"Escorts Limited 4Q FY16 Earnings Conference Call"

May 25, 2016

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MODERATOR:	**MR. ANNAMALAI JAYARAJ -- BATLIVALA & KARANI SECURITIES LIMITED.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Escorts Limited 4Q FY'16 Post Result Conference Call hosted by Batlivala & Karani Securities Limited. As a remainder, 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. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you and over to you, sir.

Annamalai Jayaraj: Thank you, Ali. Good evening, everyone. On behalf of B&K Securities welcome to 4Q FY'16 Post Result Conference Call of Escorts Limited. I also take this opportunity to welcome to senior management team from the Escorts Limited. We have with us today, Mr. Ravi Menon - CEO Escorts Agri Machinery; Mr. S Sridhar- CEO Escorts Construction Equipment; Mr. Dipankar Ghosh - CEO Railway Products Division & Escorts Auto Products; Mr. Bharat Madan - Group Financial Controller; Ms. Jyoti Khatuka - Head Treasury; Mr. Shenu Agarwal - Chief Sales and Marketing Officer, Escorts Agri Machinery.

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. I would now request Escorts Limited for opening remarks which will be followed by a question-and-answer session. Over to you, sir.

Bharat Madan: Thank you, Mr. Jayaraj. Ladies and gentlemen, a very good evening to you all. Thank you for joining us on the earnings call for fourth quarter and financial year ended 31st March, 2016. A snapshot of company's standalone annual performance is as follows:

Turnover at Rs. 3,472 crores against Rs. 3,986 crores last year, down by 12.9%. This is primarily due to drop in both Tractor volumes and Construction Equipment volumes. Tractor volumes went down by 13.9% to 51,455 Tractors as against 59,779 Tractors last year. Construction Equipment volumes went down by 15% to 2,555 machines against 3,007 machines last year.

Despite 14% drop in volumes, EBITDA more or less maintained at Rs. 160 crores as against Rs. 161.4 crores last year. EBITDA margins up by 56 basis points to 4.61% versus 4.05% last year improved due to lower material cost. Material cost went down by 252 basis points to 68.9% as compared to 71.5% last year.

Finance cost also went down by 10.2% to Rs. 51.3 crores. The total debt outstanding as of March 2016 is Rs. 355 crores against Rs. 481 crores last year. PBT before exceptional item stands at Rs 106.4 crores, up by 7.6% against Rs. 98.9 crores last year. There is an exceptional item of approx. Rs. 13 crores in the quarter which represents the additional liability that the company had to bear as a result of settlement reached an ongoing litigation with one of the Korean party pursuant to an international arbitration award decided against the company in respect of invoking of guarantee for non-performance of contracted terms by our U.S. subsidiary Farmtrac North America way back in 2006-2007. The segment however opens the gate for the company to re-enter U.S. market now.

The company reported a PAT of Rs. 89.4 crores up by 19.6% against Rs.74.7 crores last year. The Board of Directors has recommended a dividend of 12% that is Rs. 1.20 per equity share for the year ended 31st March, 2016.

Now moving to company's quarterly performance. Turnover at Rs. 804.7 crores as against Rs. 817.7 crores last year it is down by 1.6% on year-on-year basis. Tractor volumes up by 7.1% to 11,823 Tractors against 11,036 Tractors last year. Construction Equipment volumes at 737 machines against 740 machines last year in quarter ended March 2015.

EBITDA is up by 76.2% to Rs. 38.8 crores against Rs. 22 crores last year. Raw material cost went down by 143 basis points to 69.4% against 70.9% in the corresponding quarter. The company reported PAT of Rs. 16.4 crores versus Rs. 12.8 crores last year

Now, moving on to segmental business performance. Starting with the Agri Machinery business, Domestic Tractor industry volumes went down by 10.5% to 4,93,000 lakhs Tractors as compared to 5,50,000 lakhs Tractors last year. Sentiment on the farmers and the industry have been dampened firstly due to agro climatic conditions rainfall on second year the row deficient and below normal monsoon season and then untimely against just before the harvesting seasons. Food grain production declined by 5% in 2014-2015 over the previous year living lesser income in the hands of farmer in the ensuing year.

