



“Escorts Limited Q1 FY2019  
Earnings Conference Call”

July 30, 2018



**MANAGEMENT:**

**MR. BHARAT MADAN – GROUP CHIEF FINANCIAL  
OFFICER, ESCORTS LIMITED  
MR. SHENU AGARWAL – CHIEF EXECUTIVE, ESCORTS  
AGRI MACHINERY  
MR. AJAY MANDHR – CHIEF EXECUTIVE, ESCORTS  
CONSTRUCTION EQUIPMENT  
MR. DIPANKAR GHOSH – CHIEF EXECUTIVE,  
RAILWAY EQUIPMENT DIVISION**

**MODERATOR:**

**MR. CHIRAG JAIN – SBI CAPS SECURITIES LIMITED**



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Escorts Limited Q1 FY2019 Earnings Conference Call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chirag Jain from SBICAP Securities Limited. Thank you and over to you, Sir!

**Chirag Jain:** Thank you, Liza. Good evening, everyone. On behalf of SBICAP Securities Limited, I welcome you all for Escorts Limited Q1 FY2019 Results 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; Mr. Dipankar Ghosh, Chief Executive, Railway Equipment Division, and Investor Relation team at Escorts Limited.

We would start the call with the brief opening remarks from the management, followed by an interactive Q&A session. Before we start, I would like to add that some of the statements 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, Chirag. Ladies and gentlemen, a very good evening to you all. Thank you all for joining us on the earning call for first quarter ended 30th June 2018.

A snapshot of company's quarterly performance is as follows: Turnover at Rs.1,511.3 Crores against Rs.1,163.2 Crores last year, is up by 29.9%, led by volume growth across all segments. Tractor volume is up by 39.5% to 24,494 tractors, as against 17,561 tractors last year same quarter. Construction equipment volumes are up by 51.8% to 1,345 machines against 886 machines last year same quarter.

EBITDA at Rs.185.5 Crores against Rs.97.5 Crores last year, is up by 90.2%. EBITDA margin now stands at 12.3%. Finance costs went down by Rs.5.1 Crores to Rs.2.9 Crore as compared to quarter



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ended June 2017. The total debt outstanding as of June 2018 is Rs.40 Crores, is down from Rs.50 Crores in March 2018.

PBT stands at Rs.180.8 Crores, is up by 95.9%, against Rs.92.3 Crores last year same quarter. The company reported a PAT of Rs.120.7 Crores versus Rs.62.6 Crores last year, up by 92.7%. PAT margin now stands at 8% versus 5.4% last year. EPS reported during the quarter at Rs.10.10 against Rs.5.25 last year same quarter.

Now moving onto segmental business performance, starting with the Agri Machinery business, domestic tractor industry volumes went up by 26.6% to 2.24 lakh tractors as compared to 1.77 lakh tractors in previous fiscal same quarter. Our domestic volume went up by 39.2% at 23,939 tractors as against 17,199 tractors in previous fiscal same quarter. Industry in our strong markets of North and Central India grew by 19%, whereas industry grew by 31% in the opportunity markets of South and West.

In line with our Vision 2022, we have gained market share across all major states. Our main market share in strong market is up by 200 basis points and in opportunity market, it went up by 90 basis points, resulting in overall domestic market share at 10.7% as against 9.7% in previous fiscal same quarter.

Export industry went up by 27% to 25,000 tractors as compared to 20,000 tractors in previous fiscal same quarter. Our export volumes went up by 53.3% to 555 tractors as against 362 tractors in previous fiscal same quarter, driven by new product introductions and market penetrations.

EBIT margin correspondingly is up by 335 basis points, but sequentially, it is down by 99 basis points and now stands at 14.2% for quarter ended June 2018. Adverse product mix and inflationary trend in the commodity prices impacted the margin in current quarter sequentially. The midyear price went up by 2.5% in this quarter, while company was able to pass on roughly 50% of the same to the market through price increase taken in mid-April 2018 and balance through another price increase effective from mid of July of 2018. Going forward, we expect domestic industry is now expected to likely to go up between 12% to 15% in current fiscal.

Coming to the construction equipment business. Construction equipment industry grew by 30% in Q1 FY2019 with respect to Q1 FY2018. All major segments have seen a positive moment. Our served industry which is Backhoe Loaders, Pick 'n' Carry cranes and compactors, went up by 49% in Q1 FY2019. Pick 'n' Carry cranes have been the biggest gainer with growth of 60% followed by Backhoe Loader that grew by 50% and compactors which grew by 20% in Q1 FY2019. Our total volumes manufactured and traded products in the quarter ended June 2018 correspondingly is up by



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51.8% to 1,345 units against 886 units in quarter ended June 2017. EBIT margin correspondingly is up by 451 basis points. It now stands at 2.4% for quarter ended June 2018. We expect that our served construction equipment industry will continue to grow at 16% to 18% CAGR.

Coming to the railway division, in the quarter ended June 2018, the revenue is correspondingly up by 37.5% at Rs.88.1 Crore as against Rs.65.2 Crore in quarter ended June 2017 and sequentially up by 18% against Rs.76.02 Crores in quarter ended March 2018. This quarter, we had better product mix, higher spare part sales and lower sales of new products that resulted in the EBIT margin correspondingly moving up by 1,543 basis points and sequentially up by 937 basis points and now stands at 25.3% for quarter ended June 2018. The current order book as of 30th June 2018 is more than Rs.300 Crores and will be executed in the next 11 to 12 months.

Going forward, we expect railway equipment segment to continue to grow at 18% to 20% CAGR.

