"Escorts Limited Q4FY15 Earnings Conference Call"

May 28, 2015

MANAGEMENT: **MR. S. SRIDHAR – CEO, ESCORTS AGRI MACHINERY.**
MR. SUNIL SAKSENA – CEO, ESCORTS CONSTRUCTION EQUIPMENT.
MR. DIPANKAR GHOSH – CEO, ESCORTS AUTO & RAILWAY PRODUCTS.
MR. BHARAT MADAN – GROUP FINANCIAL OFFICER, ESCORTS LIMITED.
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Moderator: Ladies and gentlemen, good day and welcome to the Escorts Limited Q4FY2015 Earnings Conference Call. 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Raghavendra Jaipuria from Perfect Relations. Thank you and over to you sir.

Raghavendra Jaipuria Good evening everyone and thank you for joining us on Escorts Limited Q4FY2015 Results Conference Call. For today's call, the management would be represented by Mr. S. Sridhar – CEO, Escorts Agri Machinery; Mr. Sunil Saksena – CEO, Escorts Construction Equipment; Mr. Dipankar Ghosh – CEO, Escorts Auto & Railway Products; Mr. Bharat Madan – Group Financial Controller and Ms. Jyoti Khatuka – Head, Treasury and Investor Relations Team at Escorts Limited.

We will start the call with the brief opening remarks from the management followed by interactive Q&A session. Before we start, I would like to add that some of the statements that we make in today's discussion will be forward looking in nature. At this moment, I would request Mr. Madan to make his opening remarks. Thank you and over to you sir.

Bharat Madan: Thank you Raghavendra. Ladies and gentlemen, a very good evening to you all. Thank you all for joining us on the earning call for fourth quarter and financial year ended 31st March 2015. A snapshot of company's annual performance is as follows:

Turnover at Rs. 3,986 crores against Rs. 4,263 crores last year down by 6.5%, this is primarily due to drop in tractor volumes. Tractor volumes went down by 13.3% to 59,779 tractors against 68,963 tractors last year. Construction volume, however went up by 7.7% to 3,007 machines against 2,793 machines last year. EBITDA stood at Rs.161.4 crores against Rs.274 crores last year down by 41.1%. EBITDA margin now stands at 4% versus 6.4% last year. The major reason for the fall in profitability as compared to last year is the lower tractor volumes and the increase in other costs mainly coming from the consulting and export expenses. Finance cost also went down by 15% to Rs. 57 crores. The total debt outstanding as of March 31st, 2015, is Rs. 481 crores. PBT before exceptional items stands at Rs. 98.9 crores against Rs. 206.1 crore last year down by 52%. The company reported a PAT of Rs. 74.7 crores versus Rs. 179.3 crores last year. EPS is reported at Rs. 6.26 against Rs. 15.36 last year. The Board of Directors have recommended a dividend of 12%, that is Rs. 1.20 paisa per equity share of Rs. 10 each for the year ended 31st March 2015.

Now moving on to company's quarterly performance, the turnover at Rs. 818 crores as against Rs. 983 crores last year down by 16.8% on year-on-year basis. The tractor volumes went down by 29.1% to 11,036 tractors against 15,556 tractors last year. Construction volume, however went up by 9.3% to 740 machines against 677 machines last year and quarter ended March 2014. EBITDA at Rs. 22 crores is down by 51.9% against Rs. 45.8 crores last year. The major reason for the fall in profitability as compared to last year is basically lower tractor volumes. The raw material cost went down by 110 basis points to 70.9% against 72% in the corresponding quarter. The company reported a PAT of Rs. 12.8 crores versus Rs. 31.8 crores last year.

Now moving onto segmental business performance, starting with the Agri Machinery business, domestic tractor industry volumes went down by 13.1% to 5.5 lakhs tractors as compared to 6.33 lakhs tractors last year. The sentiment of the farmers and the industry has been dampened firstly due to delayed and below normal monsoon season and then untimely rains just before the harvesting season. The continuing lower crop prices, lower outlay in MNREGA along with the tight funding by the credit agencies due to poor redeployment of the old loans, bad debts in states like MP, Maharashtra etc., are our important challenges. In Q4, the industry de-grew by 30% at 97,000 units against last year with 1,38,000 units. The agriculture sector struggled with the untimely rainfall and hail storm in February-March across multiple states.

Our domestic volumes also went down in line with the industry. Our domestic market shares stands at 10.5% in year ended 2015. Our export volumes however are more than doubled from 901 tractors last year to 2,214 tractors this year. In line with our strategy to become market leader in higher HP segments, our tractor volumes in 50 Plus HP grew by 53.6% as compared to last year. Our market share in this segment also grew from 6.6% to 9.7% on full year basis. This segment also grew by 5% in the declining industry. Continuing with our strategy to offer innovative products, last year we had launched new products like ALT, Anti Lift Tractors series under the Powertrac brand and XP series and FT6050 four wheel drive(4WD) under the Farmtrac brand. The market response for the newly introduced models have been very positive. The new models are creating product pull-based market demand amongst the prospective buyers. Going forward in the current fiscal, we shall continue to bring new products. EBIT margins in EAM went down by 290 basis points to 7.1% against 10% last year primarily due to low volumes. We are on track in our projects in reducing material cost and better margins are expected once the industry turns the corner.

Now coming to the construction equipment business, while our construction equipment industry seems to be bottoming out, our served industry segment continue to decline. The served industry volume for the year went down by approximately 10%. Our total volume however went up by 7.6% to 3,007 units against 2,793 units. In Q4, also our total volume manufactured as the traded products went up by 9.3% to 740 machines against 677 machines in the last year same quarter. In construction equipment, backhoe loaders and cranes have led the growth. Backhoe loaders grew by 20% year-on-year in an industry decline of 12% while the cranes have grown by 7.7% faster than the industry growth of 2% on a full year basis. Our backhoe loader DigMax II has been well established in the market and we are the only player to grow in this industry on both volume and market share basis. On the back of this increased volume, our revenue also increased by 11% to

Rs. 515.8 crores for the full year. In order to stem the losses, we effected price increase across all product categories, increased our channel outreach, and increased our tie up with retail financials, though EBIT loss for the full year is more or less in the same range though it has considerably gone down in Q4 from Rs. 9.9 crores to Rs. 3.35 crores. Going forward in the next year, we expect that our served construction equipment industry will continue to face challenges. Any recovery is early expected to happen from second half onwards.