Our domestic volumes down by 11.9% at 50,698 against last year 57,565. Industry de-growth was higher in our stronger market negative 17% and Punjab, Haryana, Bihar, UP, Rajasthan and MP regions where as industry grew by 1% in our opportunity market especially South and West**.**

Our domestic market share stands at 10.3% in year ended FY'16. EBIT margin in EAM stands at 8.1% up by 95 basis points against 7.2% last year, primarily due to material cost reduction initiative.

In Q4 FY'16 domestic industry grew by 7.9% to 105K units whereas our own volumes are up by 8.4%. EBIT margins for quarter four improved by 504 basis points to 9.7% against 4.6 % last year. Continuing with our strategy to offer innovative products we had launched Euro 45 and Euro 50 series under Powertrac brand and Classic series under Farmtrac brand earlier this year in 41 HP to 50 HP category. The market response to all the newly introduced model has been over positive. Our market share increase from 9.7% to 10.9% in 41 HP to 50 HP category in FY'16. The new models are creating product pull based market demand amongst the prospective buyers.

Going forward in the current fiscal, we should continue to bring new products. In Q1 FY'17, the industry is expected to grow by 4% to 6%. On full year basis domestic Tractor industry expected to go up between 8% to 10% depending upon how well the monsoon fares.

Now coming to the Construction Equipment business, after five years of continues decline the Construction Equipment industry witnessed a growth of 15.8% in FY'16 and our served market grew by 5.5%. During Q4 the industry has witnessed a growth of 37% on the back of growth across product segment.

Our served industry volumes went up by 30%. Pick ‘n’ Carry crane industry went up by 9% in Q4 FY'16 compactor and Backhoe Loaders industry has gone up by 53% and 30% respectively.

Our total volumes manufactured as traded products put together went down by 0.4% to 737 machines in quarter ended March 2016 against 740 machines in last year same quarter. Our performance was better than industry in Pick ‘n’ Carry segment where our volumes have grown by 15%, however, we have lost market share in the Backhoe loader segment from 4% to 2% because of increase competitive intensity and the price discounts.

On full year basis volumes declined by 15% to 2,555 numbers. Revenue down by 10.9%to Rs. 456 crores from Rs. 511 crores due to lower volumes. EBIT losses also have widened from Rs. 24.8 crores to Rs.30 crores mainly due to lower volume and product mix. going forward we expect that our served Construction Equipment industry will continue to grow at same rate as seen in last quarter.

Coming to the Railway division, revenues are up by 12% at Rs. 205.4 crores as against Rs. 183.5 crores last year. The EBIT margins are also up by 147 basis points at 11% against 9.6% last year. In Q4 FY'15 revenue stood at Rs. 52.6 crores against Rs. 54.5 crores last year however EBIT margin decline to 3.8% mainly due to unfavorable product mix and provisioning for absolute inventory. Order book for this division stood at approximately Rs. 55 crores which will get executed in the next three months to four 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 have got another development order for Axel Mounted Disc Brakes recently which shall be executed in coming quarters.

Lastly, the Auto division achieved its revenue of Rs. 92.4 crores against Rs. 103.4 crores last year. EBIT losses has gone down on a full year basis and also on the quarterly basis. A positive swing of 248 basis points on the year-on-year basis and 2,944 basis points on a quarter-on-quarter basis as seen in EBIT margin in Q4. This is achieved mainly due to cost savings through VRS, margin expansion due to sales portfolio rationalization and improvement in operations in EAP. And the short-term our focus is to increase the sales in high margin segment to achieve breakeven. We are looking for a strategic partner to turn around this business.

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

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question-and-answer session. We will take the first question from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: My first question is to Ravi Menon, sir. Sir, what would be your focus areas and would the existing strategies will be continued?

Ravi Menon: Thank you for the question. See I think the existing strategies are as good as they are and I think I am a great fan of what is being done so far. There have been three major initiatives if you look at it, one there have been a lot of great products which have come into the market which has excited the market to a large extent. Two, there has been good amount of work done on dealer development and three, there has been a thrust on the Southern markets where we have improved share in some of the states like AP where we move from say 3.5% to something like 5%. So while we will continue doing all that has happened so far there will also be some launches which we will take in both like it was mentioned in the presentation there will be a focus on Euro 45 and Euro 50 which are important products for us. There will be a focus on the 60 EPI which will include the T-20 which gives good range of speeds and there will be products which will come out later during the year on the compact and the peddling special that is as far as the product growth. We will be focusing a lot of on dealer development in terms of improving the infrastructure and the capabilities of the dealership personnel so that is the second activity which we will focus on. And thirdly we will also keep a lot of focus on the Southern markets as I mentioned earlier especially in the states of Maharashtra and AP.