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

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

**Hitesh Goel:** Sir, my first question is on the tractor industry volume per se for this year. You have guided that it will grow at 9% to 11% this year according to your estimate, but given that, first quarter has been very good and the monsoon had been good, would you like to revise that guidance? And secondly, you have a capacity of 98,000 tractors on stewardship basis. So what is the kind of capacity expansion you are looking at in the next 2 years? And also, the capex if you can give us capex guidance for the business?

**Shenu Agarwal:** Okay. This is Shenu. So I will respond to the first question on the tractor industry. So earlier, we had given a guidance of 9% to 11%, and now we are revising it to 12% to 15%, somewhere in that range. And this is majorly because of the better monsoon than expected or than forecasted. And therefore, I mean, we are seeing that impact in Q1 also where industry has grown by about 25.6%, so we think overall, probably for the year, it will grow by 12% to 15% now.

**Hitesh Goel:** And sir, on the capacity, if you can add some sense on the capacity?

**Bharat Madan:** So capacity, like I said, we are in the process of expanding the capacity on machining side this year, for which we had earmarked a separate capex of roughly Rs.300 Crores which will, by the end of 2020, will take the capacity to about 150,000 units on machining side. But obviously, if you look at this quarter, we have done close to, 115000, 116000 sort of capacity rate today, I think, the investment

has started happening now. So obviously, that will also depend on a lot of the product mix that we sell going forward. So we think -- I think going up to 100,000, 110,000 should not be an issue really during this year till the time this new capacity is set up.

**Hitesh Goel:** Okay. Yes. And Sir, my second question will be on the railway business. We had seen that on the railway business, the margin expanded quite a bit. You have alluded to the product mix and the spare parts being higher in this quarter. But what is the kind of steady trend we should look at? And was there any one-off income booked in this quarter, particularly the previous quarter, which led to higher volumes?

**Dipankar Ghosh:** This is -- basically, we had a very favorable product mix and also a very high volume of spares. So this shows a spike in the EBITDA, but we are confident we should be able to maintain in the range of 17% to 18% sort of EBITDA level on the average for whole year.

**Hitesh Goel:** EBIT side, right? EBIT margin?

**Dipankar Ghosh:** Yes, EBIT margin.

**Hitesh Goel:** Great Sir. Thank you very much.

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

**Raghu Nandan:** Can you throw some light on new products and tractors? Number one was the paddy specialist tractor? How is the sale in Q1 and plans ahead in terms of launch of more variants or launch in more states? Also, please share your expectation on volume for the full year for this product? Secondly, on Atom tractors, what was the volume in Q1 and the expectation for the full year?

**Shenu Agarwal:** Okay. This is Shenu again. So let me first respond to the Atom. So Atom, we are selling roughly about 60 to 70 tractors a month, which is, of course, not the reflection of the demand. We think we can easily do about like minimum of 3,000 a year on an annualized basis. And therefore, we are trying to, right now, ramping up the production for Atom, and I think this should happen somewhere around September, October. So from September, October onwards, we should be able to do about 250 to 300 tractors a month, if not more. And similarly, on the rice, paddy special, since it is all together new product like Atom, so we are a little bit cautious in terms of ramping up too quickly. So right now, again, on this price, paddy special, we are doing about 50 to 70 tractors a month. And from, let us say, next season, which will be October, November, we will be ramping up production levels of minimum 250 to 300 a month. Of course, the demand is more than that, and -- but since the product is new, we are just making sure that everything is in place before we really ramp up the volumes in the market.

**Raghu Nandan:** Thank you Sir. EBIT margin in the tractor segment was at 14.2%, which was lower than what was achieved in the last 3 quarters. How do you see the margin panning ahead? Has commodity inflation impact been fully passed on after the July price hike? Is more hit on margin expected in the coming quarter?

**Bharat Madan:** There are two reasons. One obviously was the inflation on the commodity prices. In the first quarter, we had like obviously sort of the balance whatever the price increase was there in the commodity side, we have been able to pass it in in Q2, in July. So as we speak today, so obviously, as of now, the inflation so far has already passed on. So we expect that effect will be sort of close to 0.5% because of inflation on the margin will not be there, unless inflation that it has totally different side and again goes up, but as of now we do not think that should be the case. And second is also with regard to some one-off expense on the manpower cost side, which you look at so there is some increase which has happened in absolute account compared to sequential quarter of March. So there are some pension liabilities, which we have to provide this time. There is some old defined benefit scheme, which is continuing, which was still not provided for earlier. So based on that the material provisioning has been done this time. So there is a one-off -- in rate of close to Rs.9 Crores to Rs.10 Crores on manpower costs this time, which has really impacted the margin for our tractor business slightly. So but for these two reasons, we expect the margin should be in this range if the volumes continued to be in these level, which we have seen in this quarter.

**Raghu Nandan:** And this is a one-off, correct, Sir, so it should not come in the next quarter?

**Bharat Madan:** Yes, on the manpower side, it will be a one-off thing, but now, we also have an appraisal cycle, which follows July to June sort of period. So from 1st of July, there will be some increases, which will happen on account of manpower cost increases, the increment, which has been given now to the management team. So that obviously will have some impact, but obviously, we are trying to see how we can actually rationalize at sum. But we still think that it would be somewhere in the range of about Rs.120 Crores sort of absolute costs on per quarter basis going forward.

**Raghu Nandan:** And Sir, like -- to Shenu sir, a couple of questions. Can you share the mix of Powertrac versus Farmtrac ratio for the quarter? And how do you see this mix being for the full year? Also, can you share the details of financing ratio from Escorts' credit and your expectations on this ratio for the full year?