Coming to the railway division, the railway revenues are marginally up by Rs. 183.7 crores as against Rs. 182.5 crores last year. The EBIT margins are also up by 105 basis points and 9.5% against 8.5% last year. Revenue for Q4 is also up by 21% correspondingly to Rs. 54.5 crores. EBIT margins were correspondingly up by 920 basis points from 19.1%. Order book for this division stood at approximately Rs.45 crores which will get executed in the next 3-4 months. Given the government's focus on revitalizing the Indian Railways, we are very excited on the future outlook of this business. To capture the opportunity, our endeavor is to expand our product range either through in-house development or through technology partnerships. We got the developmental order for Axle Mounted Disk Brakes recently and we are working on the same.

Lastly, the auto division achieved a revenue of Rs. 103.6 crores against Rs. 128.8 crores last year on a full year basis. EBIT losses have gone down on a full year basis and also on the quarterly basis. A positive swing of 1,366 basis point on the Y-o-Y basis and 900 basis points on Q-o-Q basis is seen in EBIT margins in Q4. This is achieved mainly due to cost saving from VRS, margin expansion due to sales portfolio rationalization, and improvement in operations in the divisions generally. Going forward, our focus will be to increase the sales in high margin segments and achieve breakeven. Now I request the moderator to open the floor for Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir my question is on the tractor industry. What kind of decline you expect in the first quarter and how do you see the volumes in this year, considering the farmer incomes are under pressure and are you seeing the defaults happening on the farmer's loan side also which is also impacting the demand for the tractors?

S. Sridhar: Overall our own forecast for the year is a flat industry. Last year, it was 5,50,000, was the tractor domestic demand and we expect that to be similar this year also. With reference to the quarter, I think the current degrowth is happening at the level of 15%-17% for the month of April and this will continue for the entire quarter is our estimate. Possibly the same situation also will continue for quarter 2 as well. The recovery will start happening only from the quarter 3 and quarter 4 and overall it will be a flat year but with reference to customers defaulting loan payment and all other issues, there are some difficulties with reference to higher purchases, the loans extended by NBFCs, I think it is still in the manageable limit. I do not think it has gone out of, it is nothing to be very alarming about it as on date.

Ashutosh Tiwari: Right now what could be the level of new inventory in stock levels with the dealers for industry per se and for you?

S. Sridhar: Generally we do not go all out in terms of stock push. So either within the quarter or the next quarter, we generally correct our stocks. We do not take this chance of pushing too much of a stock into the system but having said that we do see a possibility to the extent of another 1,000 numbers scope for reduction is there. That we will do over a period of time. Once we do that, we will be well within that which is something like 2% kind of an excess stock. So as far as it is really moderate and similar will be the situation for industry. I think the last year during the first 6 months and second 6 months, the industry also should have considerably reduced their stock. So I think now onwards we should start looking forward to deliveries or the retails reflecting the wholesale as well.

Ashutosh Tiwari: Sir in terms of numbers of days, how many days of inventory would be there for the industry per se rough estimate?

S. Sridhar: Industry I will not know but we can say something like 45-50 days is a good estimate.

Ashutosh Tiwari: Second thing sir is the downturn actually in the tractor demand is across India or there is some pockets you are still doing relatively better and which are the most impacted and which are the still doing better?

S. Sridhar: If we have to speak about the last year, it was uniform throughout. Everywhere the problems were similar but the rains whatever we have suffered of March rains where it is more about North, more about our own pockets, otherwise the decline is uniform throughout.

Ashutosh Tiwari: Sir you said in the construction equipment you have seen strong volume growth in backhoe loaders and all but if I look at the profitability segment, still it remains under pressure? So how would that change basically going ahead because I think last quarter you said in the fourth quarter probably you can break even in this segment?

Sunil Saksena: If you really look at the construction industry per se, the backhoe comes under the category which is the earth moving segment and the entire construction industry has been in a state of decline for the last 4 years. The best quarter we had possibly in terms of changing the sign or which was showing some kind of an improvement was quarter 3 but unfortunately for the industry, the quarter 4 was again kind of quarter where further things decline. As we are looking at quarter 1 and quarter 2, we are expecting the decline to continue while there have been good announcements on the ground the project spend have not yet started and with the kind of equipments we have if we have to look at this 23 type of equipments, the only equipments which are seen some element of green shoots or some element of better performance month-on-month have been the off-highway trucks, the excavators, the screening plants, the motor grader, the crushers, and to some extent compactors. Now unfortunately for us, the backhoes continues as an industry to decline very rapidly of the order of about 17% that you see in April also and we expect this quarter 1 and quarter 2 to remain in that 17%-20% range in terms of decline on backhoe. So the industry which was onetime about 3 years back operating at about 3,400-3,500 machines per month has come down almost to less than 1,500 machines a month. That is the state of situation right now.

Ashutosh Tiwari: And the pick up will happen only if the road projects are basically fast enough and that is the only thing.

Sunil Saksena: No, not just that what really happening is there was a huge amount of machine part which the utilization levels are low. So even if it improve in the first half, you will not see the pickup in the market. You will start seeing the pickup when the real growth starts in terms of spending almost across the segments. So you will first see equipments like excavators and compactors and motor graders doing well, crushing plants doing well followed by backhoe, maybe 6 months from now. So you do not see the backhoe market dramatically moving ahead at least in the first half.

Ashutosh Tiwari: Sir my last question is on the tractor side how is the discounting in the segment? Discounts are in the higher side, it has increased in this quarter also or how it is right now?

S. Sridhar: Nothing left for this quarter. Everything started pretty much earlier actually. Nothing really changed because this is effectively sixth month of a major fall. It is 30% negative growth as this is the sixth month. So whatever has happened has already happened. So nothing more is expected. This competition intensity may continue for some more time, another 3 or 4 months, and then it will settle down.

Moderator: Thank you. Our next question is from the line of Nishit Jalan from Nomura. Please go ahead.

Nishit Jalan: My question pertains to the tractor segment like previously asked like how is the discounting level? If we have seen the margins come down from 7.8% to 4.6%, is this purely due to operating leverage? What kind of commodity benefit have we realized and how should we see benefits going ahead in the next few quarters?

