



“Escorts Limited
Q1 FY2022 Results Conference Call”

August 05, 2021



ANANDRATHI



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Moderator: Ladies and gentlemen, good day and welcome to the Escorts Limited Q1 FY2022 Conference Call hosted by Anand Rathi Shares & Stockbrokers. 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. Vijay Sarthy from Anand Rathi Share & Stockbrokers. Thank you, and over to you Sir!

Vijay Sarthy: Thank you Malika. Good evening and on behalf of Anand Rathi, I welcome you all for the Escorts Limited Q1 FY2022 Results Earnings Call. I also take this opportunity to welcome the management team from Escorts Limited. We have Mr. Bharat Madan, the Group Chief Financial Officer and Corporate Head, Mr. Shenu Agarwal, CEO, Escorts (Agri Machinery), Mr. Ajay Mandahr, CEO (Escorts Construction Equipment) and the investor relation team at Escorts. As always, we would start the call with brief opening remarks from the management followed by Q&A. Before we start, I would like to add that some of the statements that we make today will be forward-looking in nature and are subject to risks as outline in the annual report and presentation. At this point, I would request Mr. Madan to make his opening remarks. Over to you Sir!

Bharat Madan: Thank you Vijay. Good evening everyone and thank you all for joining us on this earning call for Q1 ended June 30, 2021. I trust each of you and your families are safe and well. At Escorts safety and well being of our customers, dealers, suppliers, and employees is of utmost importance. I am pleased to inform you that our employees, including third party rural workforce have been vaccinated against COVID for the first dose and the vaccination drive for second dose is on. We continue to take all the safety precautions in all our business premises as per government guidelines.

A few highlights of the company standalone performance for Q1 ended June 2021 are as follows. Please do note that due to COVID-19 impact, the figures for the current as well as corresponding previous do not represent normal level of operations and to that extent are not strictly comparable and growth figures may be skewed.

Coming to the highlights, revenue from operations was up by 57.5% at Rs.1671.5 Crores against Rs.1061.6 Crores in Q1 last year previous fiscal led by growth across all three divisions. Tractor sales volume was up by 42.9% year-on-year to 25,935 tractors our highest sale volume for this quarter. Construction equipment sales were up by 159% year-on-year to 606 units. Railway equipment division sales were up by 117.5% year-on-year to Rs.119.4 Crores. EBITDA at Rs.233.2 Crores is up by 95% as against ₹ 119.6 Crore last



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year Q1. EBITDA margins for Q1 FY2022 at 14% is up by 269 basis points as against 11.3% last year same quarter. The company continues to be net debt free with sufficient available liquidity for growth. PBT at Rs.246.1 Crores is up by 103.3% as against Rs.121.1 Crores last year same quarter. Net profit more than doubled to Rs.185.2 Crores as against Rs.92.2 Crores last year same quarter.

On consolidated basis on financial performance for Q1 FY2022 is at follows Revenue from operations was up by 56.2% year-on-year at Rs.1701.18 Crores. EBITDA at Rs.236.4 Crores is up by 94%. Net profit improved to Rs.178.5 Crores is up by 92.8%. EPS at consolidated levels stands at Rs. 18.13 as against Rs. 10.78 last year same quarter.

Now moving on to the segmental business performance, starting with the agri machinery business, the domestic tractor industry volume for the quarter ended June 2021 went up by 38.9% to 2.29 Lacs tractors as compared to 1.65 lacs tractors in same quarter previous fiscal. This is on low base of last year especially of April when the company was in the lockdown so just May and June growth excluding April is at 8.3%. This is the highest ever industry volume for April to June quarter.

All macroeconomic factors remain positive. Monsoon after a three-week hiatus has recovered well and Kharif sowing also has caught pace. This coupled with all time high the Rabi crop procurement by the government augurs well for the industry in the next few months. Most of the dealerships are now open and can fully serve customers.

Ore Domestic tractor volume was at 24,500 tractors in quarter ended June 2021 as against 17,690 tractors in same quarter previous fiscal. This is a growth of 38.5% which is almost in line with industry growth. Our dealer inventory level in terms of number of days of sales continues to be lower than the industry average. We continue to embark on our growth path while leveraging our two brands Farmtrac and Powertrac to differentiate it new products and through dual distribution strategy.

Our total dealer count in India now stands at 1100 plus, with most of our new dealers coming up in southern and western regions. On the back of new product launches the penetration of our product has been increasing in more than 40 HP tractor segment and during the last quarter also 60% of our total sales came from above 40 HP segment. We also now focusing on agri implements at segment and have launched two major product lines here in the previous quarter.

On export side, the industry was up by 146.7% to 26.6K tractors as compared to 10.8K tractors in last year Q1. Our export volumes went up by 212% to 1435 tractors as against



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460 tractors in Q1 last year. This is driven by focus on product development and on accounting new channel partners. Sales to global Kubota network are also gradually increasing as we are ramping up our supplies to global Kubota network. EBIT margins for agri machinery business went up by 112 basis points to 15.6% as against 14.5% last year Q1. Despite three price increases in the last nine months, inflation and raw material prices continue to adversely impact our contribution margins. In Q1 of this fiscal we have been to partly neutralize this impact through cost savings and through higher volumes.