**Shenu Agarwal:** Okay. On the mix, I think we were very close to like 60 and 40. I think, to be precise -- yes, that is actually precise, 60-40, and that is what we had planned also. So we are very much on target. Of course, our intention is to increase Farmtrac mix more, because Farmtrac, we make more margin than



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in Powertrac. So we are putting up some strategy around it which will be rolling out in the next couple of years. But in the short term, it will -- should stay close to 60 to -- 60 and 40.

**Raghu Nandan:**

Understood, Sir. And how is the increase or penetration happening for Escorts' credit?

**Shenu Agarwal:**

Escorts' credit is going very well for us. We have almost kind of touched to 1,000 units every month now. I think last year, this was close to about 400 units a month. So we are ramping up not just in volumes, but we are ramping up also in terms of geographies. So until last year, we were only in three or four markets, but right now, we are in about six or seven markets. And then by December, we will open maybe another three or four markets. So by end of this fiscal, Escorts' credit geographically will cover about 70% to 80% of our dealerships, and therefore, we will see more volume coming in.

**Raghu Nandan.:**

Thank you so much Sir that was very helpful I will come back in queue for more questions.

**Moderator:**

Thank you. The next question is from the line of Nitesh Sharma from PhillipCapital. Please go ahead.

**Nitesh Sharma:**

Sir, wanted to know the outlook on the tractor export business. We were looking at a strong traction from exports in FY2019. So are we on track on achieving a strong volume growth in this segment?

**Bharat Madan:**

Yes, we are pretty much on track. As we said, we wanted to... our plan is to increase our export volume by about 40% to 50% this year. And right now, there is like nothing that is of concern to us in meeting that number.

**Nitesh Sharma:**

Okay. And Sir, on this railway business, can you please share the spare sales, if possible, for the quarter, because I think that has led to a huge margin surprise to us?

**Dipankar Ghosh:**

Yes. The spares, actually, particularly the EP breaks or the electro-pneumatic brakes, we had a lot of spares orders, and we could deliver them with a pretty healthy profit margin. So that is one of them. And the second part was that some of our other conventional products, we could get some better prices in the tendering, which meant that the price margin overall had increased. And thirdly, the new product had some import content. The planned new products did not happen in the Q1. So that way, that also helped in the margin to shoot up to around 24%, 25%.

**Nitesh Sharma:**

Okay. And could you quantify the spare sales for the quarter?

**Dipankar Ghosh:**

Quantify the spare sale, I do not have the numbers. We will get back to you.



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**Nitesh Sharma:** Sure. And Sir, construction equipment business has seen surprisingly strong growth during the lean monsoon period. So do not you think for the full year as well, it could surprise and we could overachieve our guidance?

**Ajay Mandahr:** Our guidance of 16% to 18% is basically based on the last quarter. Your last quarter may not be as strong as it used to be because of the elections that are coming forward and then there will be some other issues that we come up on the investment side, so we will remain at 16% to 18%, more towards 18% plus side.

**Nitesh Sharma:** Okay. Got it, Sir. And any new launches in the construction equipment segment this year, new segments?

**Ajay Mandahr:** I think you will get the announcement within this year, within the H2. You will know about it.

**Nitesh Sharma:** Okay great thank you very much I will come back in the queue.

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

**Mitul Shah:** Sir, first question is on the tractor side. You highlighted in the presentation 12% to 15% growth for the full year and considering the first quarter's growth, it indicates that in the remaining quarter, it would be single-digit growth. So just can you throw some light on this? And want to understand the regional growth parameters for first quarter and going forward.

**Shenu Agarwal:** Yes, Mitul. See last year also, we had a kind of a lopsided growth in the second half of the year. So we think that Q1 had gone well and that is why we have raised our projections of the industry from, say, 9% to 11% to 12% to 15%. Whereas, there could be some upside because we all know that the market is very positive right now and the monsoon has been good and all the macroeconomic factors are in favor. But right now, we have -- we think that because of high growth last year in H2, we think that we may not see that much growth in H2 that we will see in H1 probably, right? And also, there is a seasonal -- there is a bit of like shift also. So right now, we will maintain 12% to 15%, with possibility of some upside later.

**Mitul Shah:** Considering high base for the second half and this is the third year of high growth period which generally happens in the past cycle, is there any possibility that second half may witness decline?

**Bharat Madan:** As we said in the last call, we do not think the decline would happen in this fiscal year. We do not think there would be any degrowth as they happen at least until May or June of next year. But yes, I



mean, it is difficult to comment exactly when the cycle would change, but at least until April, May next year, we do not think that the tractor industry will face any huge challenges, although the growth rate, as we said, made us to trickle down a little bit, so the overall year would be about 12% to 15%, while the first quarter is 24%, 25%.

**Mitul Shah:** Okay. Sir, second question is on the construction equipment side. Volumes are down by around 12%, 13%. Our margins directly went down from 5% to 2%. So in this reasonably high is purely because of the volume or any other parameter? And on the same line, we have guided 16% to 18% growth, that is indirectly indicating single-digit growth for the remaining period. So here, then it would be a loss. Is it right analysis?

**Bharat Madan:** I do not think so because this is the weaker cycle in the sense that you get more of low-value products on your kitties in the first quarter. So first quarter, generally the earning is on the growth side. If you see historically also, it is always on the lower side. As we go along, the product mix becomes better. We will get into more of high-value products. And I think this year should be a surprise.

**Mitul Shah:** Sir, last question on the same line. Then what is our targeted margin estimate for the segment for full year?

**Bharat Madan:** We are expecting anywhere in the range of 4% to 5% EBIT margin for construction equipment business this year.

**Mitul Shah:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Vaibhav Jain from Credit Suisse. Please go ahead.

**Jatin Chawla:** This is Jatin. A couple of questions on the tractor side first. One is, we have been reading a lot in terms of government support on tractor volumes. There are various schemes that are going on. So broadly, just need a rough number, what would be your sense of volumes that are coming through these schemes or government support right now? And do you see that sustain -- how long do you see that sustaining?

