"Escorts Limited Q1 FY 2021 Earnings Conference Call"

July 27, 2020

MANAGEMENT: **MR. BHARAT MADAN – GROUP CHIEF FINANCIAL OFFICER AND CORPORATE HEAD, ESCORTS LIMITED**
MR. SHENU AGARWAL – CHIEF EXECUTIVE OFFICER, ESCORTS AGRI MACHINERY, ESCORTS LIMITED
MR. AJAY MANDAHR – CHIEF EXECUTIVE OFFICER, ESCORTS CONSTRUCTION EQUIPMENT, ESCORTS LIMITED
MR. DIPANKAR GHOSH – CHIEF EXECUTIVE OFFICER, RAILWAY EQUIPMENT DIVISION, ESCORTS LIMITED
INVESTOR RELATIONS TEAM ESCORTS LIMITED

MODERATOR: **MR. SAKSHAM KAUSHAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, good day. And welcome to Escorts Limited Q1 FY '21 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited. As a remainder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Saksham Kaushal from PhillipCapital. Thank you and over to you, Mr. Saksham.

Saksham Kaushal: Thanks, Steve. Good evening, everyone. On behalf of PhillipCapital, I welcome you all for the Q1 FY '21 earnings conference call for Escorts Limited. I also take this opportunity to welcome the management. Today, we have with us, Mr. Bharat Madan – Group Chief Financial Officer and Corporate Head; Mr. Shenu Agarwal – CEO, Escorts Agri Machinery; Mr. Ajay Mandahr – CEO, Escorts Construction Equipment; Mr. Dipankar Ghosh – CEO, Railway Equipment Division, and the Investor Relations team.

We would start the call with the brief opening remarks from the management, followed by an interactive Q&A. Over to you, Mr. Madan.

Bharat Madan: Thank you, Saksham. Good evening, everyone. And thank you for all for joining us on the earning call for the first quarter ended 30th June 2020. We trust during this unusual time you, your family and your dear ones are all safe and healthy. During the quarter, there was a considerable slowdown in economic activities following the outbreak of COVID-19, as more than 45 days of this fiscal year have been wiped out, impacting business operations of the companies by way of interruption in production, sales and distribution, aftersales service, supply chain disruption as well as unavailability of personnel etc.

We started our operations with the partial ease on lockdown from second week of May after we received the permission from government authorities to resume operation in single shift with predefined workforce. Quarter ended June 2020 financials reflect the impact of COVID-19 and the figures do not represent normal operations. And to that extent, are not strictly comparable with any normal quarter.

I would now like to share with you some highlights for standalone first quarter results for this financial year. Turnover during the quarter was at Rs. 1,061.6 crores against Rs. 1,423 crores in previous fiscal, down by 25.4%. This is primarily due to drop in sales across all business segments impacted by nationwide lockdown and related issues. Tractor sales volume went down by 13.8% to 18,150 tractors as against 21,051 tractors last year same quarter. Construction equipment sales volume went down by 78.1% to 234 machines as against 1,067 machines last year same quarter. Railway segment revenue went down by 53.5% to Rs. 54.9 crores as against Rs. 118.1 crores last year same quarter. EBITDA at Rs. 119.6 crores as against Rs. 142.4 crores last year is down by 16.1%. EBITDA margin however now stands at 11.3% as against 10% last year same quarter.

Finance cost went down by Rs. 3.9 crores to Rs. 1.9 crores, as against Rs. 5.9 crores last year same quarter. The total debt outstanding as of June 2020 is just Rs. 6 crores, down from Rs. 124 crores in June '19. Net debt however continues to remain negative at Rs. 1,055 crores as of June 2020. PBT is down 6.2% at Rs. 121.1 crores as against Rs. 129.1 crores last year same quarter. Net profit is up by 5.3%, net Rs. 92.2 crores as, against Rs. 87.5 crores last year's same quarter. EPS standalone stands at Rs. 7.71 as against Rs. 7.32 last year same quarter.

Now, moving on to segmental business performance, starting with the agri machinery business. Domestic tractor industry volumes went down by 13.7% to 1.65 lakh tractors as compared to 1.91 lakh tractors in last year same quarter. However, post lockdown, there was a surge in demand, with June witnessing 22.4% growth in domestic industry volumes, as compared to June last year. This was a combination of pent-up demand and some very encouraging macroeconomic factors such as better crop prices, expectation of a good and widespread monsoon, record rabbi crop harvest, timely opening of retail finance and government focus on agri and rural development.

The industry growth is widespread with growth in almost all markets, barring one or two. Our domestic volumes went down in Q1 by 12.1% at 17,690 tractors as against 20,122 tractors in last year same quarter, resulting in a small gain in market share. Our finished goods inventories at dealerships and at depots, as well as our raw material inventory at the factories are at an extraordinary low level. The demand was significantly higher than what we could produce owing to continues challenges in supply chain. As supply side issues subside, we would be able to stock up the sales pipeline to normal levels.

On export side, industry went down by 39% to 10,800 tractors as compared to 17,800 tractors in previous fiscal. Our export volumes went down by 50.5% to 460 tractors as against 929 tractors in last year's same quarter. While we had orders in hand, we could not fulfill them because of COVID-19 related supply chain issues.

The market response for newly launched higher HP Farmtrac "**Powermaxx series**" has been positive and highly encouraging. The contribution of above 40 HP tractors in our portfolio improved significantly in Q1 FY '21, owing to both market dynamics as well as great acceptance of our newly launched models, resulting in a significant model big schemes. Farmtrac to Powertrac ratio remain 41:59, at similar level of last year.

Despite lower volumes, EBIT margins for agri machinery business went up by 356 basis point to 14.5% against 10.9% last year same quarter. This reflects our enhanced focus on cost efficiency. Sequentially, EBIT margins were down by 139 basis points as compared to 15.8% in quarter four FY '20.

Our pace on new dealer appointment suffered because of the lockdown. However, as the pipeline is strong, we expect to catch up on this front in second and third quarter. The total dealer count now stands at 1,017. Our focus on channel expansion in our opportunity markets shall continue.

Supply chain volatility was high amongst almost throughout the quarter, while we reached close to 95% production of our capacity sometime in June, given some challenges with suppliers of some proprietary items, currently we are operating at around 50% to 60% of our capacity. While, we expect to go back to full capacity by mid-August 2020, the supply chain situation may continue to be dynamic for another couple of months.

Overall, tractors industry sentiments are positive, timely and higher sowing of kharif crop symbolizes that. We expect full year 2021 domestic tractor industry to register the positive growth as compared to last fiscal year. The quantum of growth will however depend upon how the monsoon fares and the harvest expectation from the kharif crop, on both of which the confidence is currently high.

Coming to the construction equipment business. Our served industry backhoe loaders, pick and carry cranes and compactors de-grew by 60% in Q1 FY '21 with respect to Q1 FY '20. Our total volumes manufactured, and traded products went down by 78% to 234 machines as against 1,067 machines in last year same quarter. Pick and carry cranes market was major impacted with retail sales contracting by 81%. Most of the sales were recorded in the last month of the quarter due to nationalize lockdown in the month of April and May 2020, resulting in EBIT for the quarter ended June 2020 at negative Rs. 16.8 crores as against Rs. 5.4 crores last year same quarter.

Construction equipment industry have seen slowdown in FY '20 on account of financing and delayed payment for ongoing intra projects. The industry had started to recover from December 2019 due to government clearance of payments and increase spending. However, the nationwide lockdown towards the end of March 2020, labor migration, financing issues like no fresh funding to moratorium availing customers further impacted the market negatively.