Bharat Madan: I think I just talked about in the opening comment the material cost in the last quarter if you compare, it has gone down by about 110 basis points. So definitely the projects on the material cost reduction is very much on track. So overall if you look at the margins which drop basically is on account of the volume. So if the volumes are same at the last year level, the margin you would have seen the improvement in this quarters also.

Nishit Jalan: So sir all the benefits related to commodity prices have already come in?

Bharat Madan: It just started, so like I said the project which was started somewhere in June, I said 2 years mandate. So I think the more major benefit we will see coming in this year and full benefit will be in next year.

Nishit Jalan: I am talking more from see that is about your cost exercise. I am talking more from the global commodity prices coming down. So benefit of that have we seen in this quarter and how much can we expect in the next quarter?

Bharat Madan: I think this quarter yes, the commodity prices have softened. So we are getting some benefit but not a significant one. I think it is close to 0.5% on the bottom-line. But, we do not know how the second quarter will look like with the inflation probably going up and the commodity prices and crude also moving up, it may start moving. But for this quarter definitely first quarter we are getting some benefit on the deflation side.

Nishit Jalan: One more question. You mentioned like you expect the industry to be weak in the first half and then we should see some pick up. So what gives you confidence that the industry will pick up, is it due to you expect normal monsoon or you see some construction related buying in tractor happening basically what are the drivers which will lead to the recovery in second half?

S. Sridhar: I think on a very basic level the second half, like means period like November to March, this year itself it has gone through 30% fall in industry and lower base itself will be reason why it should be much better. That itself should take care up to the extent of something like 20% growth just because we last year was an acute/lower base. Having said that this monsoon related problem started somewhere like February of last year. So it is almost February 19th or 20th is the first monsoon, error in monsoon situation started happening. So it has to end somewhere and overall we feel that this year it should not be an abnormal year. This year should be more or less a consolidation year and then on the back of some 13% minus of last year and this year being a flat, the recovery even though in the second 6 months is more because of lower base effect that you will see start market aggressively growing from January, February and March onwards next year. This is how the pattern will be.

Nishit Jalan: Sir just to clarify your guidance of flat volumes, built in a normal monsoon or if even the monsoon is relatively weak we can still see flat volumes. Basically what is the assumption here that we are taking?

S. Sridhar: So our assumptions are normal monsoon but otherwise also the worst case will be something like minus 3% to 4%. It will not be worse than that.

Moderator: Thank you. Next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.

Amin Pirani: Sir I just want to go back to the question on tractor industry growth. If you look at last year in addition to the monsoon obviously a lot of other factors like NERGA funding coming down and other government not increasing the minimum support prices. Given that we may have a normal monsoon this year, the other issues which have caused the tractor market to fall, they are unlikely to change because this government seems to have taken a different view compared to the last government. So even going forward in fiscal 2017, given that these factors will remain adverse, can we see a strong growth or we have entered a phase of much lower growth? Just wanted to get your views on this?

S. Sridhar: It is purely our view. It is very easy to put the blame on the government but we have a very different view. See most important here is for example how much money is the customers are realizing and what kind of a sentiment he is experiencing are far more crucial than the government policy as far as tractors are concerned. Tractors are almost like our cars or bikes, retail products. So these factors are more important than government policy and if you look at a long-term trend of this something like 8% CAGR is already there. So if you look at our last 4 years except in 2013-2014 where we had a 20% growth rate, it needs to be compensated. It is all bought by the individual level. We all need those kind of tractors. So I am not against government, government is going to give concessions, they are most welcome to do so but important thing is the sentiment, the sentiments are unfair on two grounds as far as tractors are concerned. One is timely monsoon and then special effect, how about if this is spread uniformly throughout. So the water, more water is always better than less water. So those kind of a monsoon plays a very important role. Second is food inflation, this I think I have mentioned even a year back, food inflation has a very crucial effect not only in terms of realizing the money but put the customer sentiment on fire. So this food inflation being rigidly controlled, obviously it is a little bit of setback for a tractor manufacturer because the customer sentiments are guarded, but I assume that these things, the food also you cannot control it beyond a point. Right now some signs are seen. I am not saying it fully. The food inflation will start recovering, it will go into it, it may not be 12%-13% like happened in 2013-2014. Even an 8%-9% or 10% is the very-very welcome situation for farmers. These kind of things are on cards it is all suppressed for some time but eventually with the good monsoon and this kind of an area with a low base effect of the second 6 months means we should get prepared for an extremely good 2016-2017. I think this is what we are visualizing and the CAGR should be of 8% or 9%. We should take it as the basic thing for this industry.

Amin Pirani: So basically you are saying that even if minimum support prices are not raised, food inflation itself would increase and ultimately result in higher cash flows for the farmers?

S. Sridhar: That is right.

Amin Pirani: Sir coming back to your own growth in the 50 HP Plus segment which you mentioned in the presentation, your market share has definitely increased in that segment but in general how has the market itself behaved as in despite the -13% for the full year for the industry have different HP segments performed differently or all are more or less in the same range.

S. Sridhar: There are only two growth vectors, one in the top, one in the bottom. The top is above 50HP and then the bottom is less than 20HP. So the less than 20HP we do have a participation but not a very significant player there whereas the above 50HP is of a very high strategic importance for us for one of our brands, Farmtrac revival is depending on how will we enhance the image? So 50 plus we look at it not from volume point of view but in terms of reviving one of our crucial brand. So three year back we made the statement saying that in 3-5 year time, we want to become a lead player for premium end segment from almost like from 1%-1.5% market share which was a 10-11 and 11-12 situation, now we are almost at a 10% market share on this segment. Going forward in the year or 2, we will reach something like 16%-18% market shares. The good thing about this is, this also has a lot of profits, this also sets a trend for others. It is very important for company like Escorts to win that kind of a category because this will set the tonality for the next category which is 41-50 HP where lot of products are there in the pipeline which will be riding on the success of this category. So there are lot of internal actions are on cards in this financial year.

Amin Pirani: So you are saying that you could gain another 5%-6% market share in this 12-month period itself?

S. Sridhar: Of course in a year. I would say in another, see right now we are at a 10%. I think 12%-13% is already visible in our one financial year. Possibly the end goal is something like 18% which may take a one more year. This is not a precision of market share, in terms of action what we are putting in lot of products are coming actually.

Amin Pirani: Of course. So as of now your share in the above 50HP and even in the 40-50HP is almost the same because your overall share is around 11% and you are saying that in the premium segment, your market share growth could be higher than in the mid segment, broadly that is what you are saying?