Raghu Nandan: Understood sir. So if I have to summarize its more or a marketing focus than the product focus which earlier existed?

Ravi Menon: No, I think there have been if you look at the history there have been almost 15 launches in the last three years which you are saying a lot as far as product launches go. So there is a period of consolidation and getting those products in place and positioning them properly and then of course there are marketing and branding activities which you have been carry out.

Raghu Nandan: Understood, sir. What would be the launch state for ALT 5000 and also what would be the potential volume for this product and the segment size can the product lock something like 500 units per month?

Ravi Menon: See what happens is when the earlier ALT models were launched we came up to a level of something like 400 units and then we saw a little bit of stagnation so we are trying to understand how to get this product up to about a 1,000 units and then positively we will be launching the models that you spoke about. So we would like to consolidate first on what has already been in place to hit the four figure mark and then only would be follow-up on the other models.

Raghu Nandan: So I mean earlier it was like the June quarter which was the schedule date for launch for ALT so would that be you know like based on that marketing feedback do you think you will be waiting to launch that product?

Ravi Menon: No, I think June, I am not sure whether will happen it might go forward by about a month or two but like I said earlier the first product which has been launched needs to hit the thousand Tractor mark which it has not hit so far and therefore we will work on that first before we push these two products.

Raghu Nandan: And are you seeing an improvement on the Northern regions, central has seen a pick-up and what kind of dealer inventory days do we have and any correction required there?

Ravi Menon: See if you look at what has happened since the fourth quarter we have already reduced inventory substantially a big three-digit number is what we have done in terms of reduction and we think that by the time we finish the quarter we should be close to a four-digit inventory correction. So having said that what we are also seeing is the season in June where typically in the month of May people pick-up the Tractor because they know there is going to be a boom in June so we would I think maintain close to a thousand tractor correction by end of June.

Raghu Nandan: Understood, sir. And the Northern region the pickup there are you seeing the demand trends panning out?

Ravi Menon: Okay. So what has happened in the North is that the North negativity I mean the negative growth which was happening over the last few quarters has distinctly come down, so you are looking at high single-digit as against higher double-digit negative growth so, I think that is a positive sign and like you said rightly, I think we see a lot of potential in MP specially that it rains well.

Raghu Nandan: Understood, sir. What are the volumes for the Euro 45 - Euro 50 and would that be the reason for fall in realizations in the Agri segment.

Ravi Menon: I would not attribute it totally to that because that have been some Euro 45 and Euro 50 have been pitched in a position where they compete and gets share from some of the markets where we were not so strong but the realizations overall might have gone down by about few basis points only. I think in this quarter we should be able to correct that. We do not see that as very big problem at this point time.

Raghu Nandan: Just a clarification on my last query, realization has reduced about 6% on a year-on-year basis and about 2% on a Q-o-Q basis. So that was the reason I highlighted that point whether I am missing something what led to this fall in realizations?

Bharat Madan: No, there is a reclassification which at least which at least happened in this quarter so it is earlier whatever incentive and discount which use to be shown as a part of other calls netted off from the sales line so it is an EBITDA of about Rs. 10 crore which has come in this quarter so, if you add that back the realization will move up so that is probably one of the reasons which is happened in this further change in the accounting policy this quarter onwards.

Raghu Nandan: So this quarter onwards we are netting off the discounts from the revenue?

Bharat Madan: From the revenue. So part of other cost from the selling cost.

Moderator: Thank you. The next question is from the line of Trilok Aggarwal from Birla Sunlife. Please go ahead.

Trilok Aggarwal: Just a couple of questions, in the opening remarks you mentioned that you know the Tractor division in first quarter you believe the growth could be in single-digit is that correct that I have heard?

Bharat Madan: Sorry, you said in the first quarter of this year?

Trilok Aggarwal: Yes, that is what he said, is not it? In the first quarter single-digit and the full year you said 8% to 10%, correct?