In past few years, we have taken a number of initiatives in the area of material cost reduction and production standardization. And we were able to reduce our breakeven level to around 230 to 250 machines per month. Going forward, we are further taking more stringent targets in these areas, and coupled with better sales mix and realizations, we are confident of reducing breakeven level further by end of this fiscal. With volumes expected to start recovering from second of onwards, we are optimistic for showing a good margin recovery in the last two quarters.

Coming to the railway equipment division. Revenue for the quarter ended June 2020 is at Rs. 54.9 crores as against Rs. 118.1 crores in the last year same quarter. EBIT margin stands at 2.6% in quarter ended June 2020, as compared to 20% in last year same quarter. The production in railway units have been affected badly due to outbreak of COVID-19 pandemic and lockdown affecting coaches and locomotive production. In spite of available orders in hand, production and final dispatches from the plant during June 2020, we could not finally deliver the material as many of our delivery trucks were stuck in the major customer areas of Chennai, Mumbai and Raebareli, where lockdown continued till end of June 2020.

During the quarter, we have executed 43.5% of total orders from new product category with more import content and lower margin as compared to previous fiscal when it was 34%. Order book for this division stood at more than Rs. 480 crores, which will get executed in next 12 to 15 months. For FY '21, we now expect railway equipment segment to grow in higher single-digit and margins for the segment are likely to be maintained at last year's level.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Two questions from my side. On the tractor side, if you could just give some sense on how have been the growth trend different in different geographies? And you have somewhere indicated in the presentation that you are looking at positive growth this year, is there any guidance that you can share on the industry growth how we are looking? And secondly on the construction equipment side, if you can give some sense on when do we really expect the normalization in terms of revenue traction building up? Hello?

Shenu Agarwal: Generally speaking, I mean, there have been some kind of ups and downs in different markets, but overall, the situation is positive in almost every market. I am just speaking about June, I am not speaking about the quarter because in the quarter there has been like a (-14%) growth, right? But if you look at June, the June growth was close to 22% and that was very widespread, except for two markets in West Bengal and CG, Chhattisgarh, every market witnessed growth. Now, of course, the growth is a little bit more skewed as far as June was concerned to Southern regions. So, South for example grew about 50% while the overall growth in the country was 22%. Yes, so a little bit skewed towards the South, but overall kind of every market grew in June. And similar is the situation for

Gunjan Prithyani: Sir, you said South is 50%, is it?

Shenu Agarwal: Yes, roughly 50% as against 22% in June for the overall country.

Gunjan Prithyani: Okay. And how we are looking at full year for the industry, any growth guidance that you can share?

Shenu Agarwal: Yes, right now I think we can say that it will be positive, it will be more than last year. I think right now, I mean, although it's too early to say, but still we think that it will be like single low-digit growth as compared to last year. So last year industry was roughly about 710,000, right? So somewhere in low single-digits we are expecting. So yes, quarter one has been (-14%), so basically, I mean, that means that in rest of the year, July to March, the industry would go probably 10% or around that number.

Gunjan Prithyani: And the regional trend should pretty much stand, because South and West somewhere we are seeing low base and the water table levels been higher helping, is that still the way?

Shenu Agarwal: Yes. South will, I think, grow a little bit better than the rest of the market. But I think has we get it September and October, the rest of the country will also. So this skew will continue for, let's say, three or four months. And after that, I think the rest of the region should also show a similar growth.

Gunjan Prithyani: Okay, got it. And financing side is not issue at all on the tractor side?

Shenu Agarwal: No, none at all, because the cash flows are very, very solid in the rural areas, right, so financiers have no problem financing tractors right now.

Moderator: Miss Gunjan, ma'am sorry to interrupt you, but for any follow-up requests should you rejoin the queue, please.

Gunjan Prithyani: My second question just on construction equipment of that can be taken, I'll join back the queue.

Ajay Mandahr: Gunjan, this is Ajay Mandahr with you. The first quarter has been pathetic, in terms of 60% down, that means we were working on 40% of our demand. But I expect we are seeing the traction now coming in, the enquiry levels are good. H2 should be back to normal, that is what we expect as sitting out today. And quarter four should be a good normal quarter for us. See, typically in the construction equipment, the first half was about 40% of the industry and 60% comes in the H2 quarter. So we still remain optimistic and I think the guidance would be that the market may be negative, but still the quarter will give us better returns I think going forward.

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

Raghunandhan NL: Congratulations on good set of numbers despite tough times. Firstly, sir, you indicated that capacity utilization is at 50% to 60% currently, can you elaborate on the supply constraints and how do you see the ramp-up of utilization in months of August and September? Secondly, other expenses are lower in Q1, any one-off items here? Can you please highlight cost reduction effort and possibly if you can quantify the benefits for Q1 and FY'21? Thank you, sir.

Shenu Agarwal: Yes. Raghu, on the capacity utilization front, as we said in June, we almost reached our peak capacity for many days, and the situation was coming back to normal very, very fast after we opened up in the second week of May. But then we had a problem with a couple of suppliers, especially the proprietary ones. And these suppliers are of a nature where they supply to with the entire automotive industry, right, so we were not the only ones but the entire automotive and tractor industry suffered because of some situation with these suppliers, COVID related situation, right. So we had, for last about three and a half, four weeks now, we are struggling with that situation. And that is why the production capacity is at 50%. I mean, we have no issues specifically for our factories, but just issues because of a couple of these suppliers.

Now, the situation at these suppliers has improved dramatically over the last two, three, four days, and we are hoping that by mid of August we should reach back to our full capacity, if not earlier. Now, of course, as I say that, I mean, you all know that the situation is bit dynamic in terms of supply chain, right? So, I mean, we will manage the situation as it presents to us. But right now, that is what our belief is that by mid-August or earlier we should be back to full capacity.

Raghunandhan NL: Understood sir. On this expense for that?

Shenu Agarwal: On the expense side, of course, there is very, very acute focus on reduction of the cost. And that is on all levels, whether it is the focus on selling high contribution models for better contribution or by looking at opportunities in the material cost or in the fixed cost, including the manpower cost. So we have a very detailed out plan that we have set up which is very, very aggressive, because we thought that the situation requires that, because there would be some volatility on the supply chain side. And therefore, what we can definitively do is something on the cost, right? So that is why you are seeing better contribution and better overall margins, especially in the tractor side. Yes, this effort is going to continue in the future for rest of the year as well.

Raghunandhan NL: So, sir, fair to understand there were no one-offs and other expenses? And any quantification you can give on cost reduction benefits?

Bharat Madan: Raghu, so just to respond to your question. One, obviously, the one-off which was there, if you remember, in the last quarter in Q4 we had the benefit of higher productions as we build up inventory, so we had a good 2% improvement in EBITDA margin only because of that. So that hit has actually come in this quarter in Q1 when we actually utilized that inventory and sold those tractors, so there is a negative impact on the results sight. So the positive is, since there is a 45 days of almost shutdown, so we had no expenses on the manufacturing, selling and admin side which were very low. So that, obviously, you can consider as a one-off as this is not the situation when the plant is now working in the normal course. But Delhi, yes, we had taken the target to look at the reduction of further fixed costs by 10% to 15% in this year, and some of the efforts have already started and have been put into that perspective. So that saving we were expecting fully will happen during the course of this year. But yes, if you remove the impact of the first 45 days of shutdown, which could be one-off, but that to a large extent will get offset with this impact within the overhead side which we got in the material cost. So these two are more or less starting to offset each other. So maybe still there will be about Rs. 20 crores, Rs. 30 crores sort of one-off which will be there because of the lockdown, which may not be there going forward.