S. Sridhar: Yes, of course but you should also see the background, 3 year back we were at 1.5%

Amin Pirani: Of course.

S. Sridhar: From 1.5% we are talking about 18% in 3-5 years. So this is in a way it is magical actually.

Amin Pirani: Absolutely sir, no doubt about it but sir going forward given that a)the industry is likely to go through say at 18-20 month period of downturn if I take overall last year as well plus you as well as I am sure even other players will try to gain market share. Could we see a price competition in the industry higher than what we have seen in the past or you feel that the industry would remain well consolidated in that sense?

S. Sridhar: I think see if the tractor players as long as wherever you have a very high installed capacity, this kind of a price play will come into play. I think there is no brainer, it is a happening in the tractor industry also that the mostly important reference is we said we will not participate. This is why like our own internal EBITDA targets are being moved something like the targets are very sharply from 4-10 and we also said we will go up to 15. Ideally, we should have reached 15 in a year or 2, it may take another one more year. Otherwise we are on that journey. So most important thing is not what the industry will do, most important thing is what we will not do. We will not go into that price based competition, so our obsession with 15% EBITDA it stays. All our strategies are meant for that.

Moderator: Thank you. Next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: My question was on capacity utilization. What are the capacity utilization levels for tractor and construction equipment?

Bharat Madan: The tractor is at close to 60%-62% utilization level last year and the construction side, we are at about 23% capacity utilization.

Ashish Nigam: 23?

Bharat Madan: For full year.

Ashish Nigam: Secondly your railway equipment margin, probably missed out in the opening comment, it has seen a sharp increase in the railway margins. So what driven the improvement and is it sustainable?

Dipankar Ghosh: Yes, it is sustainable primarily because we are now introducing new products which have higher margins and what we are also doing is that we have started a huge exercise of mutual cost rationalization and also some of the productivity improvement. So we feel that we should be able to maintain a good healthy margin, the percentage in the coming quarters also.

Ashish Nigam: So you all that have that cost saving program I think with consultants, has that played out in railway that is the saving we are seeing here or is it that is yet to play out?

Dipankar Ghosh: It seized to play out. This is without consultant for this particular railway. Consultant has not seen some in railway. They are more meant for auto production division.

Ashish Nigam: Overall just with this cost saving programs, when will these savings kick in, do you expect in FY2016 or be the year after?

Bharat Madan: So I think the major portion will start coming in from this year towards the second half of this year and full year the impact will see in FY2017 coming in for the entire project.

Ashish Nigam: So on related lines you all expect break even for auto and construction equipment by this year?

Bharat Madan: Yes, so H2 like you said is more possibility because H1 does not look like any recoveries possibilities are there and for the construction volume. So H2 is a bright possibility of having it and on auto products again, this is Q4 which you were looking as a breakeven quarter for us with all the initiatives which you have put in.

Ashish Nigam: Q4FY16?

Bharat Madan: Yes.

Ashish Nigam: Just lastly, your tractor exports have also done pretty well. Which markets have contributed and what is the outlook there?

S. Sridhar: It is more towards African region, lot of institutional sales. The base volume also has gone up, institutions also has gone up, but having said that, our base was also low, something like 900 numbers to 2,200 number. The real capability that we see from now onwards when we target something like a 3,500 number, but as of now it is a big stretch, may be it takes couple of years before we go into like a doubling and tripling the volume where we get the intent where we actually put it into actions.

Ashish Nigam: Also, tractor margins are going up from 4% odd currently to, hoping to go up to 15% in 2 years or whatever? How much of that will be driven by operating leverage and how much by mix and how much by let us say your just cost cuttings playing out?

S. Sridhar: The cost cutting as of now what you see like still what you have seen year before, last year something like a 9%-10% was achieved through a normal value engineering process itself that means more through a pricing power and what we have done this. This is the way we have moved up to 9%-10% and through that way, we would have moved even up to 11%. Now this when we are talking about this kind of a material project, it is supposed to add at least to 2% over and above this. That means the roadmap is almost clear to the extent of 12.5%-13%. Beyond that, we have to build on. That will come through certain better volumes, scale and certain mix issue and together, it will take us to 15%.

Moderator: Thank you. Our next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Sir we were planning to launch new products in the tractor division along with design changes which can drive raw material cost savings. By when do you see those launches happening and secondly when I look at the JD power rankings for the tractor division, for any of the HP segments we do not come among the top 3. So just wanted to understand like what is that we are lacking on the quality and where is the scope for improvement and what are the plans on this side? Thank you sir.

S. Sridhar: See, JD power is little more controversial, I do not think TMA has participated, I am not talking about Escorts the whole industry has not participated. So it is a very private creation. So very difficult to comment on something which there has no whole-hearted participation by the major players excepting one or two. So let me not go into TMA route, but for the general question what you asked about the quality, we did have some nagging issues over the past, that was something like 4-5 years back. All those issues were pinned down. Now some of the quality benchmarks what we are doing is see today the products whatever was getting developed is it is not only for India, it is also meant for certain European markets like Germany. So the standards what is being put in now, it is a transition from the best of India into a best of European kind of an industry. So may be this things are in transition. So it may not be fully realized, may be 2 years from now, we will be very proud to quote our quality references as one of the finest references for India. So I do not think the quality is an issue today. See the issue today is something to do with the portfolio, something to do a mix, something to do with regional mix, portfolio mix and those kind of areas we are addressing it. For example, wherever Powertrac and Farmtrac is playing together like in Northern zone, we have a very attractive market share of something like 17% or 18% wherein the South and West, something like a 4.5% market share we have for the last 2 years. This is the large gap, but within the North itself, where we have Farmtrac dominating zones and Powertrac dominating zones. There, the market share in the respective category will be much higher. So some of this area has also portfolio issues. So this is where we started launching products. This is happening in the last, I think November-December onwards will be complete, almost complete by the next December, something like a 12-13 months the portfolio will be complete. This will also greatly enable us in terms of further recovery of market share. The market share which was hovering around something like a 10.5%-12%, we do now we have an internal plant move it up to something like a 12%-12.5%. So it is a question of 12 months to 24 months before we start seeing such a huge growth momentum in market share.

Raghu Nandan: And the new products which are coming in, would they be incorporating the design changes which should help the RM cost?