Now coming to the construction equipment business, our served industry comprising backhoe loader, pick & carry cranes and compactors grew by 66% in Q1 FY2022 over Q1 FY2021. The crane industry grew by 214% but has shifted to price sensitive hydra segment. Compactor industry grew by 110% and backhoe loaders by grew by 44%.

Our total volume comprising both manufactured and traded products grew by 159% to 606 machines as against 234 machines in the previous fiscal. Segment revenue went by 168.3% at Rs.140.8 Crores as against Rs.52.4 Crores in corresponding quarter previous fiscal. EBIT margin at negative 2.3% for the quarter ended June 2021 as against negative 32% in the previous fiscal. The second wave was more widespread and severe as compared to the first wave, but the ecosystem was better prepared this time, localized and selective lockdowns and relative low-level migrations resulted in better productive on the project sites; however, concerns related to the likely subsequent waves, increased prices of equipment due to CEV fuel norms implementation, and commodity inflation and tighter financing control are expected to get neutralized over the next few quarters.

We expect going forward with the government thrust on asset monetization, build India thrust to revive the economy and improve the liquidity availability, demand is expected to recovery to its full potential from October 2021 onwards post the monsoon season. With road project execution target set at 40 kilometers per day against 37 kilometers per day achieved last year, the construction equipment growth looks promising, road construction being the largest driver for construction equipment demand. For full year FY2022 we expect the construction equipment segment to grow in mid teens and margins for the segment to improve further led by various operating matrixes and breakeven point reduction that we have spoken about many times in the past.

Coming to the railway division, revenue for the Q1 went up by 117.5% at Rs.119.4 Crores in quarter ended June 2021 as against Rs.54.9 Crores in the corresponding quarter. Sales for our new products more than doubled and now contribute 63% to total division sales as against 43% last year corresponding quarter. EBIT margin for quarter June 2021 stood at 14.6% as against 2.6% in the previous year.

Indian Railways is still not running its full operations due to unprecedented COVID-19 pandemic and have cut down their annual production rate affecting fresh order tendering and order inflow. Order book for the division at the end of June 2021 was more than Rs.300 Crores and going forward with government safety measures and vaccination drive taking up at fast pace, we expect that the tendering process will get back to pre COVID levels within the current fiscal. For FY2022, we expect the railway equipment segment to grow by lower double digits and margins for the segment are likely to be maintained around last year's levels. I request the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. I have two questions. Firstly, if you can give us better color on the demand side clearly Q1 initially we did see the lockdown impact, but in terms of on the ground fundamentals what are you seeing and if you give some sense on the inventory situation in the market? I will go to the second question after that.

Shenu Agarwal: Gunjan is that for tractors?

Gunjan Prithyani: Yes?

Shenu Agarwal: This is Shenu. As Bharat has also explained in his opening remarks, the industry was roughly 39% up in Q1, but we have to see it in the light of last year lockdowns where April was very, very dull last year and therefore if we just look at May and June, the industry growth is roughly around 8% instead of 39% that appears for Q1 because of the last years slowdown in April right so that is what I think is the real kind of industry growth we have witnessed so far roughly between 6% and 8% since the July data is already out so we know May, June, and July is roughly around 6% growth. So, the macroeconomic factors are quite okay positive. We had a little bit of a worry in the middle of June when the monsoon kind of slowed down and therefore affecting the sowing of the Kharif crops so there was a slowdown in monsoon for about three weeks, but fortunately enough the monsoon recovered very, very well and in a very short period right and therefore today I think we are pretty much okay on the rainfall and sowing has caught up space by now and even on sowing I think we are good right now. So, there was worry in a couple of weeks, two to three weeks mid June to mid July, but now I think the sentiment is again positive since the monsoon is fine and the sowing is also fine right now. So, on ground we see no challenges really. Right now, the prices are good. The production has been good. The procurement has been good of the last Rabi crop, so the sentiment is of course positive.



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Gunjan Prithyani: Would you stick with the guidance or is there any case to revisit the guidance for FY2022 positive approach of what magnitude if you can talk about that?

Bharat Madan: Right now, I think we will stick to the guidance. A lot has to be seen during the festive season, but as I said the sentiment has become positive again now, so we are expecting a good festive season coming up, which is like Navratri to Deepavali, but overall, we like to stick to the estimate given before on the industry.

Gunjan Prithyani: The second question is on the margin side? It will be great if you can help us understand that what kind of commodity hit that we saw compared to last quarter and the price increases taken? From what I recollect last call you all had shared that there was an under recovery of 3% odd so incrementally what has been the movement on both the commodity as well as the price? So again, this is on tractors?

Bharat Madan: As we mentioned last time also in the call so that standard recovery like we have been passing on the price increases to the market with some lag. So, the lag is roughly a quarter. In the June quarter we had passed on all the cost increases which happened till March quarter and in the June quarter inflation we had passed on in the month of July. We had already taken one price increase and it has been announced, which is the third price increase, which we have down now in the last nine months. So as of now as you stand at the end of June the entire inflation till June has been passed into the market, but yes, there is further inflation, which is coming up in the same quarter, which obviously we are not sure, it may be again another 2%, which may happen so that is something which clearly will have to be seen when do we pass it on in Q3 or later. So that is something, which we are still observing. So definitely we have still not ended so the inflation pressure continues so it is not as severe as we saw in the last quarter, but the pressure is still on. Let us see how the industry reacts to that going forward.