Moderator: Thank you. The next question is from the line of Vivek Gedda from HSBC Securities. Please go ahead.

Vivek Gedda: Actually pretty good set of numbers. Firstly, I wanted to get a sense on the impact of recent pick up in COVID cases in hinterland, this seems to be accelerating, especially in past three to four weeks. Do you think that may start impacting sales if this continues? And related to that, actually just wanted to get a sense on the constant of industry sales, from sales push versus sales pull, in the sense, how many people actually walk into the dealership to buy tractors rather than we actually going and approaching the customers? That would be my first question.

Shenu Agarwal: Yes. So we don't think COVID-19 is going to affect the demand side of it at all. I mean, because some things have changed, the way that we approach sales have of course changed, we are going more digital, we are going more telephonically and on video contact with the customers, those things have changed. But this is not going to impact the demand per say, because the demand is very, very fundamental in nature and all the macroeconomic factors are right. And also, the COVID penetration in rural areas is almost insignificant. So that is not going to be the case for sure. Of course, the volatility on the supply side may continue for some more time, and this is like very difficult to forecast. But yes, I mean, this volatility we know is going to continue on the supply side. You had another question?

Vivek Gedda: Yes. I just wanted to get a sense in terms of pricing of products of Escorts versus Kubota in terms of what kind of differential pricing would we have and we have this entire manufacturing JV completely ramped-up. So just wanted to get a sense as to what different ranges are you going to operate in so that we don't cannibalize each other?

Shenu Agarwal: So, as we have been said, and as our intent is, that Kubota and Escorts brands will continue to compete in the market, right? So both the companies will decide like how they want to position themselves in the market. So since we are completing on the market side, I mean, we possibly are not going to kind of have any synergies, at least on the pricing side. So yes, I mean, that question, right now given our strategic outlook with Kubota, that question is not very relevant right now. But yes, I mean, overall you know that Kubota would be priced at a very premium end, and therefore they would compete with the players like John Deere. And we have two bands, one on the premium side and one on the mass market side, so we will play with the competition that we have earmarked for. So probably there would be some conflicts and some competition in terms of customers that we target, right? But yes, we already have a little bit of a unique positioning. But yes, I mean, we are going to compete in the market generally with Kubota.

Vivek Gedda: Just to be sure, we actually were going to benefit significantly from the lightweight wetland application technology that Kubota is strong in, and some of the joint development work that we are doing is probably in the same field. So, the product that we are going to launch will be at a lower price compared to the products that Kubota will be selling, is my understanding correct, as and when we actually launch these products?

Shenu Agarwal: Yes, so right now the joint development plan is still under discussion as to which products we will make, we have not concluded that idea as yet. Of course, in principally we have decided we will work together on a few projects that we will jointly develop. But as and when that thing is more clear or we have better conclusion, then we will get back to you on those issues. But right now it's difficult to say, unless we specify like which products we are going to jointly design and develop.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Best wishes for the time ahead, sir, during this challenging time. Sir, you mentioned some proprietary products, there was a shortage, is it more on the fuel injunction side, that kind of propriety product, is that what you are referring to, sir?

Bharat Madan: Yes, that is right.

Shyam Sundar Sriram: Okay, understood. Sir, and you did mention that geography wise the Southern geography is seeing very good traction, is that because of the base effect or are there any other reasons behind the Southern geography doing better than the rest of the country? Or is there any fundamental reason why we are seeing a more strong pick-up in the Southern region as opposed to the Northern regions?

Shenu Agarwal: That is the main reason, water is the main reason. Because last few years the Southern market was depressed because of the lack of water. And now since last few months and quarters, the water situation is better. And even this year the monsoon, if it is widespread as it is forecasted, then South will continue to fare better. So mainly a low base and better availability of water right now. In any case, South is a little bit less under-penetrated as compared to some other states, I mean, so that is another factor that South has bit to catch up.

Shyam Sundar Sriram: Right, sir. Got it. Sir, one point on the gross margin side. I mean, you did mention even in the last call that 200 basis point benefit was there because of the inventory costing therein, now even if we adjust for that, the gross margin seems to be higher than even for the 200 basis point. Anything else that has impacted as in terms of gross margin? Because you did mention the Farmtrac versus Powertrac mix was also very similar and the greater than 40 horsepower was higher. So, anything else that I am missing here, because the realization is also pretty flattish quarter-on-quarter for the tractor. Any other point am I missing here, sir?

Shenu Agarwal: Yes, other than inventory part, I mean, there has been a positive on the model mix, because we have been able to sell more greater than 40 HP or, let's say, higher contribution models in this quarter as compared to the same quarter last year, right? So there is an impact of that. Bharat, would you like to add anything to that?

Bharat Madan: Yes. So I think the major like you mentioned is in the other cost side. So if you look at the other coast lines, because of the lockdown the major costs have not been incurred, so all your selling expenses like ATL/BTL activities have been put on hold or deferred, even the traveling, etc., for the sales team hasn't really happened, so most of them are working from home and actually trying to have a contactless sort of sales. So I think this is obviously evolving into a different sort of a business model also, and this is a practice what we really observe on the field. So, that also has a positive impact. But now whether that will continue or not in future something which is difficult to say, because the moment the business goes to normal, you will see many things will likely come back into play. But yes, those advantages definitely have been there in this quarter, but which may not sustain actually throughout the year.

Shyam Sundar Sriram: Apologies sir, I was asking on the RM cost to sales. If you see RM costs to sales, so this quarter it is at 67% and fourth quarter it was 62.2%, where you said there was a 200 basis point benefit in the fourth quarter because of the inventory line item. Now, even if you adjust for that, RM cost seems to be higher, gross margin is lower. So what is the point I am missing here, why is the gross margin lower compared to last quarter, that is what I am trying to understand.

Bharat Madan: See, in the last quarter we had a benefit of 2%, this time we actually incurred a loss. And this time the percentage is much higher than 2% because your top-line actually declined compared to last quarter It's only a reversal. So that's the only impact. If you remove both impact from both quarters, they are more or less in the same manner,

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir, just one question. I mean, you did talk about it that above the 200 basis point impact of the excess production that could reversed this quarter, and that is largely offsetting the 45 days of shutdown which we had wherein we had some cost savings. But despite that, the top-line is down 25% Y-o-Y. I just wanted to understand some of other expensive perspective, how sustainable are these in terms of you building on these? I think you did talk about it at the start or in response to one of the questions of actually reducing some fixed costs. So just wanted to understand how much of this fixed cost is reduced, because as soon as the volume come back, which you are hinting for in quarter two, three and four, would it be fair to say that you would build on these new level of margins and going forward we would see higher margins than what we have seen in the previous past, because of your cost saving initiatives?

Bharat Madan: That's right, Prateek, so that is what we are working on right now. So, I think as we look at look at maybe in the second half, you would see I think some actions which we already initiated and it's a cutting down on the way we do business in the normal course. So whether it is the sales offices of the kind of travelling which used to be there, the kind of activity which was likely involved initially, so those things will undergo a change. And internally we had taken a target of cutting down fixed cost of 10% to 15% range in this year, so obviously you won't get the full year impact, because this will happen over the need of the year, but maybe next year onwards we will start to see the impact on the margin front if all those activities actually fructify.

Prateek Poddar: And in your mind, what is this fixed cost base in an absolute amount, how much would this be for a year, any numbers if you can help us do that, if at all?