S. Sridhar: Of course, these things are definitely it will incorporate. Some of these products what we are doing also will help us in terms of realizing better pricing. So it has a twin objective of not only incorporating what you called value engineering design, also it will realize in terms of realizing better price from the customers.

Moderator: Thank you. Our next question is from the line of Apoorva Kumar from Jefferies. Please go ahead.

Apoorva Kumar: Just one question on the penetration level of tractors in different geographies. Sir, are you seeing that there are pockets of states where the tractor penetration has kind of plateaued and thereby the growth in those geographies will be flat compared to certain other states?

S. Sridhar: This is our view. Tractor penetration for example is very high in the states like Punjab and Haryana. It may be very low in South and West, but the approach that these markets bring in are very different. It is like black and white TV getting replaced by color TV, color TV with LED and LCDs. See, the technology upgradation is also making the existing tractors as obsolete. So these changes are taking place. So this is too early to worry about what you call a certain stagnating industry which we do not even foresee for at least next 10-12 years. So the industry which are all late comers South and West where the penetration levels are not that deep, the way what you call Haryana and Punjab has gone up, perhaps they start with the better tractor size. They straightway start with 45-50 horse power and 50 horse power and above, those kind of tractor. So they approach the tractor little differently, but otherwise stagnation is not one of our concerned issues.

Moderator: Thank you. Next question is from the line of Mitul Shah from Karvy. Please go ahead.

Mitul Shah: I have three questions, one is on the other income that has gone up significantly in this quarter, interest has also gone up, and capital employed too, sir if you can explain this?

Bharat Madan: Mitul, on the other income side, we got a refund from the Income Tax Department this time. So it is a big refund which came, it is about Rs.6-8 crores to the additional interest income which has come in this quarter, is on account of that and it is a non-recurring item but this year the other income has gone up basically because of that and there is some other interest income which is channel finance side which has gone up in this quarter. So overall about 10%-12% impact is actually on account of this is non-recurring items. Coming to the finance cost, the average borrowing, the working capital utilization level has gone up in this quarter. So we ended this quarter with about Rs.481 crores of loans against I think it was closer to about Rs.450 odd crores in the previous quarter. So typically this quarter in terms of volume has gone up significantly. So as a result the borrowing cost has gone up. But if you look at the overall year, the overall finance cost has gone down by about Rs.10 crores, so it is Rs.67 crores, we are at Rs.57 crores this year.

And your third question was on the return on the capital employed, so are you referring to the increase or you are referring to the change which we have done?

Mitul Shah: Capital employed has increased significantly across all the segments.

Bharat Madan: So actually there is a note there in the result which you see. So the method of calculating the return on capital employed we have done a change this time. Earlier the short term borrowings and the term debt which was repayable within one year used to be part of current liabilities and we used to reduce it from the return on capital before the capital employed calculation. So from this time we have actually excluded that borrowing portion to be part of that current liability. So as and when the current liabilities have gone down. So as a result the capital employed has gone up. So there is a disclosure which has come in the results if you look at the bottom-line there, note number 7 reference is there.

Mitul Shah: Sir on the other expense also, the promotional expense I think as we have launched commercial ad two days back. So going forward how do you see this advertising expenses, etc. going up in view of that competition is also increasing and industry is slowing down and inventory levels are quite high for next two quarters what would be the situation?

Bharat Madan: So there will be some pressure definitely on that but as of now as you have said we are looking at a flat industry. So we are expecting any major recovery to happen, flattish here. So no significant increase is expected on the cost side. So we will see how the market then responds going forward, so we will take a call at that appropriate time.

Mitul Shah: Do you expect promotional expense to have gone up significantly at least for next two quarters?

S. Sridhar: No, it is under discretion. I think we will not put lot of money towards promotion.

Mitul Shah: And sir last question, generally we have observed whenever there is a consecutive decline in the monsoon deficit for the two years, back-to-back, then there is a significant erosion or negative impact on the agri side happens in the second year but within this South and West generally underperforms significantly while North outperforms because of the natural water available over there and we do have strong presence in the Northern region. So any possibility of strong outperformance of Escort?

S. Sridhar: Yes, but the way we should see it also as I said the North also had that untimely rain this time. March and April was not a very favorable thing in our own zone but we should also realize that the South and West even with the first monsoon they will spring back. The facilities like higher purchase and those kind of market ability are the enabling structure in the South and West market are far superior compared to what you call UPs and Bihar in terms of NBFC availability penetration and those kind of areas are very good. So when we start growing that growth will also going to 40%-50%. That is why sometimes the market share will always present a much skewed picture depending on where exactly the growth happens and what exactly happens. Most important for us is the way we are all preparing ourselves. So as I said is we should start looking at some consistent improvement in market share is what we should look for because all that portfolio gaps what we wanted to fill should be over around last quarter of this financial year. With that I think the way it has to be only the way up for market share.

Moderator: Thank you. Next question is from the line of Viraj Kacharia from Security Investment Management. Please go ahead.

Viraj Kacharia: The growth in the sub-25hp, how has it been? You mentioned that there are two segments which have also grown the sub-20

S. Sridhar: Yes, it is a double digit growth. I don't remember the number exactly because we don't make lot of money there so we don't count on that. See what happens is this kind of segment also depend on government enabling, depending on which government is offering what subsidy, for example there is a big program put in by Gujarat government in the month of Jan-Feb-Mar. So it is also on and off kind of market, but we realize that it is very important that we are presented those kind of a market because this can be spread to many state, we don't want to be caught unaware. So those kind of areas are getting prepared but most significant for us is not the development of that market, most significant for us is the market above 50 horse power is growing and that is where we are betting on to start with image subsequent on volume.

Viraj Kacharia: How was the scale up been for the Sub-20hp business?

S. Sridhar: I think we have an outsourced partner who is ADICO, that company now we have formed a joint venture itself. So already I think 500 odd tractors were put in the market. It is all well accepted. It is all undergoing approval process as I said this is also a subsidy driven segment. It is meant for small farmers, there is also lot of subsidy elements get involved. We are almost there. So as and when we hit that the numbers will happens. Again the numbers can be something like 150-200 kind of a number is what we should look for but it will give us a very decent return. It may not be our notion of 15% EBITDA what we are chasing in our tractor division, at least a half of that is an easy possibility in that kind of a product. Those kind of things are on cards.

Viraj Kacharia: So we are not looking at significant market share in that segment but still enabling to our strategy on focusing on the high HP segment, is that the right understanding?