**Shenu Agarwal:** Yes, Jatin, it is very hard to do the -- point out exact numbers. I mean -- but I mean, the only thing that works direct in terms of volumes is the amount of subsidy that government gives for the number of tractors that it provides on subsidy. So we definitely see that there is uptrend this year as compared to last in terms of number of tractors. So for example, like Assam there is a huge subsidy scheme by the Government of Assam, that is coming up, that has actually started implementation now, which was not there last year. Also, subsidy -- number of tractors in subsidy promised by the respective state

governments in Andhra Pradesh, Telangana, Gujarat, even Haryana and Himachal Pradesh and some others have been much -- are much higher than last year, right? So it is difficult to give a number, but we think about -- maybe about 8% to 10% market overall this year might be supported directly with government subsidy. But I can say that the sentiments are very high because of lot of initiatives that the government has taken in this sector. And for capital goods like ours, sentiments will play an equally important role than as direct subsidies, etc., right? So the sentiments are very positive right now.

**Jatin Chawla:** Sure. On the when I look at Q2, would it be fair to say that Q2 volumes might be impacted a little bit by shifting of festive season to a later month, and hence, we should expect a stronger Q3 and a slightly weaker Q2?

**Shenu Agarwal:** Yes, yes, that is the case actually. So because of the shift in the festive season and also some delays in sowing due to delays in rainfall in some parts of the country, we are expecting that the shift will happen. So industry, our estimate of Q2 industry is far lower than what we have seen in Q1 or that we will see in the whole year going forward.

**Jatin Chawla:** For the industry, would you expect a single-digit growth on Q2?

**Shenu Agarwal:** At best a single-digit growth, but it could hover around like 0% to 2%, something like that.

**Jatin Chawla:** Okay, okay. And just a question on the margin side for Bharat. Bharat, do we still expect 100 bps margin improvement at an overall level for the company for the full year?

**Bharat Madan:** Yes, so full year basis, we are still maintaining the guidance compared to last year.

**Jatin Chawla:** Looking at the trend, would that be more driven by construction and railways? Or do you expect some margins...

**Bharat Madan:** I think it will be combination of all three segments, so -- because all three are likely to better now, including construction, we are guiding at 4% to 5%; railway, 17%, 18%; and tractor also, on a full-year basis, we are looking at going up by close to 90, 100 basis points. So I think, overall, we are still looking at that 100 basis point guidance for this year.

**Jatin Chawla:** Thanks a lot Mr. Madan.

**Moderator:** Thank you. The next question is from the line of Naveen Dubey from Narnolia Financial Securities. Please go ahead.

**Naveen Kumar Dubey:** Sir, my question pertains to the realization of tractor segment. Sir, we have seen year-on-year decline in the margins. So is there any structural changes in the product mix or are we seeing any structural changes in the product mix going ahead?

**Shenu Agarwal:** See, I do not know about year-to-year decline. That maybe Bharat will answer, but in the short run, as we spoke in the last call, that in the Farmtrac, in the -- under the Farmtrac brand, we introduced some products in the small horsepower segment, which is like around 40 horsepower segment. And of course, those products are cheaper than the average Farmtrac products that we earlier had. And therefore, we suggested that there would be a decline in the realization side on the Farmtrac. And that you will see continuing going forward because that is a pretty much a structural strategic decision we have taken that we will play both the brands in the market and let them compete in each of the segments as we are bifurcating the distribution for both the segments in the -- both the brands in the market, right? So while we will see market share gains and volume gains, but we might see some lower realization mainly on this account.

**Naveen Kumar Dubey:** Okay. And Sir, on the construction equipment side, the margins, you are guiding for 4% to 5% margins going ahead in FY2019. So coming to the realization spent on the construction equipment, is there any -- a cyclical thing that realization in Q1 remains higher?

**Ajay Mandahr:** I think it is the other way around. The Q1 realizations are generally on the lower side. It only remains on the lower side. And then as we go along -- second half of the year is always better than realizations. I have seen it in the last year, so I think I will go by that offtake.

**Naveen Kumar Dubey:** You expect second half realization to be better than first half?

**Ajay Mandahr:** Yes.

**Naveen Kumar Dubey:** Okay. Thank you Sir.

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

**Sameer Deshpande:** I think this is the record quarter in the history of the company where we are on Rs.10 per share.

**Bharat Madan:** Yes, you are right, Sameer. So far, it is been the best performance ever in a quarter.

**Sameer Deshpande:** So extremely encouraging results and really congratulations. And turnaround is really very much positive, and our sentiments also continue to be good. The monsoon also now, I think in the north,



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which was a laggard, I think it has picked up in the last 2, 3 days also, so it should augur well for our industry. And even the construction, etc. So actually, our net debt is negative?

**Bharat Madan:** That is right.

**Sameer Deshpande:** Sir, how much overall in cash balances we are at this point of time?

**Bharat Madan:** So cash balance, if you compare, the debt level is about Rs.40-odd Crores. And if we exclude the escrow account of Rs.132 Crores, we have close to and totally Rs.854 Crores of cash, so about Rs.854 Crores minus Rs.132 Crores. So we are close to Rs.720 Crores of net cash on the balance sheet as of 30th June.

**Sameer Deshpande:** And actually, you mentioned something about these pension costs debited about Rs.10 Crores in this quarter, and you are going to -- you have a wage revision agreement going forward?

**Bharat Madan:** So that is the reason, it we will be due in next year sometime at the end of 2019.

**Sameer Deshpande:** So this pension is a onetime thing, but you mentioned something that some costs will be from 1st July, it will be going up?