Bharat Madan: Yes, depending on how the monsoon fares.

Trilok Aggarwal: Yes, I mean so is this you know that April number is already out I mean I was wondering May and June is not so, have you not seen pick-up because that is what we have getting hearing from the dealers check what is your sense is any particular reason because you just mentioned Northern is also kind of decline is kind of moderate to single-digit levels so could you just throw some light on what is actually because the base is very favorable so…

Bharat Madan: Okay. Now see the mix if you look at the way the mix is for the company there is a significant growth which is happening in the Southern part of the country where our market shares are low. So for example, if you take state like AP the growth has been close to 100%. If you take the case of another state like say Karnataka the growth has been somewhere in the region of 38%. Now these are all states where we hold share of may be 3% to 5%. So when you look at that we are not very favorable placed in that condition whereas in all the other states in the North we have actually grown but if you take an all India number, then that is a little unfavorable as far as we are concerned.

Trilok Aggarwal: Okay. So basically that number is more to do with Escorts then the industry is that correct?

Bharat Madan: Right, exactly correct.

Trilok Aggarwal: Okay. And second you know coming to this Railway product division, this I mean we have seen volatility in the quarterly and when we met in the February you guys were over the medium-term you guys were obviously very optimistic on this business in terms of growing. Now obviously, two aspects one is how is the revenue we should kind of think of going ahead and why is the margin so volatile, so can you just throw some light on that?

Dipankar Ghosh: I mean over the quarters if you consider a Q-on-Q basis there has been a decline because there has some of the new products which we have introduced has a higher import content so the margins were down but we are pretty confident that in the coming year in this particular year once we are going in for a targeted localization the margins for those particular new products should be again back to where we are usually with the conventional products. But if you see on a year-on-year basis the overall EBIT and EBITDA margin have been pretty high. So this is only a temporary phenomenon because of the fact that we wanted to introduce this new product and that is why at particular margin in that particular quarter has been lower and since it is a tender based business it is obviously there would be a little bit of so called the up and down in the EBITDA margins because of the fact that the tender business for example in Q4 we are expecting a big tender of a couplers which finally did not materialize it materialize only in April and we have got the orders so that way the EBIT margins were also were under stress. But we are confident that going forward we would be maintaining or if not improving the EBITDA margins.

Trilok Aggarwal: And you mentioned you know in your presentation that is also to do with the product mix so, is that a lower product I mean what kind of product mix you are talking about in terms of….

Dipankar Ghosh: Product mix it is not lower product mix, the newer products which we are introducing like in Axel Mounted Disc Brakes it is a very high end product only two multinationals in India are presently supplying it, we are the first Indian company who have entered into this Axel Mounted Disc Brakes it is a very high-end breaking system for that we have some import content some of the parts of that are having import content so that is where you see a lower margin but we have taken up a very targeted localization of those parts and within few quarters we will see the margins will be back even for these new products.

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

Dhaval Doshi: Sir, just continuing on the Railway question, so if I were to look at the order book not only for this quarter but if you look at the past two quarters or three quarters there has been some kind of stagnation in terms of the order book order so I guess last quarter was close to Rs. 60 odd crores this quarters further decline so are the orders really coming up and is that incremental development order for BMBS included in this Rs. 55 crores.

Dipankar Ghosh: This Rs. 55 crores this incremental order is included that is true but what happens is that I mean it also depends on the government tender it is a not a stagnation if you see we have grown by almost 12% to 15% from the last year and we see that as the tenders come out we see a positive growth in the coming quarters. So we do not see much of a stagnation going forward I mean neither there was a stagnation in Q4 also but as I said since the particular order for a coupler of almost Rs. 45 crores was delayed and it was only the results only came out in April so that is where you see an order book not going immediately.

Dhaval Doshi: So this Rs. 55 crores odds not include that order?

Bharat Madan: Yes, it does not. So this order book status as of 31st March so like I said we got a major in April, likely has been the strongest in terms of order development for us.

Dhaval Doshi: True, okay. And sir, there was BMBS order which were expected to come through around his time so what is the update on that?

Dipankar Ghosh: The BMBS order have already come and we would be delivering BMBS this quarter.

Dhaval Doshi: So is it a part of this Rs. 55 crores or not?