S. Sridhar: Correct, we just do not add it up. We keep it alone, little away.

Viraj Kacharia: And anything on the other agri equipments?

S. Sridhar: I am sorry?

Viraj Kacharia: Other agri-equipments which you are planning to introduce, so anything new?

S. Sridhar: Not now, may be, see some of the things are in the advanced stages of conclusion, but timing is not right. We cannot enter now. Possibly the whole thing we will be evaluating for the second 6 months, so that the scale up happens the next year but not as of now. See today what happens is whatever resource we have we have to put in on those kind of geographies and product lines where the returns can be little quick. So we cannot take what we call it as difficult task. This is not the year for the difficult task. This is the year for what is possible is what we have to do it quickly, that is it.

Viraj Kacharia: So is it on the heavy agri equipment side or the light agri equipment, anything on that side?

S. Sridhar: No, nothing up. As I said it is not this year.

Moderator: Thank you. Our next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: Couple of questions as you said to some of the earlier participant that your utilization is close to 60 odd percentage, is it for the full year or the last quarter?

Bharat Madan: Full year, I said.

Basudeb Banerjee: So as per the last quarter number on an annualized basis it is close to 45 odd percentage. So as you said that the volumes are going to remain flat in coming quarter so if one prorate this kind of numbers, so at this utilization level will it be right to assume this 2.5%-3% kind of margin to sustain?

Bharat Madan: Well, if you look at that, there is a seasonality build into this entire year. So normally you see the high volumes coming in the first quarter and the third quarter of the year and normally Q2 and Q4 are lower quarterly volume months. Don't look at it only one quarter in independent manner. So March quarter will not give you the right perspective for annualized volume. So Q1 and Q3 will be definitely be the higher volumes. So overall in our opinion if you remain at a level of about 60,000 volumes which is what we did last year, so we will be range of 7%-8% EBIT margins.

Basudeb Banerjee: From AMG segment itself?

Bharat Madan: That is right.

Basudeb Banerjee: And second sir as you said that you are aiming to reach 15% EBIT margin down the line, presently it is close to what, 10 odd percentage?

S. Sridhar: See I think what we have showed in EBIT margin, is when we just look back something like a 2013-2014, when we were doing a volume of something like 68,000 without the support of the material project what we are trying to do, that itself are placing us anywhere around 9.5%-10% type. See that as a reference which you have taken then we have talked about the material project will any case will give another 1.5%-2%, we will place you at a 12%, and some of this product and portfolio program is going to give us another 1-1.5%. That means, this is where I have already mentioned something like a 12%-12.5% is highly visible to us.

Basudeb Banerjee: So broadly as per your internal study, from whom you are expecting to grab 300 bps market shares broadly?

S. Sridhar: This we cannot disclose about, exact competition strategy is very difficult to disclose, but if I am to give you one broad idea, one of the major vacuum area was lack of participation in the haulage segment. Some of the brands were doing very well and there we have launched interesting product and that will become significant over a period of one year.

Basudeb Banerjee: So basically non-agri segment haulage carrying goods through the tractor segment?

S. Sridhar: Yes.

Basudeb Banerjee: And any regional skewness of haulage application of tractors or it is pan India broadly?

S. Sridhar: It is a pan India phenomenon.

Basudeb Banerjee: And primarily it is into the higher horse power segment?

S. Sridhar: Of course it is there everywhere. See this is like lot of detail, just let me keep it close to my chest, Give me two more quarters.

Moderator: Thank you. Our next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Kishan Gupta: Just want to understand, you mean that the tractor markets remain turbulent this year as well, so what defenses you have in place to protect your market share and volumes?

S. Sridhar: See if you look at it, when you are talking about, let us say the acute portion of a fall which is something like a 30% fall in the industry, it is happening in the last 5 months and incidentally our market share is highest in the last 5 months, it is like a 11% types. So we are already at that kind of a rate from an overall rate of 10.5% we are already at 11% in the last 5 months or 6 months, 10.9% and 11.1% subsequently. So this is number one, number two is see in the last three years many of our strategies are backed by interesting products, innovative, refreshing products. So on that basis only we are building our both the profit margin as well as the now the market share will be built on those of kind of basis. Please count on at least 3 or 4 interesting product in this financial year as well and this will become substantial from the month of October and November, even though the launches are happening for 2 of the 4 products already launch is happening right now but the benefits will be realizing only by October-November, when the next season is the time where we will realize. So I think we have enough things going for us actually.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir coming to the only bright time for this quarter result was the railway equipment segments. Could you throw some more light, what kind of order book position we are in and what are we seeing in the horizon now with Mr. Suresh Prabhu is there apparently it seems that things are moving very fast. So if you could throw some light on that and could you please elaborate on this also one sir, on the railway equipment side.

Dipankar Ghosh: Actually, as we said in one of the previous questions we really have done a lot of cost optimization and apparently we have a healthy order book though as of now we talk about Rs.45 crores but dated one we have much more order book and two of our largest products which have been going to the 18 month validation period has just now completed those period and they are supposed to kick in as a major product for us. So we see a very good uptrend in both the order book and overall revenue in the coming quarters and overall if you see we are primarily a brake systems, the suspension and compression systems peer in the market and with our global technology partners and the new products what we have launched we are pretty deeply entrenched into this particular brake systems market with only competing with two major multinational players. So we feel that with our low-cost manufacturing and the technology what we have developed both in-house and through our global technology partners we should be able to really make a significant market share out of it.

Saket Kapoor: You said the order book position at Rs.45 crores, if I am not wrong.

Bharat Madan: Yes and the order book position as of 1st April. So like you said after that the order book has increased but as of 1st April our opening position was Rs.45 crores.

Saket Kapoor: Sir that means on should not extrapolate this was one-off quarter means, this revenue of Rs.55 crores and profits of around Rs.10.5 crores, so this not one-off event. We can expect better performance or a matching performance going forward also? Going forward, it is very lumpy sir. If you see the earnings in the equipment parts it depends execution and it is very lumpy quarter-on-quarter sir. There I was trying to get a sense of it that what should be the ideal proposition composing quarter-on-quarter or even for yearly purpose if you can explain that?