Gunjan Prithyani: If I got it right your incremental there is still 2% pressure from the commodity side that we could see in this quarter keeping the operating leverage aside?

Bharat Madan: That is right.

Gunjan Prithyani: Just last thing if I can ask cumulatively can you just give us the perspective of how much has been commodity increase since September last year or just last four quarters how is the total increase versus total price increases taken by Escorts just cumulative numbers if you can share?



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- Bharat Madan:** Cumulative, I think on the material cost front it is almost 10% to 12% cost increase, which you have seen already happened and we have on the same price it will be close to 8% sort of increase which has happened. So we have been able to perform that increase so far in the last few price increases till June and like you said 2% is still further which may come up in this quarter, so that will be later. Cumulatively it will be almost 10% of your realization, which has come as the price increase this time because of the inflation.
- Gunjan Prithyani:** I will fall back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** My question first pertains to outlook so are we maintaining our guidance of about 5% to 6% growth for FY2022?
- Shenu Agarwal:** Jinesh, this is Shenu. As I said we are sticking to that guidance of low single digit increase in the industry right now. As I explained it, if you look at just May, June, and July the industry growth has been roughly 6%. I think we should ignore April because of the last year's low base in April and we think on month-on-month it may change because last year there were many ups and downs because of supply chain situation, but overall I think we will maintain roughly around this kind of guidance.
- Jinesh Gandhi:** If I go by that guidance effectively it means that for remaining nine months or remaining eight months there will be no growth in fact decline kind of a scenario is that what you are looking at or you are indicating spending a 5% to 6% growth of single growth for the remaining eight months as well?
- Shenu Agarwal:** Overall for the year, we are saying roughly low single digits right so that is what we are saying right now.
- Jinesh Gandhi:** The second question pertains to the tractor market share aspirations, which we had in talked some time back and obviously many things have changed including COVID and other factors? Now are we aspiring for the 15% market share over the next two to three years or that will get pushed back further?
- Shenu Agarwal:** What we have told in our vision 2022 to document was that we will achieve roughly 14% by year 2022. Of course, as you know that we were continuously growing for three to four years so we were like roughly around 10% and then we were very, very close to 12% in 2019 and then of course last year, year and a half was roughly kind of lot of other factors



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played out like supply chain, the stocks, etc., right but now I think the whole industry is back on track, so it is an even platform for everyone to play around. Of course, we do not know about the third wave, if that would cause again some disruptions in terms of supply chain or some markets getting closed or something, but other than that I think it is a level playing field again. So I think we are like kind of looking forward to continue on that growth path now onwards again. So, another two or three years we would like to definitely touch that 15% market.

Jinesh Gandhi: Secondly you indicated our inventory is lower than the industry can you give an indication of what is our inventory level and what would be it for industry?

Shenu Agarwal: For tractors I can say what we hear of course you guys probably will know better, but what we hear is that the tractor industry average dealer stocks level would be roughly in the range of 45 to 50 days and at Escorts, we are still kind of, so we are quite well placed in terms of inventory that we maintain at dealerships as relative to the industry.

Jinesh Gandhi: Understand. Lastly what will be our capex guidance for this year for tractors and overall as such?

Bharat Madan: This should be again close to Rs.300 Crores to Rs.325 Crores what we indicated earlier in the last call so we maintain that guidance now and most of it lies at almost Rs.275 Crores to Rs.280 Crores will be actually on the tractor side only. So the balance will be small Rs.30 Crores to Rs.40 Crores.

Jinesh Gandhi: Got it. Thanks. I will fall back in the queue.

Moderator: Thank you. The next question is from the line of Vijay Sarthy from Anand Rathi Share & Stock Brokers. Please go ahead.

Vijay Sarthy: Thank you Sir. Just two questions one how has been the product mix this quarter sequentially? Realization has gone up. Is there any change in the production or it has been same number one? The second question is how should one look at the emission norms that is likely in FY2024? Is that scheduled or is there a chance of that getting postponed because of COVID or any color on that will help us? Thank you.

Shenu Agarwal: This is Shenu. I think Prateek can give you some detail data on the product mix. I will answer the emission norms question. You know that emission norms, the BSIV norms were supposed to come on greater than 50 HP tractors from 1 October 2022 this year but now the government has issued a notification where they have postponed it by six months. So above



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50 HP BT-IV will be now applicable from 1 April 2022 next year and I think the pretext behind the postponement was the situation that we were all going through in COVID and all that right. The stage V norms for all tractors above 25 HP which is slated to be affective from April 1, 2024, is still on track and we are not expecting any further postponements on that one now.

Vijay Sarthy:

Good. Thank you.

Moderator:

Thank you. The next question is from the line of Pramod Amthe from Incred Capital. Please go ahead.

Pramod Amthe:

This is to Shenu. Sir with regard to this emission norm when you say April 1, 2022, this is for production cut off or for the retail cut off?

Shenu Agarwal:

Pramod the April 1, 2022, for above 50 HP BSIV that is a production cut off date.

