi Menon: I do not think those have kind of things, which we can share at this point, but I think at some appropriate time we will probably tell you in more detail.

Chirag Shah: How are you seeing the demand for the higher HP tractors in domestic market and which are the regions you are more hopeful for yourself as well as for the industry demand say for 50 HP and above category?

Ravi Menon: If you look at Q1 of last quarter versus Q1 of this year we have seen 1.5% increase in the 50 plus HP category that is what you mean by higher HP, so there has not been a very great movement in that area, but what has happened really is that when the south grew by about 70% and 50% in some of the states there was certain sectors, which got the advantage of the higher HP segments and that is how you see that 1.5% increase in that number, but if you recall in many years ago this category was in the range of about 8% to 10% of industry which is not currently, but the good news is that the 41 to 50 HP category, which is a segment just below that has also increased, it is now about 56% of the total industry that has also gained by about 2% to 3%, so if you take the 41 to 50 to just answer the question more detail that is the segment, which is universal and they are across the country, but if you look at the larger HP 50 plus the gain will come more from the southern part and some pockets like Punjab where these tractors are very popular for specific applications.

Chirag Shah: Because it is very surprising 40 to 50 HP if you look at the decade has gone up from around 40 to 55, 56 levels today and the 50 HP tractor has stagnated in that sense. Is it more to do with soil conditions or the buying power and the usability purpose or the education levels of the tractor user?

Ravi Menon: I think what happens with that segment is, with that segment you also need some very high quality implement, but the fact is that some of the large implement manufacturers from Europe are already in India and therefore I think when those good quality implements come in one will see resurgence of that segment.

Chirag Shah: So technically or hypothetically there is no reason to believe that 50 HP demand cannot be there pan India basis or in large part of the country?

Ravi Menon: For example, if you take a state like UP which is probably contributing the largest number of tractors month after month we do not find that tractor in very large numbers except probably in the western part. But if you go to Maharashtra or you go to MP or you go to Punjab or you go to AP, these are all states where you would see significant number of this 50 plus HP tractors.

Chirag Shah: These are really helpful. Thank you and all the best.

Moderator: Thank you. We will take the next question from the line of Sachin Kasera from lucky Investment Management. Please go ahead.

Sachin Kasera: Congrats for a good set of numbers. Is there any clarity regarding emission norms because on the other passenger vehicles there is a talk of directly going to Euro 6 anything on what will be applicable for tractor?

Ravi Menon: There are lot of base which are bouncing around, but one challenge is which the country will have will be to be able to supply the lower self for fuel, so this legislation will really depend on that. So till the government is fully ready on that, implementation of that looks from my personal point of view we will look a challenge because if you do not have that right kind fuel then the ability to achieve those emission norms will be challenged.

Sachin Kasera: I would agree with you on that, if the government goes ahead and implements it what is the preparedness of the company and how are we positioned in terms of technology and the cost to be incurred for this?

Ravi Menon: The ability to reach tier 4 is there and many of the companies if you see in India are already exporting those types of that technology so it is not that we cannot do it as an industry as a whole, but again the question is that when are we going to be ready to implement this whole rule.

Sachin Kasera: Secondly in investor presentation you have mentioned that you are talking about strategic partners regarding the auto component division. If you can give some more insight or you are already in discussion with some companies?

Bharat Madan: We are in discussion with some of the company, so only at appropriate time will make the disclosure to the market.

Sachin Kasera: Your aspiration is to reach at somewhere around 100000 tractors over the next three to four years assuming the market comes back to the historical growth rates. Once you reach there, what is the type of EBITDA margin you think we can achieve once we start hitting 100000 tractors a year?

Bharat Madan: At this point in time it will be very hypothetical so far to answer that question. So we have not really looked at that number frankly, but obviously if that that number hypothetic it will be pretty good margins, I can guarantee that.

Sachin Kasera: Do you see any possibility of price hikes in the second half considering if the market remains buoyant you see any chances of price hike in the second half?