Dipankar Ghosh: What I would like to say that it would be, though it is true that it is in a very lumpy it shows pretty well because we had very good products but the EBIT percentage and the income percentage we would try to maintain a pretty good balance about what we would be going in the coming quarter. I would just not give you a particular number out here but we would be maintaining a very healthy percentage of EBIT versus the revenue.

Saket Kapoor: Sir coming to the tractor sector what is the market in the southern India, you have been trying to penetrate in southern India for last year or so where you do not have any prominent presence, what has been the market share there sir?

S. Sridhar: See I think overall what we call strong markets and weak markets, weak markets together represents something like 4.5% market share for us. So within that weak market, like Andhra is a case study, one of the case studies wherein we wanted to become little more thorough with our own capability, there I think from when we started some internal projects it was something like 3%-3.5% was our market share preceding. So from there we moved something like a 6.5% market share. So we moved a market share of 3% of course at a cost. So we are becoming thorough, but the expansion to other region depend on the overall how buoyant is the market, how comfortable is our bottom-line. So it is the question of timing issue. So we do have an internal plan to turn around all these market over a period of next 3-5 years. So this is a little long journey, it is a 3-5 year journey.

Saket Kapoor: But as of now you will not be chasing the market share as you told earlier. You will be concentrating on delivering the EBIT numbers only? As of now you are not interested in increasing the market share because the situation is not favorable even if you go for discount pricing also, it won't be easier to do so.

S. Sridhar: See this is despite of the constraint in our overall, our first aim is to go towards the better EBITDA margin, so that is the direction no.1, subject to that now we are getting ready for a better market share scenario as well. From a level of 10.5% market share we are in the last 5-6 months we are almost at 11% types. So may be over a period of 2 years, we clearly see a possibility of market share reaching up to 12.5%. So far we know, never spoke that language because we were not ready. So now that those kind of evidences will start falling in place. Then onwards we will see a very good momentum there in the market share as well.

Saket Kapoor: Correct and I must thank the Board of Directors for maintaining the dividend payout even though it was a very tough year and big thanks to the Board of Directors.

Moderator: Thank you. Our next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: Yes, just missed out one question sir. Nothing related to the results. As of late one can see is Escorts ad on TV per se showing the overall product portfolio. So being a tractor manufacturer taking care of the TV media routes, so any other perspective into that. So what is the intention of coming on TV media anything in that angle sir?

S. Sridhar: See here what we are attempting is if I have to give a broad picture I think this Escorts is a reengineered Escorts, it is a resurgence of Escorts. So this is a true reflection of what is happening internally, not externally now we have even though the results always come with a little lag effect but we thought it is a time to tell people on what is truly happening internally. So the true image formation of Escorts. So to distinct product of construction equipment and the tractor and the engineering as our language, what we are trying to bring in with the modern connect with the system in the country is what we are trying to reflect. I think it is receiving the rave response. I think your question is also reflecting on the same thing actually.

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

Sameer Deshpande: See, definitely a challenging time for the tractor industry, when I was using our figures I could see that 11,000 level of volume for a quarter was not witnessed by our company for at least last 6-7 years. So it has taken us back almost by 6-7 years because it was around 2006-2007 when the company was extremely in a trouble shape, we were witnessing those volumes. So in really I think a very bad time but I think from hearing from the commentary, I feel 1-2 quarters still pain is going to continue and when we are saying that we expect a flat year, year is flat for the industry, is it possible for us to maintain the volume around 60,000 in this scenario in that case the second half has to be really very good despite the low base effect.

S. Sridhar: Yes, the answer is resounding yes. But the yes is not coming out of what will happen in the market but the yes is coming out of what we are internally gearing up, how we are organizing ourselves, the kind of product what we are trying to put it between now and October-November. I think we believe so.

Sameer Deshpande: In that case automatically the margins should go higher and we can go to our own 7%-8% level for the year segment margins?

S. Sridhar: That is right.

Sameer Deshpande: And regarding this new campaign, I would like to compliment you all for the campaign, it is on the TV which we are looking, it is really putting the idea to project Escorts not only as a tractor company though it constitutes 80% of our turnover and almost 100% of the profits, that you are projecting it to be an Engineering company at present across the various segments and the railways which is expected to get a lot of flips with a new Minister in place as well as this construction equipment, I think so all the best to you all for that and one more question on this construction equipment business and Auto ancillary. See despite our efforts, this year also we are to lose around Rs.50 crores on those two businesses together. So now when we are expecting the second half to be better and for construction equipment, so in that case if the turnover is around Rs.515 crores this year, we have lost our Rs.25 crores. So at what level of turnover are we likely to come EBITDA positive because our capacity utilization is hardly 23% if I have heard correctly. So for construction equipment as well as auto ancillary at what level of turnover we will be EBITDA positive and when are likely to achieve that?

Sunil Saksena: On the construction equipment, what I would like to just place before you is there are almost 38 players in the country out of which almost 26 are manufacturers. All of them are actually having a capacity utilization in the range of 20%. So we are not alone on that and what you see as 20% is on a 2.5 shift basis. Everybody is operating almost for about 10 days of a month and therefore that is the situation industry wide, in fact the total industry volume from 72,000 in 2011-2012 has come down to as low as 41,000 this year. That is the kind of distress that the industry is into. None of them making money, barring one which is JCB. So almost everywhere the situation is same. What is most important is the kind of growth that is needed to go back to 2011-2012 era where the utilization was better. It is going to take some doing and therefore what we expect is it is only in the second half that we see that there will be some amount of growth. It is still not mean that we go to 100% capacity utilization. It is still going to be in the range of 40%-50% for the industry as well as for Escorts.

Sameer Deshpande: See, this year we had a loss of Rs.25 crores. So if we have a turnover of say Rs.600-700 crores will we be EBITDA positive that is my question?

Sunil Saksena: The question is right but it has to be more related to the kind of volumes that we bring up, if we are at the volume of about (+3000) we will certainly be EBITDA positive.

Sameer Deshpande: What was the volume this time?

Sunil Saksena: It is just around 3000. But what is more important is we have taken this time in the last 6 months to 8 months to really correct both the cost structures, the pricing, the contribution, the operating margins everything. So there is a lot that is happening in terms of getting it right and we have got it right. It is just that the market itself has come down dramatically and we expected it, in fact the quarter 3 was best quarter that we had after a very long time. But quarter 4 went down again for the industry and we did better than the industry. So be rest assured as a team and at team Escorts we are still doing better than the industry, it is just that the industry itself is seeing a decline. I mean we talked about 6 months of continuous decline in the tractor industry. What you need to know it has been 24 continuous quarter in construction industry which have seen a decline, it is not easy.