Bharat Madan: So on an average, if you look at the numbers, we are close to Rs. 175 crores plus few crores average in the quarter. So it's close to, I would say, about Rs. 600 crores to Rs. 700 crores sort of fixed cost is there.

Prateek Poddar: Understood. And lastly just in terms of inventory in the channel, I think in the opening remarks you said it's at an extraordinary low level. Could you quantify this? And given that now the season would start in a couple of months, I am sure you would like to build on that. So are you confident that you would be able to build on to that because we had seen some supply challenges in the month of July? So have you taken any steps so as to not let this reoccur, because then it would be loss of sales for us, right?

Shenu Agarwal: Yes. So I mean, the biggest challenge for us to ramp up our production and our supply chain, so that is the biggest challenge. So as I said, we are hoping, I mean, working in a very focused manner to make sure that we do not lose any more production. Now, since the situation with those suppliers that were not operating very well in the last four weeks have become pretty much normal or is expected to become normal. So the main challenge I think would be supply chain. I think for the entire industry, at least for the next three or four months, at least until the next peak season in October-November, I think the market size as well as the market shares would actually be driven more from the supply side rather than anything else. So it is going to be a challenge of for sure. But yes, I mean, we are studying the situation very minutely, working with all our suppliers on a daily basis, especially the critical ones, and trying to make sure that we produce at full capacity going forward.

Prateek Poddar: I didn't get the number of inventory days you would have in this system as of now, say depot plus channel partners combined or the channel partners if at all?

Shenu Agarwal: It is very, very low. Depots are almost flushed out completely.

Bharat Madan: Total combined maybe about three to 3.5 weeks between channel and company together.

Prateek Poddar: Generally is what, six to eight weeks generally?

Bharat Madan: So, generally we have what two to three weeks inventory with the company, and roughly four or five weeks inventory with the channel, so yes, you can say six to seven weeks is the normal level, so against that we are down to 50% level now.

Prateek Poddar: And can you take any mitigating steps so that this doesn't happen again in terms of telling your proprietary suppliers to give you in advance a lot of material so that you don't run out of the dependencies low. Are you taking that kind of steps?

Shenu Agarwal: Prateek, we are working out those measures, I mean, that one that you specifically said and lot of other measures, right? So, I mean, even to the extent of raising our inventory of our raw materials by few crores, right, I mean, that is definitely one. So wherever we can we are like pushing it hard and producing an advance, for example, for the peak season, buying raw material in advance for the peak season and stuff like that. We are adding into our warehousing storage capacity right now within the plants and sometimes outside the plants to be able to do this. And other things also, so wherever I mean we can produce in advance we are doing that, whether internally or through supply chain. So that is basically the key right now, that if you have enough tractors for October-November peak, then you would be able to sell, because the demand is supposed to be quite good in that time.

Moderator: Thank you. The next question is from the line of Amin Pirani. Please go ahead.

Amin Pirani: Sir, my question is on the outlook on rural cash flow. So it looks like kharif crop will also be a good crop because of the monsoons and the reservoir level. But is there a risk that because demand may not be up to the mark, especially for non-cash products like cotton, if that were to happen and if prices were to go down, how does it impact rural cash flows? And what is your outlook on the same?

Shenu Agarwal: Yes. I mean, we are not seeing any such signs right now, I mean, on every crop we have studied in detail what is the outlook on production and the outlook on prize. So we don't see except for bearing, I mean, maybe one or two crops in certain geographies, we don't see anything like this really right now. So one actually positive factor is at the kharif sowing has been advanced a little bit as compared to last few years, and therefore actually the season may start a little bit early. Which is actually good for everyone, because if the season starts early or the cash flow starts early in the rural markets because of the advanced khafir sowing, then I mean, retail financers would be very, very happy. And therefore, they will be more aggressive in actually financing new customers. So, yes, I mean, we are not seeing any threat of any of those kind right now.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Limited. Please go ahead.

Priya Ranjan: My first question is on the distribution side, you mentioned somewhere around thousand-plus dealership as of now. So what is the optimum level of dealership which you envisage? And what is churn rate, I mean, there will be some churn also in some non-critical market or non-emerging market, because sometimes what happens dealer joins and then lower volume they quit also. So what kind of churn rate and what it is optimum level of distribution we foresee for ourselves across pan-India?

Shenu Agarwal: Yes. So I think, as you know that we have to appoint many more dealers in our opportunity markets, especially in the South and the West. So most of our dealer appointments are happening there. So, we think that about 1,200 is the optimum level for us, given that we have two brands and given that they are following a dual distribution strategy for last three years. So which means that in every city or every market or every micro-market we will have two dealers separate for Powertrac and Farmtrac. So, with that strategy, 1,200 seems kind of an appropriate level, +-50. We are already at 1,017. Normally, I mean, last two or three years we have been kind of expediting dealer appointments into the South and the West part, and other opportunity markets. So this year also I think we will appoint close to 150 dealers, although quarter one we haven't been able to appoint many, but we have a strong pipeline. So quarter two and quarter three we will catch up on quarter one derailment. So, yes, I think in another couple of years, maybe 18 months, I think we should reach an optimum level.

As far as that churn is concerned, in our case the churn is close to about 5% to 7%. So that means about 50 to 70 dealers we have to reappoint every year in terms of the placements. So that, I think we will have to continue unless the churn number changes. But yes, other than the churn I think we should be done as far as reaching an optimal level in about 18 months.

Moderator: Thank you. The next question is from the line of Ashwani Agrawala from Baroda Mutual Fund. Please go ahead.

Ashwani Agrawala: Sir, what was the reason for lost in market share? In the last quarter we had a good market share of roughly more than 13%, and we have seen 250 basis points decline in the market share Q-o-Q. So can you throw some light on that?

Shenu Agarwal: Yes. Firstly, Ashwani, I mean, in tractor industry you have to look at more on Y-o-Y market shares other than Q-on-Q, because there are several factors that affect market shares and industry growth and de-growth in different parts of the country. And that is purely because of the crop practices and some other factors, local factors, right? So it is better to look at Q-o-Q market share. So for example, if you study our market share for last three four years, you will always find that Q4 we have the best market shares, like in absolute terms, and Q1 is probably not the best or probably the lowest. So I mean, there are factors around that. I mean, that is a long story, we will cover that sometime later, why it is so. But it is better to look on Y-o-Y market shares. So in Q1, I think we have improved by about 20 basis points as compared to the same quarter last year.

Moderator: Thank you. The next question is from the line of Iqbal Khan from CRISIL. Please go ahead.

Iqbal Khan: Sir, correct me if I am wrong. I think the BS-IV emission norm, has this been delayed to 1st October, 2021? Or it's still in place and will be implemented by the 1st October, 2020? And if in case it is still in place, what is your preparedness level for that?

Shenu Agarwal: So, around middle of June there has been a draft notification from the Government, that they want to delay it by six months. So the effective date was 1st of October 2020, so they want now to delay it to 1st April, 2021. A final notice is still awaited, but that should be coming any time now.

Iqbal Khan: Okay. Sir, so is it fair to assume if in case that gets implemented, would that that be affecting the bridge realization price across the categories?

Shenu Agarwal: No. So if it gets delayed by six months, then there would be no change. I mean, we will continue as it is until 1st of April next year. Existing norms will continue for six more months in that case.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, on this BS-IV thing, this is only for 50 HP above, right?

Shenu Agarwal: Yes, it is only for about 50 horsepower as far as tractors are concerned.