Bharat Madan: There is a chance that the inflation selling with start selling on the commodities from this quarter onwards especially the price of steel and iron is likely to move up. As the inflation settles, definitely the tendency of the industry will be to pass that on depending on how much the hike happens, to pass it on to the consumers. So chances are yes from Q3 you will see that impact coming in, but may be after the festive season we will see the impact coming more from the industry side.

Sachin Kasera: One question regarding the mix between Powertrac and Farmtrac, you mentioned that the Farmtrac are little more on the upper end of the segment. In terms of the margins also because they are little higher priced, the margins are any better in the segment or margin wise both are similar?

Bharat Madan: Both are realization, but as well as on the margin front Farmtrac is better than Powertrac.

Sachin Kasera: As we see the reversal happening it will probably give a better impact on the margin?

Bharat Madan: That is right.

Sachin Kasera: Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Just a question on the BS4 norms, what kind of price hike would be required by industry?

Ravi Menon: I think those are things, which are being debated right now, so there are different approaches to the same thing. So if you looked at the last emission that happened different companies took different technological approaches, so to make a statement that it will be say 50000 or 2 lakhs or 1 lakh would be wrong at this point. It is too early and I think I would not like to comment on that at this point in time.

Chirag Shah: This was helpful. Thank you.

Moderator: Thank you. We will take the next question from the line of Sachin Kasera. Please go ahead.

Sachin Kasera: Just one question regarding the price positioning of the products. You mentioned that some of new products are starting to get very good response in the market if the trend continues for few more quarters, do you think our relative price positioning vis-à-vis competition can improve?

Ravi Menon: This cannot be answered on a blanket basis. There are certain products, which will probably be able to command a premium, and there are certain which will take some more time. So, we will just wait and watch as to which is opportune time and for on which product.

Sachin Kasera: If you could elaborate with may be one or two products that will be helpful to understand?

Ravi Menon: There is one product just to give you an example which is called Euro 50 which is doing very well, but it has been launched only about six or seven months back, so it will be very early days to make a comment whether we can take up the prices very quickly. So we have to allow the natural period in industry before we really…

Sachin Kasera: But what is today gap vis-à-vis the PR market trader between us in the market ranges product just to get a sense Sir?

Ravi Menon: I am sorry.

Sachin Kasera: What is the price gap between us in the markedly during this segment, so just to give us a sense as to what the products and what is the gap that we can cover over the next six to eight quarter?

Ravi Menon: The Euro 50 today is positioned in the segment where it is offering the strategy there is to offer more for less, so what you are getting is you are put in a 50 HP tractor in a segment which is typically I think supported by 45 HP tractor. What the customer gets is 5 HP advantage and with the pricing which is slightly above what he would have paid typically for 45 HP. So that is how much in all that is something, which I cannot. But that is something, which we see as an opportunity to take it up further to answer your question.

Sachin Kasera: One comment if you can make on the agri versus the haulage segment, how are these two segments performed, as an industry as well as Escorts and what is the outlook there?

Ravi Menon: The haulage segment in the last couple of months I would say or may be quarter or two has been a little weak because as you have seen the industry itself are going through a bad phase and the construction segment was also down. So the haulage segment was hit by that but what we see now is that there is a revival and because agriculture also needs supporting tractors for haulage has also construction so we think that in the coming days haulage would become a very significant part of the total number of tractors whole.

Sachin Kasera: Does the rural infra has a significantly higher sensitive to the haulage segment of the market?

Ravi Menon: Yes, it does because if you are looking at simple applications like brick kilns there is a lot of movement there and if you are looking at Kisan Sadak Yojana and those type of applications which are heavily rural oriented, you would see a lot of movement of construction material.

Sachin Kasera: What would be broad sense that you have industry mix between haulage versus agri use and so far Escorts if you could give us sense?

Ravi Menon: I would not hazard a very guess on this, but it will be somewhere closed to about 30% plus.