Pramod Amthe:

Earlier the government thought process was the considering it is a rural segment production cut off will happen earlier and then there will be a six-month transition for dealers to do that? Does that stand intact even in the new norm?

Shenu Agarwal:

As far as tractors, is concerned, there is no bar on like what time you can sell, but we cannot produce after April 1, 2022.

Pramod Amthe:

In that context do you see what is the expected price hike in those segments in the context of new emission, and do you see any prebuying happening in the next one year in the higher HP segment till the September?

Shenu Agarwal -:

Yes Pramod, as I explained these norms are effective only on tractors greater than 50 horsepower and 50 horsepower segment still kind of under 10% industry contribution right so there will be of course these tractors, this segment of tractors would be impacted, but it is not a very, very large share of the industry right so this segment may see some prebuying, yes but it is not going to make a significant difference to the whole industry.

Pramod Amthe:

Thanks a lot. I got it. Thanks.

Moderator:

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



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Mitul Shah:

Thank you for taking my question Sir. I have question on tractor growth in terms of regional disparity. As we had highlighted in our PPT most growth was much lower compared to south and west, north and central around 23% growth compared to 60% plus in south and west, similar trend we have also seen in July where industry growth being 33%, north declined by 5% of which south also declining, south growing, so how do you see this regional growth in coming months and full year 2022, because we are more inclined over north contribution is quite high for Escorts, so how do you see it is impact on markets Sir?

Shenu Agarwal:

Thank you for asking that question. Now, you are right Mitul that since we have a very skewed share of market traditionally in the country with some five or six states where we enjoy market shares in the range of 13% to even 19% and in some states we are like even now we are like 5%, 6% and in some other states we are still hovering around 8%, 10%, so there is a significant difference in our market share from state-to-state and that is why if the industry grows much higher in for example states like south or west where we have lower market share, it just mathematically affects our overall market share very badly, so for example even in Q1 if the market growth would have been equal in all these types of markets then our market share growth would have been substantial because of this phenomena we do suffer as far as our all India market share is concerned. Now coming to your question of the disparity, it is little bit unusual. Of course, in the long term we know that west and south will go slightly more than north and center and east, but this time in Q1 it has been quite unusual. So, for example in our strong markets or the six states of Punjab, Haryana, MP, UP, Bihar and Rajasthan, the market has grown 23%, 24% in Q1 while the markets in our weak markets, out of the four states of south has grown 60% over 65%, which is a huge disparity. Now we know the reason why it has happened because like most of the southern states or large parts of southern states or even in west lot of parts other in Marathwada, they are rain fed and they are rain dependent and therefore whenever there is a good monsoon, we see this kind of phenomena that happens apart from west and south, they grow phenomenally well, so this will continue for may be another two to three months before north also starts picking up back, because north is also receiving good rainfall now and some of the markets in the north we may even subdued even last year, they did not show much growth, so this is the right time for even north and center and east to bounce back. Already like we saw July as compared to Q1, so July growth was not that disproportionate as it was in Q1, right so it is already kind of tapering back to normal, but probably another two, three months we will have that is advantage.

Mitul Shah:

Second question is on industry growth since we are highlighting low single digit or would be around 5%, but as you all know that inventory system is very I forget around close to 120000 plus right now compared to usual 70000, 80000 for any August which is a record high, so even if you adjust this inventory sales and roughly which is around 5% of the



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annual number, so assuming around 10% plus kind of a retail growth then only 4%, 5% wholesale growth is possible, so do you see this situation like that or inventory will still remain high at this level of 120 plus throughout?

Shenu Agarwal: Mitul, of course you have a better idea on inventory at the industry level, yes, but there are two things. One, the industry the way industry has increased over last two, three years, there would be some increase in the inventory levels also at the industry level, lot of new dealers are getting created because of the spike in the industry in last two, three years and everybody is pretty much doing that to enhance, to ensure that coverage of all the customers, so some of this inventory increase will get absorbed because of that new dealers that most of the companies are appointing. In our case of course, you know that we are very aggressive on appointment of new dealers and we have already reached 1100 plus, three, four years ago we were like close to 700, 750, so lot of inventory gets absorbed in that sense and of course there would be some traction also, but correction may not be to the tune of 5% I do not think, 5% of the total industry. I think correction must be much lesser than that.

Mitul Shah: Lastly on construction and equipment, considering these cost inflations, what is the price hike taken and any shift in the breakeven point from earlier guided number of 700 units?

Shenu Agarwal: As Bharat explained on inflation specifically on tractors, the inflation is in the range of let us say 7% to 8% so far and we have already taken three price increases, the last one was in July and we have already passed on all inflation that we have experienced in absolute terms so far, so that already has been passed on to the market, but now in Q2, we are again expecting some inflation to come in may be roughly around 2% of the selling price and that inflation we will pass it the right time some time in Q3.

Mitul Shah: I am asking on construction and equipment, cost inflation pricing and break even point?

Shenu Agarwal: I am sorry about that, Ajay.

Mitul Shah: My question is construction and equipment side, what is price hike considering both inflation and any change in break even point compared to earlier indication?