Hitesh Goel: Okay. And my second question is that when we are talking about rural, these is a talk in the street right now that because of the crop production being higher there could be significant fall in the crop prices going forward as kharif output comes in the market, which can have an impact on the farmer cash flows. And also, because cash income levels of the rural households is coming down because the payment that there getting NREGA is significantly lower than what they used to earn in cities. So just wanted to understand that what is your view with past experiences? When crop output is higher do you think the crop prices will remain stable or it will fall substantially? So, these are two concerns.

Shenu Agarwal: Yes. In our view, crop production as a parameter always much more heavily than crop price. So if you have a great production year but you have lower prices, that is positive for tractor industry, that is our view, I mean, that is our experience. Now having said that, government is very, very committed to enhance the purchase of crops, so you have seen that in rabi and you will also see that in the kharif, right. So, I think even with better production or even with slightly lower prices, I think the government will come back to support it. In any case, as I said, crop production is much more heavily in terms of tractor demand and crop price.

Moderator: Thank you. The next question is from the line of Mayur Milak from BoB Capital markets. Please go ahead.

Mayur Milak: So, just was going through the presentation and it did say that we are extinguishing our existing number of shares with the trust after we have given half of it to Kubota. Any specific reason after all these year why are we doing this now?

Bharat Madan: So, this is the understanding which we had with Kubota when we signed the deal with them. So they wanted a clear numbers of shares to go down to maintain the same capital issue. So, the initial discussion was to do a secondary offering, but then they were not very comfortable in the purchasing treasury share, so there's a legacy and history attached to that. They wanted a clean entry into the company, which is why we decided to then go with the preferential allotment of the similar number of shares and cancel the equivalent number of shares in the trust.

Mayur Milak: Okay. So at this point because of the change in this so your overall equity base does come down by about 10%?

Bharat Madan: Since we have also given special allotment to them, so overall base will not change, so they will get 10% additional shares which are already allotted now, and we are also canceling the equivalent number of share which will happen maybe by end of this year. So overall capital will be same.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Samiksha Capital. Please go ahead.

Nirmal Bari: My first question is on the secondary sales that you are seeing in the rural areas. So, May and June was possibly very good, but in July are we seeing some tapering off because of the pent-up demand going away or something like that?

Shenu Agarwal: Yes. Nirmal, I mean, still a few days to go for July, but demand sentiment or the demand pulse that we are witnessing on the ground, there is no taping-off. Of course, as you know, there have been some supply challenges at the industry level, so that may impact slightly. But it will be positive, the industry growth will be significantly positive is what we are expecting right now.

Nirmal Bari: Okay. And my second question is on the railways division. Do we expect a positive growth in the current year? I believe, earlier if some previous quarters you said that we intend to grow it by 15% as in Q4. So with the current 50% down, do we still anticipate positive growth in this division? And do we have the capabilities to ramp-up our revenues to say Rs. 150 crores or above that on a quarterly basis?

Dipankar Ghosh: This is Dipankar. I mean, what we feel is, Q1 is a blip in our whole growth story, because first two months, almost April and May and also in a way month of June because of delivery and production issues with the railway customers we could not deliver. Otherwise, our overall growth story remain still intact. We would be growing whatever we have been committing in the last two quarters. And we do have a significant order book, so we are pretty confident that the month of July, as we speak, and also August, September, and in the coming quarters, we would have a very strong execution and a very strong revenue top-lines also.

Moderator: Thank you. The next question is from the line of the Hitesh Goel from Kodak Securities. Please go ahead.

Hitesh Goel: I just wanted to get some sense of the railway business. I thought government projects are going as per track so very surprised with the railway performance. And I heard your comment that full year the revenue growth you are still expecting a single-digit growth. So, can you just shed some light what is happening there? And also on the margin side, with the new products coming in, the margins would be much lower. But you are localizing at a faster pace to improve margins. So, can you get some good color?

Dipankar Ghosh: Yes. So this April, May, June, what has happened is, though April we could not produce, May-June even though we had orders we had produced, but we could not recognize the bill.

Moderator: Sir, seems like we lost the connection for the current participant. Sir, you want to reply to his question or should we move to the next question?

Dipankar Ghosh: Whichever you like, I mean, we can move to the next question because once he comes back we can obviously reply to this question.

Moderator: Okay, sure. We move to the next question from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan NL: So, on the tractor side, given the favorable demand-supply situations, how has discounts and marketing cost trended in the first quarter? And whether that reduction in discounts is likely to sustain even in the coming quarters? That was one. And also if you can throw some light on commodity cost benefits in current quarter and expectations ahead. Thanks, sir.

Shenu Agarwal: Yes. Raghu, so discount is of course not the name of the game right now, and will not be the same until we get our supply chain ramped-up at the levels of the demand. right? So discount is going to be subdued for some more time, at least until the supply chain gets back to normal levels. So the second question was around commodity prices?

Raghunandhan NL: Yes, sir. So, the commodity prices have been softening, so just wanted to get a sense on how have been the benefits in the current quarter? And whether more benefits are likely to accrue in the coming quarter?

Bharat Madan: Sorry, can you repeat your question, please?

Raghunandhan NL: On the commodity prices and benefits.

Bharat Madan: So, I think in this quarter, obviously, the prices continue to be soft, so we have not seen any pressure on the impression right now and we don't expect really it will happen in the next quarter too. But we can't say because obviously the liquidity depreciation has happened, so they are in direct imports, which are involved with the industry. So some impact may happen maybe in the first quarter, maybe in Q3. But as of now, we are not seeing any impact coming, so no visibility at coming quarter in Q2 also.

Raghunandhan NL: Understood sir. And sir, like Escorts had launched a tractor on pilot basis in the rice specialist segment. What does the expectations ahead on the product launches for this segment in future and how can Escorts make a presence felt here?

Shenu Agarwal: So right now, right now we are trying to ramp-up the production of the rice special tractor. Of course, because of COVID, that has been hit in a very, very severe manner, because for this tractor right now there are a lot of outsourced components that we buy, including some aggregates. So that is why this has been impacted much more than the rest of the product line. On the demand side, I mean, this tractor is doing very, very well, after some customer seeding and testing and all that, we have made some improvements and now the tractor is performing very, very well. So in markets like West Bengal, Orissa, Chhattisgarh and the entire Southern rice belt, this tractor is generating lot of positivity for us. In terms of the next tractor or more tractors, there is a plan to bring a couple of more additional models in the rice special category, but that are not in this year's horizon. So right now the focus is on ramping up what we have right now to meet the demand.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, my question is on the construction machinery business. Sir, do you see an increased demand for forklifts given there was a labor shortage and some sort of basic level of automation whether the companies have opted for, and might continue in the future if that's healing more productivity. What is your sense on that?

Ajay Mandahr: This is Ajay. See, the demand side, even in the forklifts, the market is almost 30% of last year. The market for similar to construction, it was about 30% of last year levels, and we expect that H2 onwards that will also recover to some extent.

Dhaval Shah: Okay. Particularly on the forklifts as a product category, because the others are more linked to the construction, the broader construction segment, but post-COVID given the labor shortage, that's why on the forklift side.

Ajay Mandahr: Really no impact has come there, if you ask me, demand has been on very, very down side levels. And I think your this month is going to be some recovery that is going to happen, both for construction equipment and for forklift. And from now onwards, probably we are in a recovery side.

Dhaval Shah: Okay. And sir, just a one more question on the finance part. If I am correct, you mentioned Rs. 30 crores to Rs. 35 crores of fixed cost which was not incurred because of this 45 days of lockdown, is that number correct?