**Bharat Madan:** So from July, the our performance appraisals, every year, we give increments, obviously, to the staff, so that will be due from 1st of July, so that has been already given, so I think average of that will be close to 8% on that account to the white collar staff. The blue collar will happen as per the agreement which we have already done with them which is normally due in August. The last installment will be due in August. And then next year, we enter into the next settlement period, which obviously will be negotiated with the union.

**Sameer Deshpande:** Sir, no much impact is going to affect our margins as such

**Bharat Madan:** No significant anything.

**Sameer Deshpande:** And this construction equipment as well, normally, the product mix will go -- will be better in half 2, as you mentioned, so the margins will improve there.

**Bharat Madan:** Yes, that is right.

**Sameer Deshpande:** Okay congratulations and all the best.

**Moderator:** Thank you. That is from the line of Riken Gopani from Infina Finance. Please go ahead.



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- Riken Gopani:** I have 2 questions. One is on the railways division. So you said that this quarter, there was higher spare sales. Any particular trend that this would be recurring once in every year, or this was some unusual order, and it was not a part of the order book, and it suddenly came? Just some colour as to how -- what is the seasonality of the spares revenue for the full year for this division?
- Dipankar Ghosh:** Actually, it is not a seasonal thing. I mean, there were spares, and it is not one-off. We expect that since railway is going in for more EMUs and particularly in the Mumbai suburban and in the Chennai sort of a thing. We should be expecting this sort of a high-margin spares business also going forward. But this is what we had booked in the last quarter, and we could deliver it in this quarter -- last quarter of the last year. And this quarter, we could deliver it. So we expect that such good profitable spares would be available for tendering in the coming months also. Finally, what I would missed out also in the previous question when I was asked about the spares is that we also had a China order. We had supplied to China some brake systems, which is also very a profitable business for us. So that also adds to the profit, what we had... could get in this quarter.
- Riken Gopani:** So typically, for a full year, what is the sort of contribution of spares to the division sales?
- Dipankar Ghosh:** It should be almost around in the range of 20%, something in the range of 20%.
- Riken Gopani:** And this quarter, it would have been materially high?
- Dipankar Ghosh:** This quarter, it was 16% of the Q1 sales, but the export order was there also around Rs.6 Crores of export order, which is a pretty profitable business for us.
- Riken Gopani:** Okay. But you said for this quarter, it was 16%.
- Dipankar Ghosh:** Yes.
- Riken Gopani:** Okay. So it is -- I mean, since you are calling it out as to higher than the usual, so I could not understand. You said 20...
- Bharat Madan:** Based on the what kind of spares we are supplying. Obviously, we are supplying on 16% or higher margin, higher distribution parts. So this is what has happened in this quarter. The margins have been very high in this business, almost 75% plus contribution in parts. So this is why you have seen this one-off thing happening now. But I think like I said, going forward, on a full year basis, we expect the railway business sale delivers about -- something around 17% to 18% sort of margin this year.



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- Riken Gopani:** Okay. And one follow-up, on the railways division itself, typically, we have been saying that the typical execution cycle for this business is around 6 to 7 months in the past. Correct me, if I am wrong. I heard that for the current order book, you are having a cycle of around 12 to 18 months. Is that right? Or -- so has there been...?
- Bharat Madan:** We said 11 to 12 months. The order book as of 30th June, we got 11 to 12-month distribution cycle, so most of it will get executed in the next 9 months, 7 to -- I mean 75% to 80% will get executed in the next 8 to 9 months.
- Riken Gopani:** Yes. Okay. So that is the typical cycle of execution. There is no change to that as well during the...
- Bharat Madan:** Right.
- Riken Gopani:** Okay. One question on the tractor division. So you said that there has been a price hike that you have taken, and that would basically take care of whatever was the cost inflation beyond the Q1, or this will help you reinstate your margins back to the Q4 levels? Or how should we read into this?
- Bharat Madan:** So tractor, I would say if you look at -- so what are the conditions, or at least if you continue to have the sort of volume that we had in Q1. So obviously, like we have mentioned, Q2 may not have the solid numbers. We are now looking at the industry doing better, because the shift of festive season particularly into Q3 now. And also, the last time, we had this deferral for the GST billing, which happened in Q2. So you may not see the same sort of margin level being maintained in Q2, where the volumes will really not be in that range. But yes, so the impact, because the inflation on the commodity price, will get addressed with its price increase.
- Riken Gopani:** Understood. And given that you would see a relatively soft Q2, would there be, you would expect, any elevation in the discounts level or the market dealership inventory levels are relatively higher? How do you see that scenario currently? And for you as well, what is the dealer inventory level?
- Shenu Agarwal:** So no, we do not think there would be any fresh discounts that would be appearing in the industry because like everybody knows, it is just a shift of about a week in the market, because the Navratri, which is a auspicious season, we had a few days of Navratri in September last year, but now, they will be in October. So I do not think people will panic because of that. It is just timing issue, which is very common to tractor industry. So one is that. The other question was...?
- Riken Gopani:** On the dealer inventory levels, how are they...?