Sameer Deshpande: No, it is very difficult, definitely.

Sunil Saksena: So 26 quarters is far too long a recession period. No other industry in fact, leave alone tractors, no other industry has seen this kind of decline in India.

Sameer Deshpande: And auto segment we have pruned our loss to Rs.2.7 crores this time, so do we expect to turn around in next 6 months?

Dipankar Ghosh: Yes, we expect to turn around in next 6 months. We have taken lot of exercises along with Consultant. Q4, we should be seeing a positive EBITDA and out here what we are trying to do is that we have gone ahead and done an overall portfolio rationalization and we have also breaking into some new geographies particularly the European aftermarkets. So we hope to complete the turnaround by Q4 of FY16.

Sameer Deshpande: So you mean to have a zero loss at the end of March '16?

Bharat Madan: Yes. I mean it should be Q4 positive, Q4 will be turnaround quarter for us.

Sameer Deshpande: But this time we have about Rs.2.7 crores loss, so if it goes on pruning in next 6 months you may be zero and in second half you may make some money, that is a possibility.

Bharat Madan: That is right.

Moderator: Thank you. Our next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: My question is both in this construction equipment and this Auto ancillary what is the level of turnover by which we will breakeven and make money.

Sunil Saksena: We should be able to breakeven at the same turnover of about Rs.500 crores, between Rs.500 crores and Rs.525 crores we should be able to breakeven.

Rakesh Jhunjhunwala: In the construction equipment?

Sunil Saksena: Right.

Rakesh Jhunjhunwala: And what would be the EBITDA margin after that?

Sunil Saksena: We should be in the range of about 4%.

Rakesh Jhunjhunwala: 4% on the overall profit?

Sunil Saksena: Yes.

Rakesh Jhunjhunwala: Rs.600 crores it should be on Rs.25 crores.

Sunil Saksena: Yes.

Rakesh Jhunjhunwala: And what about the Auto ancillaries?

Dipankar Ghosh: For Auto ancillary it should be at least around Rs.170 crores and then the EBITDA would be something in the range of 3%-4%.

Rakesh Jhunjhunwala: In the Auto ancillary?

Dipankar Ghosh: Yes.

Rakesh Jhunjhunwala: And what about this, the third one railway equipment, what is the potentiality of turnover that we have and what is the possibility that we get there?

Dipankar Ghosh: We have a plan of at least Rs.300-400 crores in the coming 1 or 2 years and we are confident that we should be reaching that particular revenue numbers in the coming two years.

Rakesh Jhunjhunwala: And if you do Rs.350-400 crores, should have a margin of 10%-12% or higher?

Dipankar Ghosh: It should be higher.

Rakesh Jhunjhunwala: And this tractor business what do you think are the factors that will lead to a turnaround?

S Sridhar: Industry turnaround?

Rakesh Jhunjhunwala: Yes.

S. Sridhar: I think as I said is even though lot of things are said about government policy but I would expect it is more to do with sentiment on monsoons. See first for monsoon is on-time monsoon. Monsoon set on time is a most important factor and then sustenance over a period of time, it is a second important factor, third is the quantity of rain. These three things are very important when it comes to monsoon.

Rakesh Jhunjhunwala: It is also not linked to the prices that the get from the produce?

S. Sridhar: Exactly. The second factor is the prices comes little more footing, inflation really enables, that puts people on fire. If these things are there the recovery happens with next season, suppose if the first season is something like October-November if one such season is clear the second season which is by March-April-May we will see market on fire. So to that extent it is more like a retail industry behavior. So recovery happens much faster.

Rakesh Jhunjhunwala: So what do you feel, this year will be the second year of expected degrowth, right?

S. Sridhar: Yes.

Rakesh Jhunjhunwala: So sir when you have two years of degrowth, when you have the growth then, then you should have a very good growth.

S. Sridhar: Then normally what happens is if I am to look back at history as a basis of predicting future then the coming back can be a stunning back means it cannot be a single digit growth for the year 2016-2017, it can be something like 15%-25% kind of a comeback is what should be on card.

Rakesh Jhunjhunwala: And sir what is your estimate, what was the industry size last year?

S. Sridhar: 5,50,000.

Rakesh Jhunjhunwala: So this year you think it will remain at 5,50,000?

S. Sridhar: Yes.

Rakesh Jhunjhunwala: Next year it is going to 6,50,000

S. Sridhar: Yes.

Rakesh Jhunjhunwala: I wonder in this country I mean, you had negative growth in a basic item like tractors is quite surprising actually. Anyway we cannot do anything about it. You know we are entering in our new product in new segments.

S. Sridhar: Yes.

Rakesh Jhunjhunwala: That one you are confident that you get market share?

S. Sridhar: That is right, henceforth it should be a market share story as well in addition to the profit story.

Rakesh Jhunjhunwala: And sir what is the kind of capacity we currently manufacture 1,00,000 or 1,20,000 tractors in current capacity?

S. Sridhar: See the current players with the current machines largely 1,00,000 should be possible with managing the shifts and little more a tighter management. But the same place can also be stretched to the level of 1,20,000 with some investment, but that is still 1-1.5 years away from our internal discussion but theoretically it is possible up to stretch up to 1,20,000.

Rakesh Jhunjhunwala: And sir because initially you must have acted by giving a lot of discounts and the industries is still competing very fiercely or everybody has decided, it is better not to give discounts?

S. Sridhar: I think that sense will prevail mainly by end of this quarter because this is not a one odd the fall is steeper. I think the industry will stabilizing it in, I mean that discount behavior will start stabilizing it but we just do not participate, so really for us, it really does not matter. We do not go into that place.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I will now hand the floor back to management for closing comments. Over to you sir.

Bharat Madan: Thank you, ladies and gentlemen for being present on this call. For any feedbacks and queries feel free to write into us at investorrelation@escorts.co.in. I will like to mention that we distribute our earnings which releases to our website www.escortsgroup.com. So do refer our website for earning releases as well as other details and this transcript will be available on our website after sometime. Also you can visit our social media pages for the latest and the new development etc. We will meet again in the next quarter, thank you very much, and have a very good evening.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Escorts Limited that concludes this conference call. Thank you for joining us. You may now disconnect your line.