Ajay Mandahr: We have generally passed on for the price increase to the market because construction does not have that kind of leverage available on the price, so BS-IV price and inflation price increase has been passed on 100% on to the market, acceptance level, which we have likely this month probably we have recovered most of the inflation from the market and as regards the breakeven point, we are running at a lower break even point 230, 235 I think Bharat will be able to explain you better, breakeven points are coming down because we are optimizing



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our cost, year on year we are optimizing, wherein cost inflation project that is running and that is the reason why even with drop in volumes we are able to maintain some amount of EBITDA.

Mitul Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Saksham Kaushal from Phillip Capital. Please go ahead.

Saksham Kaushal: Thanks for the opportunity. Two questions; further on the commodity side, we gather that the steel companies have again asked for significant increase retrospectively I think from July 1 and given that per tractor gross usage of steel is roughly 1700 kilos and this time around they increase is roughly I think they ask Rs.8, Rs.9 per kg and given the previous increases as we have told Rs.40000 to Rs.42000. Do you think that we can pass this on without impacting demand, how would the demand play out we passes on that is the first question Sir?

Shenu Agarwal: Definitely, we are experiencing problems in the market because of shipment price hike everybody is, so far it has not really affected the demand, but the cycle itself is getting little bit prolonged, the selling cycle, because it is taking more time to really convert the customers and have them to a buying point, so that is one phenomenon we are seeing, we hope it will settle sometime soon and other thing is also like it is putting pressure on our margins, it is also putting some pressure on the dealer margin because while we as manufacturers can raise the price sometimes it is difficult for the dealers to immediately pass it on to the customers, so we are going through some tough times from that perspective, from the inflation perspective, but we hope that probably this is the last quarter of such a high inflation, so things should settle down sometime soon.

Saksham Kaushal: Do you think that this price hike continues, you see down cycle in the HP side also, because we gather like the first quarter as where the 20-30 HP mix was that higher than what it was usually a last year also mix for the 45 HP and above was around 61%, so you think any adverse impact because of the significant increases that we have?

Shenu Agarwal: No. I do not think it will have bearing on the HP wise segmentation, yes, because we know that tractors are being huge more and more in income generating areas and therefore I think it will not have such a high bearing on the HP itself, because of the price issue, but last year was extraordinarily high, extraordinarily swing happen from 30-40, 40-50 and that may kind of neutralize a little bit this year and we know the reasons for that while last year we had a high HP shift, so that may neutralize a bit as we had already indicated earlier.



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Saksham Kaushal: Thanks Sir and I think you indicated that the industry inventory is roughly around 45 to 50 days and ours is less than 30 days, is that right?

Shenu Agarwal: That is on industries that is our guesstimate.

Saksham Kaushal: Ours is less than 30 days should give us a lot of scope to company for the festive season, because before festive we would like to stock up I guess?

Shenu Agarwal: Yes, everybody would stock up more. It depends on which players are at what level. We do not know that information very exactly, but it is just a little bit better scope. Not necessarily that we will increase our inventory continuously, we may increase temporarily prior to the season, but then we would like to bring it back to different levels in number of days.

Saksham Kaushal: I was asking near term only as you know if we are so well placed, so that gives a scope with everything scrapped up in October, so numbers in August and September should look good, I was just asking from that point of view. Thank you.

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

Aditya Makharia: Just I had two questions. I wanted your sense do you feel the penetration of tractors in state like UP, would be higher than perhaps what we see in the southern and western states, would like UP and Bihar be at par with the national average when it comes to tractor penetration?

Shenu Agarwal: We know that south and west has lower penetration than like more matured markets in the north, so that is true, so the northern markets have higher penetration, but Punjab and Haryana lead the pack in terms of penetration and UP and Bihar is not at the level of Punjab and Haryana of course, but south and west is further down.

Aditya Makharia: Right, I was just trying to understand despite having a lot more fragmented land, why would state like UP and Bihar, because they both typically has smaller landholding, why would their penetration levels be higher than what we see as compared to the ones in the south, is it due to better irrigation or is it better government credit or subsidy or just any color if you could throw on this?

Shenu Agarwal: I think the reason is historical, because the agri revolution started much earlier in Punjab and Haryana and then it settled down to UP and Bihar and MP and finally it got into south,

so I think that is the reason, it is just the timing, eventually I think everybody, every state is going to or every region is going to be at the same level as Punjab and Haryana right now.

Aditya Makharia: Fair point, got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Mihir Jhaveri from Avendus. Please go ahead.

Mihir Jhaveri: Thank you for the opportunity. Just one question on the operating leverage part, so when you said that the commodity pressure is around 200 BPS and given the guidance where we are in terms of the decline, we expect that there could be declined in terms of numbers with the rest of months, how this operating leverage will play a part in terms of and hence my question is that how do you look at margins from the current trajectory of 14% so do you envisage that probably margins now is likely to fall from these levels and what would be guidance on the same for the rest of the year that is my only question?

Bharat Madan: As we mentioned like in June quarter, we are running a lag of about 3% in margin and also which got passed in July and we are seeing this quarter, current quarter we are again looking at 2% sort of inflation with the second which will be again will have a lag so essentially we are looking at improvement happening this number 3% lag last quarter which will be passed on this quarter, you are reducing it to 2%, so inflation intensity is not as high as it was earlier in the last quarter, so definitely that will likely help in improving margin further from where we were in the last quarter and we start trajectory, so if the inflation stabilizes going forward, so that definitely should help in the margin improvement further.