Dipankar Ghosh: This is a part of this Rs. 55 crores, yes, we are now delivering only a small part of the BMBS order because we are setting up systems and also our supply ecosystem for this BMBS order so this is part of this Rs. 55 crores but we have more schedule order which depending upon the Railways schedules we will be able to deliver only in Q2 of this particular year.

Dhaval Doshi: So if you can just elaborate a bit more on this order that you are talking about and even this order would have high import content.

Dipankar Ghosh: No, BMBS is a totally indigenous development by us. So it does not have any import content so the margins and everything will be pretty secure out here. Only for the Axel Mounted Disc Brakes which we have import content that also now we are confident by December we should be able to reduce the import content significantly.

Dhaval Doshi: And sir, what could be the quantum of this order that you are going to executing in this quarter?

Dipankar Ghosh: Quantum of order I mean you are talking about the BMBS…

Dhawal Doshi: Yes, sir, BMBS**.**

Dipankar Ghosh: BMBS, we are assuming around Rs. 5 crores or so not much because we have other schedules to be delivered because Railway has we have given us order but the schedules are I mean I cannot deliver before may be August. So I cannot take it in the month of within this June.

Dhawal Doshi: Okay. Sir, second question on the Agri Machinery business so, if you were to look at the margins there has been a sharp jump on a sequentially basis. So what would be the factors is it the raw material division because overall gross margins are more or less flat for this quarter sequentially so, what has led to this sharp improvement in the margins and is this sustainable going ahead.

Bharat Madan: So there are two reasons - three reasons see the material cost the deflation was at its peak in this because after that we have seen steel price slightly moving up but in March we had a peak of the deflation into the commodity prices. Second also because the savings from the cost initiative from the project where I think now growing slightly higher numbers, then on the man power cost we will see there is an improvement sequentially versus last quarter because this is the last quarter as a lot of adjustment on the man power into the variable performance these sort of performance happens, so there is a lot of write back which happen in the man power cost in this quarter which led to be cost savings and this is trend which was there last year so it is not something which is extra ordinary but compare to sequentially cost definitely is the cost savings which is behind this.

Dhawal Doshi: But this might not be entirely sustainable right as you yourself said.

Bharat Madan: Do not look at the quarter per say look at the annual average so, I think annual average we had improved the margin by about 1% on Agri Machinery so which is a sustainable number at this volume s.

Dhawal Doshi: Okay. And sir, with regards to the construction equipment business so despite of improving volumes we have seen margins getting impacted so how do you see the overall numbers coming in from this segment going ahead because I thought fourth quarter was supposed to be one of the best quarters as far as Construction Equipment was concerned. But somehow that is seen in terms of volumes but not seen in terms of margins.

Bharat Madan: The margins basically on the impact of the adverse product mix because we sold more the Pick 'n' Carry cranes in the total volumes which are typically a lower margin product compare to the higher like I said Backhoe Loaders which is the high contribution item we dropped our margin from 4% to 2% so the mix actually turn negative so in spite of that factor you look at the numbers be more or less similar to what we did last year or in terms of the mix it is negative so contribution wise it has got impacted negatively.

Dhawal Doshi: So probably we can assume this kind of numbers going ahead as well.

Bharat Madan: No, so in all like we said the industry is showing signs of improvement so last quarter the first quarter after five years we saw an improvement happening in the equipment industry so we expect that in the volumes start going up down from those numbers which can also lead to some improvement in the bottom-line.

Moderator: Thank you. The next question is from the line of Prashant Biyani from SPA Securities. Please go ahead.

Prashant Biyani: Yes, my question is to Mr. Sridhar. What would be your strategy to turnaround the Construction Equipment segment? And do you have any internal timeline for turning the division into profits?