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- Shenu Agarwal:** Yes. So our inventory levels are very, very healthy, in the last three years, while our sales has gone up, our annualized sales, but our dealer inventory has gone down. So we are at a very, very healthy level, so I think there is only a couple of guys in this industry including us, who have such low levels of inventory which we think is the right number, and it is very healthy for dealer profitability. I think there is no concern overall also in terms of dealer inventory at the industry level right now.
- Riken Gopani:** Fair enough. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Jain from SBICAP Securities Limited. Please go ahead.
- Chirag Jain:** A couple questions from my side. In general, when are the next level of emissions norms expected in the tractor industry? And how do you see that having an impact, be it growth or mix or even the competitive scenario?
- Shenu Agarwal:** So the next level of emissions right now is proposed for October 2020, which is about more than two years later, two years from now. And this is also only on tractors above 50-horsepower, which comprise of about, let us say, even at that time, it will comprise up to about 15% to 20% of industry max, right? So below 50-horsepower tractor market, which is the belly of the market in India, we do not have any announcement from the government or any proposal from the government about the date. There are still some discussions going for around 2022-2023, but we are not sure about that. Yes, above 50-horsepower, we will have new norms. It seems now, most probably, we will have new norms in October 2020. And there would be some repercussion on that part of the segment because the costs will go very, very high because of the use of CRDi engines. So we are prepared with the technology, of course, at the CRDi side, and we are watching the market or the customer behavior very closely so that we can adopt accordingly.
- Chirag Jain:** Okay. And how is the competitive landscape in general in the tractor industry over the last few quarters? We have been hearing that, in general, competitive intensity, especially in the northern side, where obviously we have a larger presence. It has started to go up. So maybe if you can share some insights on that?
- Shenu Agarwal:** Yes. I do not think there is any, like, huge change in the intensity in the last six months. Of course -- I mean, of course, everybody's trying to gain as much as possible. But yes, I think it is very normal. I mean, with time, the intensity goes up normally in mature industries, and only that is the kind of scenario we are looking at. We are not looking at something extraordinary really.



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**Chirag Jain:** Okay. And just lastly, if you can share your view on commodities. Do we still see, let us say, commodities going up even from current levels? I mean, if you have any view on that.

**Bharat Madan:** So we have factored that some increase will happen in Q2 and very marginal increase only in Q3. So as of now, we still see this will continue to go up but may not be at the same pace what you have seen happening in the last two quarters, which is very steep. So we think the pace has now slowed down a bit. So maybe by Q3, we should see I think mostly inflation should have been factored in.

**Chirag Jain:** That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Deep Shah from Motilal Oswal Securities. Please go ahead.

**Deep Shah:** Sir, one question on the side of construction equipment business. You mentioned there were sales of lower-value products in this quarter. So if you can throw some more light, I mean, on the product mix part of it and how it will pan out in the coming quarters for the better understanding.

**Ajay Mandahr:** Alright. If you look at the crane segment, we have 2 segments very clearly. One is the Hydra segment. I do not know if you know these nomenclatures or not, but there is a low end, which is called Hydra, and there is a TRX crane, which is on the higher side. It has got -- TRX crane is basically considered to be high-value product in the Pick "n" Carry segment. Now first half, you get the -- generally, when we work, we tend to work towards 60-40, 60 on the Hydra side and 40 on the TRX side in terms of mix. This quarter was heavier on -- 60 became 70, in fact. So you have that mix change happening, and that mix change results in whatever you are seeing in the results that we have got. But as we go along, if you see our performances, as we go along, Q1 starts with this kind of scenario. Then we move to 55-45, and that is a range which gives you a very good contribution at the bottom line. So we will be moving towards in that direction, plus our focus is to get more of the TRX range in the market. We already have about 67% market share as of now if you look at that segment. We want to take it up to 75% progressively as we go along with new products and all that stuff.

**Deep Shah:** Right. So Sir, I mean, just a follow-up with that, so are we adding -- I mean, can you just share a product pipeline in this site? How -- what are the plans for the launch of it? And that will be helpful.

**Ajay Mandahr:** We are working on simple products. There are variants that we keep doing on an ongoing basis just to improve the value proposition for the customers. That is an ongoing process that happens every quarter. We keep doing it. One product or the other is definitely coming. But we have our product line, what we are talking about now is more and more technology coming into our product. So you will see, as we go along, I cannot announce at this point in time, but you will see more technology





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going into Hydra, making it much more safer, and then more technology going into safer crane to make them ultra safe. So that is the direction that we have taken. So you will see it. Announcement we will be made about that.

**Deep Shah:** Sure sir. Thanks for this.

**Moderator:** Thank you. The next question is from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

**Deepak Jain:** Sir, I have two questions, you said the industry growth expectation of 12% to 15%. So what is your expectation for your core strong market growth and the opportunity market growth? And the related question is that how do you see the Atom and rice specialty tractor which has, as you know, provision for the Nasik or maybe the opportunity markets? How do you see the mix of the compact tractor moving from current levels to probably the next 3, 4 quarters? And what will this mix do to the realization? Because that has -- due to the product mix, that has come down in the last two, three quarters.

**Shenu Agarwal:** On the volume on Atom and the paddy special, rice special, I have already answered that. Right now, we are consciously selling that because it is very, altogether, new products, just a completely new family and a completely new platform. So we just want to be sure that the product is right, and the product is received right in the market. But by the next season, we will be touching about 250 to 300 tractors per month on each of these two tractors. Yes, the margin has been lower as in the case of most of the new launches, where the platform changes, because in the beginning, the cost is high, and then, engineers would work over a period of time to reduce the cost through value engineering and other means, right? So we might have an impact, a little bit, which is already built in our estimates, our predictions for this year. But going forward, maybe come next year, we will see better margins on these two products also.

**Deepak Jain:** Sir, actually, I wanted more clarity on the realization part, not really on the margin part. Because if we are expecting, let us say, 12% to 15% volume growth, then thus, due to the product mix change, the revenue growth on the tractors side would be lower compared to whatever volume growth we will be doing. Because we need -- because as you said, we will be ramping up the Atom Series and the rice series because of the good demand. Basically, the revenue growth is undergoing the volume growth due to the product mix change.