Bharat Madan: Yes, it's a rough estimate. But yes, to that extent it will be there in this quarter.

Dhaval Shah: Okay. So Q2 onwards the 10%, 15% reduction, which we are planning to do in our fixed cost, that should be reflective now?

Bharat Madan: Well, since we have just opened up and we started taking initiative, so I will say I think the impact will start coming in more in the second half then in Q2. But yes, some impact will be there, but I think it will take time because there is some notice period required to shut down your offices or to close down those issues. So I think those things will be there, so it will take some time, it would not happen immediately. But yes, from second half, it should start getting reflected.

Dhaval Shah: Sir, just one more question. Sir, on the Kubota side, when will the entire JV business start and the exports out of here will start reflecting in our P&L?

Bharat Madan: Exports for Kubota has already started in Escorts. So our tractors have already started going to some of their network, for example, we have started exploring to South Africa now, and we are sending some tractors to Turkey, in Europe, we are also sending some tractors to Thailand for testing. So the exports from Escorts have started. Now for the JV to start production, we expect the production may start sometime towards end of September, maybe end of this quarter, which will start with Kubota model. And the initial, obviously, the requirement will be more to meet the domestic needs, so which is what they will do. And maybe the export will start maybe once the production stabilizes and gets ramped up. So I think as of now, initially their levels will be low.

Dhaval Shah: Okay. So by FY '22 we should see some Kubota branded tractors getting exported?

Bharat Madan: Possible.

Dhaval Shah: And we will be reporting it separately?

Bharat Madan: No, so that will be in the JV, not in Escorts. Because the Kubota brand products will get sold in the JV only, which is not a listed company. What Escorts will export will get reflected in the Escorts, so that will be our tractors or the tractor which we get made through the JV.

Moderator: Thank you. Next question is from the line of Hitesh Goel from Kodak Securities. Please go ahead.

Hitesh Goel: Sorry, I got dropped off. My question was on the railway business.

Dipankar Ghosh: Yes. So basically what I was trying to say in the previous question also, is that the April, May, June sort of a quarter was more of a blip or a misnomer out there because of the fact that we could not deliver, there was no issue with the production or our order book. Particularly, the railway units were closed because unlike ICF Chennai, they had a lot of Covid cases out there, so they had totally shut down and they was no delivery being allowed, same why in Raebareli.

That is why we have a blip in the EBITDA margin and also in the particular top-line out there. But going forward, while the production units have reopened, though with a skeletal staff, but the billing and the delivery is being allowed now. So, what we see is that in July, August, September we would be able to recover quite significantly. And going forward, if there is no more of such sort of a lockdown, we should be coming back to our normal way of growth and we should be growing the way we would have been growing. But obviously, whatever we lost in the quarter, it will be difficult to recover in the coming like nine months, but we would be attempting to see what we can best do out of that particular gap.

Coming back to your second question of EBIDTA, we would be maintaining the EBITDA. Yes, there are import contents out there, because a lot of orders are there with import content. But we are walking significantly for our own localization program, and with the new Aatma Nirbhar Bharat initiative launched by the Prime Minister and also we will be going in for lot of local vendors, local content requirements, we hope to get our localization, brake systems and our localized products get approved pretty soon maybe within this year itself. So, that will give us a significant jump in the EBITDA, if we succeed in our localized content approval.

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

Jinesh Gandhi: Sir, two questions. One is with respect to our gross margins at a reported level. What we have seen is, from fourth quarter and first quarter, primarily last two quarters, the average gross margins have improved by about 200 to 250 bases point on a year-over-year basis or Q-o-Q previous quarter basis. So is that reflection of the reduction in discounts which we have seen because of a demand improvement from the December onwards and now the supply side issues are further resulting in reduction in discounts or there is something else to it?

Bharat Madan: So, Jinesh, if you look at the first six months of last fiscal, actually there is a lot of correction happened on the channel front, on the inventory side. So the market suddenly turned negative and the sales were not expecting the way we had planned. So whatever inventory got buildup in March 2019 was getting corrected in the subsequent six months. So, that is why the production was quite low, we cut down production in six months by 35%. So that has an impact on the margin for six months, which got normalized in the Q3 and Q4 quarters, where the production was more or less equal, likely in Q4 margin there was a buildup of inventory, so higher production actually than the normal level. But if you look at even ignoring that 2% impact, and Q3 and Q4, the margins were pretty good, which is the same trend which we are displaying even now.

Jinesh Gandhi: Okay. So effectively for normalized production, these kind of gross margins are more or less sustainable, except for any increase in variable marketing cost?

Bharat Madan: That is right.

Jinesh Gandhi: Okay. And you also alluded to the fact that product mix on 40 HP tractor and above has increased, so can you indicate what would be the contribution of the 40 HP and above now versus fourth quarter or first quarter last year?

Bharat Madan: So, in Q1 this time the proportion of more than 50 HP is about 62% of the total sales, which was 45%, 46% in the last year in the same Q1. And close to 57% or 58% in Q4.

Jinesh Gandhi: So you are saying 62% of 50 HP and above?

Shenu Agarwal: No, 40 HP.

Jinesh Gandhi: 40 HP and above is 62% this quarter and last year was about 57%, 58%?

Bharat Madan: 45% and 46%, and Q1 last year corresponding period.

Jinesh Gandhi: Okay, got it. And fourth quarter this year you said 57%, 58%?

Bharat Madan: Yes.

Jinesh Gandhi: Got it. And lastly, what was the CAPEX for this year?

Bharat Madan: So this year should be anywhere around Rs. 225 crores to Rs. 250 crores range. So, although in the first quarter we had not really spent much money because of lockdown and also because uncertainty lot of CAPEX was actually deferred. But now today only I think we got this approval for the board for the expanded program. So whatever projects were put on hold now we are actually reviving it, which are more midterm and long-term in nature. So it will really revolve around the new product development, capacity expansion and also some CAPEX wich were being incurred for our JV, because we are creating that building an infrastructure for the facility. So those projects will continue. So, it will be somewhere between Rs. 225 crores to Rs. 250 crores range this year.

Jinesh Gandhi: Okay. You plan to add capacity in standalone entity as well, given that there will be also capacity in the JV?

Bharat Madan: So, we are building up machining capacity at least, so we have built some capacity last year, but we did not spend the whole money, so actually we deferred some of the CAPEX now since the JV didn't come up in time because of various issues, and the lockdown which happened first because of the pollution issues, the NGT shutted down and then again because of this COVID-19 situation now. So, now we will be continuing with that spend. So that capacity for machining will get used for both the JV as well as by Escorts, so it will be common capacity but created in Escorts. And this is the old one which was continuing, so this will add another 50,000 capacity on the machining side, which we were missing earlier.

Moderator: Thank you. The next question is from the line of Bhaskar Bukrediwala from ASK investment. Please go ahead.

Bhaskar Bukrediwala: Yes. Sir, with regards to money that comes in as part of the allotment to Kubota, which is fairly substantial, close to Rs. 1000 crores. And anyways, you will have good cash accruals for next couple of years, given that the tractor is in the right cycle. So just wanted to understand this money, what would be the intended realization for the same?

Bharat Madan: So, like we had mentioned in the earlier calls too, so there is a joint business plan with both teams are working on right now. And we expect by end November Kubota has indicated they will be ready with the plan what they will do in India, and which we will need to work about jointly. But this money is restricted use for the purpose of collaboration what we have actually entered with them. So that plan will be available to us by the end of November. So I think as soon as that is there, we will share it with all of you. But this will really be around the collaboration principles and the scope, which is basically centering around our tractor business, your implements really into this business and around joint R&D set up, and around some of the construction equipment like backhoe and excavators which we want to go into.