Sachin Kasera: Thank you very much Sir.

Moderator: Thank you. We will take the next question from the line of Raghunandhan. Please go ahead.

Raghunandhan NL: Thank you again Sir. Just wanted to understand that the capital employed for the construction equipment division has gone lower, so what has led to that?

Bharat Madan: It is the reduction of working capital, which happened. So our receivables inventory both have come down.

Raghunandhan NL: Understood Sir. Recently there have been heavy rains and flood like situation in parts of MP, Maharashtra. Do you see any impact on tractor sale in the near term?

Ravi Menon: I think the rains have some kind of impact largely in Central MP and that is the area which has been hit by these rains, but what we know from the market right now is that the water seemed to be receding and the good part of the whole thing is that in some parts while you will have to do resowing when you actually do it, you will have an extended season, but you can probably expect a very good crop.

Raghunandhan NL: Understood Sir. Given the commodity price is increasing, has there been any pricing action and tractor over the last few months?

Bharat Madan: We have taken a very marginal price increased from July 1. So on net basis we have about half percent increase, but obviously we are waiting for this inflation how it really fares in this quarter and then depending on how the industry responds to that, so we will take a call on the price if it is there at that time.

Raghunandhan NL: VRS, which was given out, was it given for auto products, auto agri or was it give across division?

Bharat Madan: It is a mix of certain VRS, first of all the white collar getting and the second part who are aiming at auto part employees, so it is a mix of two.

Raghunandhan NL: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Chetan Vohra from Value Quest. Please go ahead.

Chetan Vohra: In this agri emission revenue, have you reduced the discounts given to the end channel as per the new accounting standard?

Bharat Madan: New Ind-AS standards, so we are supposed to net of all selling expenses from the topline, which is what we have done in this quarter also and also in the corresponding quarter, which we published. So during this quarter, the impact is almost 65 Crores, which has been netted off on the same compared to about 38 Crores and corresponding quarter last year.

Chetan Vohra: 65 Crores and 38 Crores right?

Bharat Madan: That is right.

Chetan Vohra: Going ahead the last concall you had said that agri margin one should you would see that the improvements should be on a 100 BPS improvement on the full year level, so last year we have ended up with 8% margin, so you had said it will be close to 9%, but this quarter performance seems to be really very good. So how do you see the margins to on full?

Bharat Madan: This quarter, the volumes are pretty good. So if you look at the annualized basis, the same numbers continuous, it will be hitting the run rate of 65,000 which should be in the range of industry average 12% to 12.5% sort of margin, but that number is sometime which we cannot say at this point in time, so may be when you look at 10% to 12% sort of growth happening, so I think still that number will be from this place. So that is a number will be in that range of 12% to 13% sort of margin.

Chetan Vohra: 12% to 13% with the volume of 65,000 you said.

Bharat Madan: That is right.

Chetan Vohra: Okay and on the construction Mr. Sridhar was saying that the tradition margin in these business would be how much?

S. Sridhar: Any EBITDA margin, which is around 10% and this on a consistent basis, is considered as good in this kind of industry, but having said that it is not that difficult to reach.

Chetan Vohra: Okay, fine sir, thank you.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Raghunandhan for his closing comments.

Raghunandhan NL: I want to take this opportunity to thank the management for giving us the opportunity to host the call. I would now request Mr. Bharat Madan to add as closing remarks.

Bharat Madan: Thank you ladies and gentlemen for being present on this call. For any feedback and queries, feel free to write in to at investorrelation@escorts.co.in. I would like to mention that we distribute our earning release to our website www.escortsgroup.com. So do refer to our website for earning 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 Google Playstore and Apple iTunes. You can visit our social media pages for the latest company news, development etc. We will meet again in next quarter. Thank you very much and good evening.

Moderator: Thank you. On behalf of Quant Broking that concludes this conference. Thank you for joining us. You my now disconnect your lines.