**Shenu Agarwal:** Okay. So let me respond like this. So let us just break the market in three. So the loss realization is less than 40-horsepower. So last year, in Q1, our investment in 40 sales was about 48% of the total volume, which has gone up to about 54% in this quarter, in the last quarter, right? And we do not



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expect it to go beyond 54%. So whatever we have seen in Q1 should pretty much stay for the rest of the year. So we do not think there should be any concerns going forward that this trend will continue because this was a one-time launch, which has happened in the last six months, and it has stabilized quite a bit for us. So we do not think that it is going to change -- the mix is going to change going forward.

**Deepak Jain:** Okay. And so the new, higher range, 70 to 90 HP, is it for exports? Or what is -- how do you see this panning over the next few years, if you could provide that?

**Shenu Agarwal:** Yes. The 70 to 90 is primarily for export right now, which does not mean that we would not find customers in India for these tractors. But they would be far and rare, right? So at the appropriate time, we would launch these tractors in India also in selected markets, in selected pockets rather, but primarily, these tractors would be for exports mostly.

**Deepak Jain:** Thanks a lot and all the best for the future.

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

**Kashyap Jhaveri:** Just wanted to check, on the earlier comments, you mentioned about construction equipment, that the elections down the line during next 12 months could have some effect on demand. Could you elaborate on that with respect to your 16% to 18% growth guidance?

**Ajay Mandahr:** We have taken that into account, and that is the reason we are talking about 16% to 18% growth in the industry.

**Kashyap Jhaveri:** Do you expect like this depending on the construction and infra to slow down because there will be elections down the line?

**Ajay Mandahr:** I think so.

**Kashyap Jhaveri:** Thank you very much sir.

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

**Nishant Vass:** Sir, I had a connected question to your earlier comment on the emission change for 2020. So basically, Sir, right now, we are seeing some degree of, let us say, the cheaper tractor or the let down trading on this tractor in terms of overall share of industry mix also. So I just want to kind of ask your

opinion on this if the pricing goes up significantly of the on the 50-HP segment, Sir, do you envisage that post 2020, the mix could go down further in terms of the consumer and the down trading on this? And commensurately, what do you think would be the impact of industry profitability and competitive dynamics? Could we see some prebuy effects or pre October 2020 on this? Yes, your comments.

**Shenu Agarwal:**

Yes, See it is early to say, but we do not think it will have much impact on the profitability, and I will explain you why. So firstly, the emission norms are applicable only for tractors above 50-horsepower and not up to 50-horsepower, and which is a small portion of the entire market. Secondly, all these customers who buy today tractors above 50-horsepower, we do expect that some, about half or more of these customers would really need something more than 50-horsepower, so they would have no other option but to go for these tractors even at a higher price, right? So even if half of the customers go up and half of the customers go down, the customers that go up, let us say, to 60, 65-horsepower would actually end up kind of...we are going to end up making more money there, right? So we think that the market is going to split. Half of it will go below 50, and half of it will go further up to like 60 or 65. But that is for now, and we still have a lot of time to see how it plays up. But since the market size is very, very small that is affected, I mean it is not much of a concern.

**Nishant Vass:**

Just a clarification on your earlier comment. In the previous question you had said that the segment that might be impacted would be 15% to 20% of the industry. So now you are saying that it will not be that large.

**Shenu Agarwal:**

No see right now, the market is only 8% to 9%. I am saying even if it goes up to 15% because higher HP, most of the predictions are that higher HP is going to go up, right? So I mean -- but right now, it is only 8% to 9% or 10%, right? And I am saying only half of that will still remain up, upwards of 50, but it would give better margins to compensate for the customers who may go below 50.

**Nishant Vass:**

Thanks a lot.

**Moderator:**

Thank you. The next question is from the line of Pushkaraj Jamsandekar from ULJK. Please go ahead.

**Pushkaraj Jamsandekar:** My question is majorly on construction equipment side. If we check your presentation, within 2020, you mentioned you are approximately expecting growth of three fold?

**Moderator:**

Yes Sir we are able to hear you please go ahead.



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**Pushkaraj Jamsandekar:** And the current capacity utilization is around 55%. So there is any expansion we are expecting in the next 5 years?

**Ajay Mandahr:** Sorry, let me again repeat your question. You are asking about 3x growth, and you are talking about the plan -- the product plan going forward?

**Pushkaraj Jamsandekar:** Yes, sir.

**Ajay Mandahr:** Yes. We are working towards 3x plan that is for sure. And more or less, as far as our strategy is required and the product planning is to be done, which has already come in place to a great extent, we are looking at adding new products, new portfolios. As I said earlier, it is too early for me to get into the details of that, but probably we will start to hear from next quarter end onwards something would come. So you will get new products. You will have new categories being created. So all these things are going to happen. You will see it happening as you go along.

**Pushkaraj Jamsandekar:** Thank you Sir.

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

**Raghu Nandhan:** What would be the approximate price hike because of this emission norm changes in 50-HP tractors? And within the construction equipment segment, what would be the share of Doosan Trading Business this quarter?

**Shenu Agarwal:** I think it would be very premature to say what would be the price hike because that depends on lot of competitive and other factors. But just to give you a rough estimate right now, that could be in the range of about upwards of 1 lakh.

**Raghu Nandhan:** Got it. And Doosan share in construction equipment?

**Ajay Mandahr:** It will be -- it is very small, so probably the real impacts are going to come from next quarter onward because the organization is in place. The dealers are getting on roll. So the impact will come, but definitely, we have done as per time, the numbers, the average value of numbers, we are talking about a 7 to 10 numbers per month as of now.