Bhaskar Bukrediwala: Okay. So this money, essentially whatever will be used will be broadly under collaboration with your future plans with Kubota?

Bharat Madan: That's right.

Moderator: Thank you. The next question is from the line of Aditya Mhatre from HDFC. Please go ahead.

Aditya Mathre: My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Arun Subramanyam from Ampersand. Please go ahead. As there is no reply from the current participant, we move to the next question from the line of Sandeep Varma from Axis Bank, please go ahead.

Sandeep Varma: Sir, in Escorts what is the total CAPEX plan for the current financial year and what is a gross debt as on 30th June?

Bharat Madan: So, as I mentioned in response to the last question, so the CAPEX plan for this year is somewhere around Rs. 225 crores to Rs. 250 crores. And the debt as of 30th June was only Rs. 6 crores at 30 June date.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Just want you to know what is the contribution for the subsidy based tractor volume for the industry? And the given the pandemic situation and limited fiscal space with the state government, what is the outlook for the second half? Will it impact the overall tractor volume?

Shenu Agarwal: Yes. So yes, last time also we said that last year subsidy business was not as good, but this year it is expected to come back. So there are a couple of schemes which are already undergoing, right? There is one in Assam which is going full stream right now, and there are some more on the anvil. So, I think this year subsidy will play a good contribution for the industry growth overall. And I mean, right now the estimate is probably 7% to 8% of industry we'll be through subsidy.

Abhishek Jain: Okay. And the next question is related with export, what is your volume target for the medium to long-term in export?

Shenu Agarwal: Yes. So, in our Vision 2022 document, we had said that we would like to reach somewhere close to about 8,000 to 10,000 tractors in exports, last year we were close to 4,000. So there may be a slight kind of delay in that, maybe six months to a year. But still, we are looking at something around 8,000 to 10,000 tractors, reaching that level in next three years or so.

Moderator: Thank you. Next question is from line of Hitesh Bhargava from B&K Securities. Please go ahead.

Hitesh Bhargava: Sir, can you just explain what will be the replacement cycle? I mean, like will there be any change in replacement cycle during this up-cycle**.** That's my first question.

Shenu Agarwal: Sorry, replacement cycle in what?

Hitesh Bhargava: I mean, replacement cycle of tractor segment during this up cycle. I mean, like now we are seeing a de-growth in FY '20, we are seeing growth in FY '21. So will there be any change in the replacement cycle of tractor in the replacement demand, how is it?

Shenu Agarwal: No, so replacement cycle is going to be shorter as we go along, it's a slow phenomenon and its long-term phenomenon, right? So over the last many years we have seen that the replacement cycle is getting shorter. And that will continue to happen.

Hitesh Bhargava: And what is it now exactly versus maybe like three, four years back?

Shenu Agarwal: I don't have that information handy right now. But generally, from the top of my mind, I can say that it would be roughly about seven to eight years right now. In some markets, I mean, it varies from market-to-market, like in some mature markets like Punjab and Haryana, it is as low as four years also. But in some other markets, it is still like more than 10 years. So, I think the average would be about seven to eight years, and it is getting shorter as we speak. I don't have the exact data right now handy, but I can come back to you later on this with more precise data.

Hitesh Bhargava: Okay, sir. My second question is like what will be the share of replacement now? I mean, like out of the 100 sales or something which we sell now, what will be the share of like replacement or some first timers?

Shenu Agarwal: Yes, the replacement demand, again, I mean it varies from market-to-market. So for some markets like Punjab, let us say, the replacement demand is as high as 80% to 85%. And some other markets which are not as mature, the replacement is only about 20% to 25%. So on an average, the replacement demand would still be like almost like 45% to 55%.

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

Jay Mehta: Sir, just one question. I missed the answer on your view on higher crop production and lower crop prices, because two years back we had seen this phenomenon that higher crop prices led to a sharp fall in earnings capacity, and it had less effect on the demand also. So I just missed your comment on that side. Sorry if you are repeating the answer.

Shenu Agarwal: No, no problem at all. I mean, of course, it depends on the quantum also. I was making a generic statement that if the crop production goes higher and proportionately the crop prices go lower, than actually it is in the benefit. But yes, I mean, it really depends on the quantum. So I think you are referring to a period when there were like in some of the cash crop the prices tanked way below the expectation and that is why there was a negative effect. So this is like we can remember, I mean, what I can remember from my memory is like onion prices, the cotton prices, they went really, really down. And some of it was a result of crop production, but there were some other factors also involved in terms of export demand etc**.** So yes, I mean, of course time will tell how much the quantum could be or would be, right. But generally speaking, if the production and price change in proportion and the production is better and the price is lower, then that is in the favor of the tractor industry as per our experience.

See in future, as we go along in India, and this is again a long-term comment that I am making, right. Production will weigh even more and more heavily as the storage capacity, as other means, as export channels, they open up more and more, warehousing opens up more and more I think production will weigh more heavily than the prices in that, I mean going into future.

Jay Mehta: Thank you very much. Sir, just one clarification. You indicated earlier this year the kharif season has got preponed because of early onset of monsoon. So, would it be right to make a statement that there is a preponement of demand also and the right way to analyses the demand is based on average three month basis for the entire season rather than looking at just monthly numbers? So, logically should June be slightly weaker?

Bharat Madan: So, I think the preponement of Kharif would actually reflect in preponement of demand, not right away but it will reflect in like September, October, November period. So if the preponement has happened like by 15 days or three weeks in certain area, then to that extent the cash flow will also happen slightly earlier. So like this year, like normally what we see is that the huge concentration of the demand between the Navratra and the Diwali period. So this time there are two things happening. One is that the Navratra and the Diwali is postponed as compared to last year, so like by about, let us say, about like 10 days or so Navratra and Diwali are pushed out in to like middle of November Diwali. So that is one. But at the same time, because of the advancement of the kharif, cash flow would start happening a little bit earlier. So, because of these two factors, I think there would be more balanced demands in September, October, November, rather than like more concentrated demand between Navratra and Diwali period.

Moderator: Thank you. The next question is from the line of Rajat Rajoria from Angel Broking. Please go ahead.

Rajit Rajoriya: Sir, my question was on the breakeven sales number for construction equipment, can you please share?

Bharat Madan: We mentioned in the opening remarks, so this is right now in the range of 230 to 250 machines a month.

Moderator: Thank you. The next question is from the line of Kuber Chouhan from BP Equities. Please go ahead.

Kuber Chouhan: Sir, my question is, can you give us a breakup of CAPEX for construction for tractors and also for a railway equipments? It would be very much helpful.

Bharat Madan: So, major CAPEX, obviously for the total spend will be on the tractor business only. The construction and railway will be very, very small, say something in proportion to maybe the contribution they do on the revenue side. So we don't expect it will be really significant. So maybe roughly Rs. 30 crores, Rs. 40 crores maximum CAPEX between this should be there, the balance would be all tractors.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.

Jigar Shroff: Sir, if you could shed some light about this 40% that we are going to invest in the agri machinery joint venture, in terms of products to manufacture and size of opportunity. Thank you.