Mihir Jhaveri: Madan Sir, my question is that in case of a decline in terms of numbers which we envisage given that we have a low single digit number, how do we see that the margins will improve term the current 14% levels is what I wanted to understand?

Bharat Madan: Overall we are still looking at this current year which will show mid single digit growth, so we do not see they will have a negative impact of the operating level on a full year basis, so really inflation is passed on even though it happens with a lag, so at the end of the year you will still full enter the year with fully recovered cost with the increase which is happened, so we believe it I do not think so I think the margin overall should actually see an improvement from the level what you have seen in the first quarter in the balance of year.

Shenu Agarwal: Just to clarify that if we are saying like 5%, 6% industry growth of the year and last year was 900 so let us say 950, 960 somewhere in that range depending on that 5%, 6% and if you look just at April, July, the industry has increased from roughly 230 to 294, so 65000



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odd gain against the whole year gain of like 50 to 60, so it is not like deep decline or significant decline in the rest of the eight months right, it is just like few thousand.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital. Please go ahead.

Mythili Balakrishnan: Just two quick questions. One, I wanted to get a sense on in terms of exports, clearly we have seen a very strong number there, so I just wanted to get a sense on, is that Kubota JV sort of picking up or is that your own exports to Kubota and how exactly are you seeing there and my second question was on the cash, because we have like a ton of cash right now on our balance sheet, so just curious as to is there any indication of what exactly are we looking for given the cash?

Shenu Agarwal: On the export side, although we have started now with Kubota and the volumes we are ramping up on a monthly basis, but still the contribution of Kubota network to our exports is still very, very small, so most of the growth that we have achieved that the numbers you are seeing for Q1 is lastly through our own network. Of course, in future as we are progressing more and more with Kubota their numbers will also grow and their contribution to our overall exports will also grow, but right now it is not a significant not a very huge contribution, so most of the growth is through our channel loan.

Mythili Balakrishnan: On the cash Sir?

Bharat Madan: On the cash front obviously the company has some aspiration, cash from definitely company has some aspiration of growth and we are also looking at inorganic options for the business like we said railways was one of the interstate business where we are going to grow and also the other opportunity which we are evaluating and they keep on coming, so definitely we will strike in the right time which is the right evaluation, which also serves to our purpose and helps business grow and also gives a better returns to the shareholders, so as of now we will wait and watch, but it is something comes up definitely which is of interest to us, we would like to really utilize the money for the growth of the business in future.

Mythili Balakrishnan: Got it and second squeeze one in, any impact of the semiconductor shortage on our business?

Shenu Agarwal: No impact at all on our business because of that. We barely use any electronics in our tractors right now.



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Mythili Balakrishnan: Thank you a lot Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Utkarsh from Point72. Please go ahead.

Utkarsh: Thanks for the opportunity. Sir, I had two questions. Firstly just on your guidance on the mid single 5% to 6% industry growth, so what is our Escorts given that we had lower base in terms of the market share last year and this year like you had previously guided that some of the market share losses will also come back and also you are sitting on lower inventory versus the market, so are you optimistic about taking industry growth this year?

Shenu Agarwal: We are very optimistic. I think, we will continue to beat the industry growth, this year and also going forward. You know we have been telling our story, our plans about how we are planning to do that and we are on track as far as our plans of growth are concerned and broadly speaking these are in two areas. As you are aware that we have a very poor coverage traditionally in the southern and the western markets and that we are increasing now year-on-year and also we are covering the most of our white spaces now in the product portfolio, so both the things are on track and we will see those results coming in the future.

Utkarsh: Got it. Well understood and just to clarify on your earlier comment on raw material inflation in pricing, so there is basically if we summarize that there is 2% raw material inflation next quarter, but you have taken 3% pricing and this is quarter-on-quarter that I am seeing so it is slightly better on margins for the next quarter leaving aside the operating leverage aspect. Is that a fair understanding and if so by which quarter do you think that you can cover all of it, you mention that there might be another one coming in the third quarter, so if there is no inflation should we assume that by third quarter you are back to your level seen last year in terms of the COVID savings as well that you have?

Bharat Madan: Your understanding is correct, so definitely that is what we meant so if you are likely with the reducing with the reducing inflation definitely that will help in improving the margin but obviously 2% right now for the next quarter is a guess right now, and these are just fair estimate. As of now as you know the steel companies are taking the price changes from retrospective date and that settlement takes some time, it happens with some lag, they have settled the prices for the March quarter now with the SIAM body and also the steel company so steel prices are still pending so we are fully provided for them in the books of accounts but still you do not know at what level that you get settled and then again for the July quarter, what will happen there so as of now our fair estimate is about 2% and if it remains that level then definitely we will the margin improvement happening whether it will get fully passed in Q3 or not, I think we will have to watch the industry and other players how they respond because volume is equally important for the industry so let us see



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I think we wait and watch. The idea is so far the industry is not passing it on and we expect I think the same momentum continue in future too and if is no further information in Q3 then probably by Q3 will be leveled fully.

Utkarsh: Understood Sir so just to follow up that and on the second part of my question was also intensity of COVID savings during last year's like any permanent savings on the opex side that you have done and would that be 100 to 200 bps if you could quantify that?