**Raghu Nandhan:** Got it Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Nitesh Sharma from Phillip Capital. Please go ahead.



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- Nitesh Sharma:** Continuing on the emission norm shift, would this entail additional spends on R&D or any technical tie-up?
- Shenu Agarwal:** Most of the expenditure in R&D has already been done or is in progress, because these emission norms are coming in India in 2020 October, as I said, but they are valid or applicable in many parts of the world right now where we are exporting, right? So most of the expense has already been done.
- Nitesh Sharma:** Okay. And does this mean that OEMs with foreign parentage might have an upper hand going forward, and they could become aggressive in the market? Do you foresee such a scenario?
- Shenu Agarwal:** No, we do not think that will have any effect. I mean, people -- everyone pretty much has already prepared technology really, so I mean, it does not matter really whether you are more stronger outside India or less.
- Nitesh Sharma:** Got it Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.
- Sameer Deshpande:** Mr. Madan, that the earning per share which we had calculated for the 31st March 2018 year-ending was after the treasury adjustment. So our equity remains at around Rs.85.3 Crores, so the earning per share was around Rs.40 or Rs.41 something. So this time, we have given the standalone results which show the earning is 29, which is standalone, without this treasury stock adjustment. So I think you had mentioned last time it is due to Ind-AS, we have to give the earning per share which should be ex treasury. So what is the position now?
- Bharat Madan:** No Sir, what we published quarterly is the standalone result and not consolidated, which gets published only on an annual basis. So when you look at the consolidated EPS, then obviously, we net off the treasury stock which get merged into the consolidated financials. But in the standalone financial, they still appear as an investment, and we will report the full capital, so which is the reason when you see the annual results, which should be consolidated numbers and EPS will be different from the standalone EPS which we report.
- Sameer Deshpande:** So at the end of the year, it will be ex treasury stock adjustment.
- Bharat Madan:** Yes, and you know that treasury stocks also you can always do that adjustment even now, but as we are publishing standalone result, we have taken that option with SEBI and stock exchanges that is why we need to report based on standalone numbers only.



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- Sameer Deshpande:** Because the earnings per share will go up substantially if you adjust that, okay.
- Bharat Madan:** That is right.
- Sameer Deshpande:** Thank you.
- Moderator:** Thank you. Next question is from the line of Raghunandhan from Emkay Global. Please go ahead.
- Raghu Nandan:** My question was to Dipankar, Sir. Sir, can you share the progress on the localization plans in railway segment and any time line? And when do you see the benefits coming in on the margins?
- Dipankar Ghosh:** The localization, we have already done all the R&D and the localization, the whole the working prototype everything is ready. We are just waiting for our government approvals because we had got an approval with import content, and now we are going in with our localized systems. So that will take at least another quarter or so if not more to get the government approval. If we get that, then obviously, we should be able to get a very healthy profit margin for those products also. Finally, these other products which are already localized there, we have now started making money in this. For example, the new set of BP brakes for the Mumbai Rail Vikas MRGC coaches. There we anyway, we do not have any input content, it is all indigenously designed out here. So there, you see wherever we have spares from those sort of a segments, the EBITDA and the profit margins are very high.
- Raghu Nandan:** So once you get the government approval to commercialize production, how much time would that take, Sir?
- Dipankar Ghosh:** See production is already done. Commercialization will only depend on the final approval. We have already the product ready. So we are saying at least one or two quarters it will take because the whole of the approval process usually with the government takes a little bit of time. So we are taking an estimate of at least one or two quarters before we introduce the localize one. We do have orders. These orders we have to execute as per the orders we can import content. So we have now started quoting with our localized content also. Once these orders are on the verge of execution and finally we get the approval from the railways, we will be able to push the totally Escorts make brake systems.
- Raghu Nandan:** And Sir, any thoughts on new products, either via organic or inorganic routes?
- Dipankar Ghosh:** We are working on few other products. I mean, it is too early to say that. I mean, hopefully, another quarter, we should have more clarity about how we can do organically. We do not have a readymade answer for you now because it is still work in progress. While the other new product pipeline, for example, the locomotive brake systems, locomotive brake electronics, here, we are almost through,



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we will be submitting everything for the approval process, which would take at least six months to almost nine months.

**Raghu Nandan:** If I can ask, I had a query for Bharat Madan, sir.

**Bharat Madan:** Yes.

**Raghu Nandan:** Sir, on auto component side, there was an EBIT of 17 million. Can you explain the nature of this and whether more is expected? Also, can you give some colour on full year tax rate?

**Bharat Madan:** So on auto products, actually, this is a refund which we got from excise authority. Now since the business has been discontinued and most of the assets which were reparable were all fully paid for or written off. So obviously, whatever small recovery happens and the refund happens, that will keep on coming as a recovery. So we still expect maybe some more income may come, so maybe in the range of maybe 20 million 30 million may happen over a period of time. So that is a process still it will continue, but otherwise, there is no negative surprise which we expect this will happen on the automotive parts, but that is all fully paid for. On the effective tax rate side, this quarter, we had done roughly at about 33%, and we expect on a full year basis also. Since the R&D benefit is going down from this year, also we will get only 150% of weighted reduction, which earlier used to be 200%. So that benefited is now going down, but the tax rates are going up with the sales moving up and surcharging moved up. So effectively, we expect it will be somewhere around 33% only in this year too on a full year basis.

**Raghu Nandan:** Thank you Sir that was very helpful. Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bharat Madan for his closing comments.

**Bharat Madan:** Thank you, ladies and gentlemen, for being present on this call. For any feedback and queries, please feel free to write into us at [investorrelation@escorts.co.in](mailto:investorrelation@escorts.co.in). We will meet again in the next quarter. Thank you very much, have a good evening.

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