Bharat Madan: So, this is the sales company of Kubota in India. So we have a JV for manufacturing of tractor, which is separate 60:40 JV. So they were already operating through another JV partners, Sumitomo Corporation in India, and this was again a 60:40 JV with Sumitomo and Kubota. Now Sumitomo is exiting from this JV and we are going to enter into that JV as a partner with Kubota. So, ultimately plan is to merge both the manufacturing and sales company, and it will be a integrated company, where we will be 40% partner along with Kubota.

Jigar Shroff: Okay. So this is also basically going to cater to the tractor industry only, not agri equipment that we were…

Bharat Madan: So they deal in everything, they have got implements today, they also do the exports of component from India, they also do the trading in tractors. So it's essentially into the pure agri play right now.

Jigar Shroff: And what is the size of opportunity, we are looking anything ballpark or anything?

Bharat Madan: See, right now, last year they had a sale of closes Rs. 1,000-odd crores, out of which about Rs. 600-odd crores was on the tractor business, Rs. 200 crores from the implement space, and roughly Rs. 200 crores broadly was on the export of component from India.

Moderator: Thank you. We take the last question from the line of Sameer Deshpande from Federal Investments. Please go ahead.

Sameer Deshpande: Congratulations. Mr. Madan and all the Director of Escorts for the descent show despite the very bad COVID situation; and also completing the Kubota did on time, that has really helped and in future it will help us. Actually I wanted to know, we had declared last year that we would launch a product named Rider for this multi-purpose transport vehicle for the rural areas. So when are you planning to launch that?

Shenu Agarwal: So, I don't think we announced that we will launch next year. I think we just said that we are coming up with a concept and we will study the market and see what is the right time to launch such a product. So that study is still continuing. Yes, because of the COVID there has been a little bit of a less focus on this then some other things, so we will revise this maybe in a few months and then decide on the appropriate launch time.

Sameer Deshpande: So it will take some more time**,** okay. And this is to Mr. Madan, regarding the commodity prices, they have been quite favorable in the Q1 and even Q4. So does the trend continue to be the same in this quarter going gorward?

Bharat Madan: Yes, it looks like we are not seeing it. Normally in our case we pass on the commodity prices to the suppliers with the lag of a quarter. So since Q1 is soft, so obviously we will not pass on anything in Q2. But if Q2 if we see any inflation sitting in maybe towards the end of the quarter, so that impact only will come in Q3. So at least for Q2 we don't see any inflation pressure.

Sameer Deshpande: Overall the situation is actually going up and down, but some of the commodity I think the prices have started rising recently.

Bharat Madan: So like I said, since the exchange is obviously not favorable and rupee has depreciated in the last three, four months, so whenever the imports of commodities are happening, so that obviously will get priced in. So it depends on whether the supplies are importing the material or they are actually buying locally, depending on the availability.

Sameer Deshpande: And regarding the production, which we were facing the problems, we faced most of the problems in June or we faced the major problems in July?

Shenu Agarwal: Mostly in July. I think we started facing the problems towards the fag end of the June, last couple of days, last two, three days; but mostly in July.

Sameer Deshpande: So, the three weeks of July you had some supply issues major?

Shenu Agarwal: Yes, three weeks of July and a few days of June.

Sameer Deshpande: So now they have been resolved, so from August onwards you will see the things to be normalized?

Shenu Agarwal: Yes, it is under resolution, as they are there. So every day the situation is improving. But I think by mid of August, we should be back to full capacity.

Moderator: Thank you. We will take the next question from the line of Satyam Thakur from Credit Suisse. Please go ahead.

Satyam Thakur: A couple of questions from my side. Sir, the first one is on this distribution expansion that we are doing, last year we added a lot of distribution in the South and because also the churn was a lot. So while the net additions were still lower, but gross additions seem to have been very high because churn was very high in the South. So if you could just help us understand that little better that what really caused this increase in churn in the South last year? Was it more from the retailer side, from the distribution side that they wanted to kind of move out or was it more from our side that we wanted to kind of push out some of the people who were not performing as well?

And does this lead to kind of, number one, increase in any margins kind of that we share with dealers in the South, because a lot of these guys are new that we appointed now? And secondly, are they ready now? Because like you are saying that South seems to be doing a little better this year, because a lot of these details might be new, so are they going to be ready to kind of take up that market share or will they still not be mature enough? That's the first question.

Shenu Agarwal: Yes. So, just a general comment on the market share in the South. As you have seen that we have been growing for last many quarters now consistently, even in Q1 I think we improved by about 120 basis points in the four states of South. And the good thing is that we are growing in all the four states, not just one right now. So all four states had to contribute to this 120 basis points improvement in Q1. We are I think very, very close to 5% market share now. And in some states we are actually close to like 8.5%, 9% also. So that is just a general comment. That comment in itself tells you that there is higher confidence in the distribution channel with our brands now than it was in the past.

The other thing specifically to the churn is because of the fact that we have totally kind of change in a very, very dramatic way the way we are addressing the South market. So we have a project called project Bahubali where we are appointing dealers, and right now it is running in Telangana. So we are appointing single dealers there, which means the dealers are only supposed to sell, that is one thing. The other thing is that we are giving them very, very small areas, so it's a very, very different distribution system as compared to the traditional system that is being followed by players like Mahindra and John Deere in South. So for example, Mahindra, John Deere in Telangana would have probably 30 to 35 dealers in the whole state, and we would probably have more than 150 dealers in the state.

Now we are not calling them dealers, but we are calling them something else, like a retail form entrepreneur or something like that. And the whole idea is that this dealer would have very, very low investment, they would focus on a very small area, they would cater to a very low industry, these people will come from a rural background so they will be not be established salesmen, but these will be young entrepreneurs who have lot of local connections etc., and they are going to manage only one S, which is sales. Because the service and the parts thing we are creating a model in South now where it will be direct from the company and 100% doorstep.

So this kind of a model has given us a lot of benefits now in terms of our penetration in the South and in terms of the customer experience and in terms of the confidence of the brand. And our intention is to kind of take this to the entire South gradually. So I mean, because of this model we had some extra churn, because some of the dealers who did not want to accommodate into the new model, that we wanted to do has to be kind of parted away with. So that is the thing, and you will see a little bit more churn going on as we expand this model to the rest of the South. I mean, right now we are in half of Telangana, so right now we are focusing on extension in to Telangana only, and then later on maybe we will expand it into the rest of the states of the South.

Satyam Thakur: Okay, that makes sense. Thank you for that. And the second question that I had was, so I understand that your margin in the export business is the little lower by contrast to the contractor margins in India, if that is true? And then does that kind of distort the margin mix for us if the share of exports is going to go up sharply in the next two, three years or so? Or how do you compensate that, do you see the margins improving specifically in the export business, and specially with starting to sell through Kubota channels, what does that do to our margins in export? Does it leave it where it is or take it down or up?

Shenu Agarwal: I mean, generally if you see our peers also, the margins in exports would be slightly lower than the domestic, because you are normally, I mean, in countries outside India you are a new player or not a very significant player, and therefore you have to do many things to kind of penetrate the market. So overall, yes, you are right, I mean, as we go along we increase our export footprint, the margins on that on export tractors would be lower than the domestic tractors. But however, there is a huge opportunity that can be explored, so every tractor we sell helps us in kind of neutralizing or absorbing our fixed cost. So to that extent, I think it makes perfect sense. I mean, but of course you are right, the export margins would be slightly lower than domestic margin.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Bharat Madan: Thank you, ladies and gentlemen, for being present on this call. For any feedback and/or queries, please feel free to write in to us at investorrelations@escorts.co.in. Thank you very much and have a good evening. And please stay safe and healthy. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.