Bharat Madan: It is difficult to say whether they will be permanent saving was like it seen in the Q3 and Q4 last year also most of the cost actually started coming back the major cost from travel portion is exactly will back on the market returned back to normalcy so in this quarter also there have been some saving, which has come up because the month of April-May, which shows on lockdown happening so those savings were there but whether they will call it permanent I think, is better able to say that. I would not say will be real permanent having at the moment you go back to the normal situation the costs start going up again.

Utkarsh: Got it Sir. Thank you. That is all for me.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Thank you for the opportunity. Sir my question is on ASP in the tractor segment if I look at we have taken good bit of a price increase, mix is better on the domestic side as well as the export mix has gone up, I still ASP in the segment has increased only 3.6% on Y-o-Y basis, what are we losing here that ASP pass through still not improving to that extent?

Bharat Madan: So one obviously it is mix, was it export mix, the realization were not high and in export the realization was slightly lower and also again it depends on the mix you actually exporting where we actively doing most of the small tractors, compact tractors there whether the mix is slightly lower, but overall yes if you look at the overall realizations so they have gone up compared to last year so last year our segment 40 HP and above, the mix was better so this quarter we have seen dip of about a percent or a 1.5% and this was in the overall sales which was 61% plus in more than 40 HP segment and this time it is down to 60%. So 1% which is there it is not significant there but it will have some impact on the ASR also, and second we are on non-tractors sale which we does happen, in terms of the overall constitution which used to be 8% to 10% so that is another factor which will have some impact on the ASR.



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Nishit Jalan: Sure Sir and just one follow-up, typically what is the non-tractor incremental sales as a percentage of revenues in overall tractor segment and is it fair to assume that segment would be growing at a faster pace given the kind of higher penetration that we are seeing in that segment?

Bharat Madan: When I say non-tractor is not just mean implement sale it can be spare parts, etc., so engine and spare parts get sold which is not strictly tractor so normally this ranges from 8% to 10% depending on quarter to quarter so I think this time also is about 9.5% and overall segment sale.

Nishit Jalan: Essentially 8% to 10% is the non-tractor sales which includes spares and pumps that is utilized here?

Bharat Madan: That is right.

Nishit Jalan: Thank you so much.

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

Sameer Deshpande: I would like to know what this railway equipment business I think Mr. Madan mentioned that we will grow in about low single digit and like you have to maintain the margins of the same level as last year. The current order book seems to be a bit lower at around Rs.300 Crores because of the problems that we face, so going forward if there is no COVID wave or the third wave is not that severe then do we hope the business in the second half or in the balance nine months, it will grow well or we will be just maintaining the margins and the turnover will also be at the same level as last year?

Bharat Madan: Sameer we actually had mentioned the growth will be lower double digits so it is not low single digits first of all so from the last year's it will definitely be good growth, you are not double digit means it can actually go up with 13% to 14% level from the last year's level and if we maintain the last year's margin level also I think it will be still much better than last year what we have seen in the set of numbers. so in terms of the order book yes it is slow because the issues of the railways so the production rate has been cut down by them and tendering was at least not happening, but now we see in some pickup and started happening on the railway front even though they are not running the train sort of the pre-COVID levels, we are still running 65%-70% level the normal situation but in as the transportation picks up as they start to running through the normal level the demand will also increase for the new parts and also for the spare parts for maintenance, which has



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actually slowed down so we expect the order book I think will start picking up now from maybe Q3 onward and by end of the year, we should be back to the normal level so right now we are trying to do is to speed up the execution pace at the railway for the existing order book so that we are able to maintain the growth, which we are indicated here.

Sameer Deshpande: Good and secondly we have really done very well in this quarter despite there is raw material price increase and we have successfully passing on without affecting the demand because the competition in the industry is quite high so congratulations to you people for doing a really valuing on the marketing as well as all other fronts and the cost optimization but actually I have wanted to know are we targeting any product in the farm allied machinery segments, which that is farm implements etc., which can be bundled with the tractors and which will help our farmers increasing their productivity and that is why we competition in some way in this way, are we doing anything on that front?

Shenu Agarwal: Yes so as we have been saying that farm implements and attachments is going to be one of our focus area going forward so we are in the process of putting those plans together and we have already launched a few implements in the market of course, very, very nascent stages. We have been launching some of those implements, but we are preparing also our plans in the long term how to penetrate this part of the market but yes you are right I mean this is one of the strategic focus areas for us for expansion.

Sameer Deshpande: Because to my knowledge I have heard some of the large companies in the sector that the size of the farm allied machinery and implement business is few times of the tractor industry so is it true?

Shenu Agarwal: No. It is not few times at least in India when you look at market overseas like more mature, developed markets and Europe or USA, of course implement attachment industry is quite huge but in India, it is not the case I mean, India is still kind of in the developing stage. This whole industry was in one organized sector previously but now lot of attention is coming on this industry and lot of organized players are also entering so why it is not a few times it is like I mean much less than the tractor industry in terms of value. But yes, it is going to grow quite effectively.

Sameer Deshpande: With the GST and all other implementation and the unorganized market shrinking everywhere so whenever I think organized market and companies in the sector like us can see a big shift from the unorganized market and I think when tractor penetration sometimes at some point of time will face some hurdle I think this segment will help us going forward?



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- Shenu Agarwal:** You are absolutely right. This is something very, very important for the industry not just for us and we are also like putting a lot of focus on this part.
- Sameer Deshpande:** Thank you and all the best to you. One more question, it was regarding their surplus on the balance sheet. We really have in the balance sheet in 75th year and we also around Rs.3000 Crores surplus where we will be some capex which is still not very large and staggered manner so I think it is a challenge to deploy that money in the money market instrument here and there we hardly get any 4% to 5% here and there, but with this other income for this quarter was around Rs.50 Crores so what will be expected run rate for other income going forward for the balance here?
- Bharat Madan:** It will be in this range only. It will be somewhere Rs.40 Crores – Rs.45 Crores each quarter at the current level of cash which we have in the balance sheet and if it goes further than they definitely see the further upside there.
- Moderator:** Thank you. The next question is from the line of Saksham Kaushal from PhillipCapital. Please go ahead.
- Saksham Kaushal:** Thanks for taking my question. I just wanted to check on discounting levels and the dealer support that is there and given how the industry material talked about so could you just comment on how it is for us in the competition as well specially the discounting in deal support?
- Shenu Agarwal:** Saksham, we have not seen any changes per se in discounting even at the industry level and definitely for us, right, normally I am, tractor industry that is not a very huge pain, discounts are very normal and static.
- Saksham Kaushal:** Fair enough.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** My question pertains to the railway business do we see near doubling of contribution from the new products as such so do, we expect these levels to sustain and if yes what does it imply for sustainable margins for railways?
- Bharat Madan:** As we have seen proportion of the new product development has been increasing so that is something trend which we continue I think in future too and as we had mentioned earlier, also I think in the earlier call so I think there is a maturity cycle to any new product which



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gets introduced, so over the period of a few years cost cuts coming down and in this particular products we also importing a lot and they say effort to do the localization there on those parts of the moment you go through the localization process the margin actually will improve further. So the number of products which are in the pipeline there will always be some cycle which will be there so idea is to have those margin ratio remain in the range of 17% to 20% sort of this business end of the day. So I think we will probably be maintaining those sorts of levels going forward a view on this business.

Jinesh Gandhi: Okay got it and lastly with respect to farm machinery sales except tractor so it would be currently what percentage of revenues or absolute sales would be coming from machinery?

Bharat Madan: Right now it is not much actually. Like I mentioned so it is recently started entering into this area now so this few products which have been introduced only last quarter but this is one significant area where the focus of the company is and that should continue to do well, I think in the times to come maybe when you come, when we come back to you with our next plan for the midterm business plan, by the end of this year probably you will get more clarity what sort of revenue expecting from this channel all the lines we get buildup.

Jinesh Gandhi: Got it thanks and all the best.

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

Mitul Shah: Sir as we guided for a single digit growth on a full year basis Sir I want to understand from near term visibility in terms of next few months, August, September even if I am assuming 10% kind of growth over pre-COVID peak level of tractor industry volume for August September till it is translating into kind of 15% to 20% decline on Y-o-Y business so can you throw some more light on next few months?

Shenu Agarwal: As I explained, I mean, overall like we are still sticking to that guidance of 5% to 6% and the tractor industry in absolute numbers have been up 65000 units April-July and it is 5%-6% by industry would be roughly around like 950, 960 for the whole year which is about 50000-60000 more than last year like so first of all I mean we are not saying that there will be a kind of a significant decline in the rest of the period. It will be roughly kind of similar I mean if we just consider August, March period it would be roughly similar maybe 5000 to 10000 tractors less on a base of roughly 600000 tractors. Now last year was a very, very different year because there were a lot of challenges and these challenges were different with different companies and effort at different times. They were different because of the supply chain issues because most of the supply chain issues that we faced as industry, was



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in the period July to October and then after November or mid-November, the supply chain started getting stabilized. Now, of course, there is a general sense in the industry that there was a pent-up demand in this period from the first quarter, but also there were some supply-side shortages and therefore I would kind of like to think that while the rest for eight months, we are saying that more or less the industry would be at same level since last year I think there is still some growth that we will see in the next three four months and probably some decline then going forward but on absolute basis number basis, the eight months would be more or less same as last year.

Mitul Shah: Thank you Sir. Lastly on competition from small players recently we have seen this Kubota preet tractor, caption all those put together market share has improved over the last 1-1.5 years any view on that?

Shenu Agarwal: I think the most important players out of these players that you named I think Kubota, because Kubota has come in at a premium side and trying to establish its network and also its products in the Indian market so we think that Kubota has a lot of upside, in the market in terms of market share because they are still, they are like three or four product company, and they are only present in a few states right now. So they have a lot of upside, Of course, we are watching every other player, small or big in the market, yes but as I said, the prospects of the Kubota for growth, is highest side now in our view.

Moderator: Thank you. As there are no further questions I would like to hand the conference over to Mr. Madan 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 into us at investorrelation@escorts.co.in. Thank you very much and have a good evening. Please take care and stay safe and healthy.

Moderator: Thank you. On behalf of Anand Rathi Shares and Stock Brokers that concludes this conference. Thank you joining us. You may now disconnect your lines.