S Sridhar: Yes, I think compare to last year, we had operational figures are negative possibly we will drastically bring it down to lower of negative so, this is to start with these things are visible so far. I think that the challenges to go into PBT zero kind of asset thing. So we are working on so we are half through some of things were already concluded by my predecessors himself so they are just taking over whatever the job they have left behind. Having said that what is visible for EBITDA margins are something like from a high negative into 4% to 5% is highly visible. Possibly 7% can be a stretch target which have come after six months but having said that in the two years something like a 10% EBITDA margin is distinct the possibility I think if you do that and the growth happens within the industry that means we will be part of at least I will start rubbing shoulders with Agri division guys now. So having said that, the next business like internal what precisely we do I think I will expand much more because many things are being cooked so I will be hazing to you. But I would like to share with you is the industry behavior. This industry behavior is no difference from say for example agri behavior four years of stagnation in terms of stagnation do not read last year versus this year right way to read is the quarter four to quarter four. When you look at it quarter four to quarter four there are three distinct segments which is of relevance are ECE which is the Pick ‘n’ Carry which was growing at the rate of something like 9.5%-10%, the Backhoe which is growing at 30% and the road making industry is something like a 60% and this recovery happens on this order only. So Pick ‘n’ Carry comes a little later. At this rate what you should expect like conventionally this quarter has much less than the first quarter like somebody was saying first quarter was supposed to be the best, but that is only historically. This year, this quarter will be better first quarter which is supposed to be the smallest quarter now. So I think expect a lot of good things to happen in the next three years. The question is how well we see Escorts Construction Equipment is participating is the bigger question, I think as usual I will start with profit obsession for the first year. A lot of scripts are being developed to drive the volume growth. I think I will come with a good new of how soon is the growth Rs. 1,000 crores top-line and the EBITDA margin target of 10% which will be my dream script and possible I do not think I will take beyond two years to go through that.

Prashant Biyani: Okay. And regarding the Agri product division what would be our strategy to increase the exports over the last one year - one and half years we have been means exports have seen good decline in volumes in spite of good guidance around two years back so what would be your strategy to revive the exports?

Ravi Menon: Two things or three things. One is that when you look some of the weaknesses here what we realize is that we need a very strong channel. So as a first step what we have done is we have identified 15 parties across the continents of Africa and Europe who could bring us significant presence is a cluster of countries in either Africa or Latin America. So these parties have been spoken, to we have seen some interest from three joining us and giving us this kind of cluster presence of network, that is one. Two, there are specific products which are being created here which are in-line with the expectations of both the African and the Latin American markets. This is the second one and third I think the team as a whole has been completely refurbished we have people with experience who have worked and specifically the Africa continent, the European continent and the Latin America continent with required language skills and contacts in those markets. So these are the three main areas which we are looking to improve the performance and exports.

Prashant Biyani: So are we expecting any improvement this year or it might take some time to fructify the steps that we have taken?

Ravi Menon: No, we have a target of something like 2,300 numbers for the year and while it is very early to say whether we will cross that number and do significantly better I think we should be able to hit that number definitely and it might take another year for us to significantly improve on those numbers.

Prashant Biyani: Okay. Just one bookkeeping question, what will be the revenue from the overseas subsidiary and Tractor volumes for that company?

Bharat Madan: The overall top-line this year was close to Rs. 80 crores and they did abut (+500) Tractors this year.

Moderator: Thank you. The next question is from the line of Mayur Milak from Anand Rathi. Please go ahead.

Mayur Milak: I am saying the VRS where you would plan for 1000 employees was spread over three years so I think 350 what employees were made to do a VRS.

Bharat Madan: Yes, so last year we had done the VRS with 350 employees exited but this year because the situation in the industry were decided to differ that decision so no VRS really happen barring few numbers 8-10 employees which were spill over the earlier VRS so there is no major VRS this year but there is really a plan is there obviously so obviously going forward we will take a call at the appropriate time so in the next two years I think we will be executing that strategy.

Mayur Milak: All right. And what was the total employee strength in 2016?

Bharat Madan: The employees in terms of man power you are saying or it is only workers?

Mayur Milak: No, total man power.

Bharat Madan: Total man power on the rolls of the company was close to 4,400 or 4,500 employees total apart from contractual period. If we include contractual it will be 8000 employees.

Mayur Milak: All right we expect to have this VRS in 2017 and 2018?

Bharat Madan: Yes, we will have to decide on the timing but there is some settlement which due with the union this year so we do not know the timing really so depending on order goes will take call in appropriate time but yes, certainly it is from the cost in next two years like I said it will definitely have, quantum we do not know as of now so we will take a call at the appropriate time.

Mayur Milak: All right. And another aspect of margin enhancement was of course the value engineering that was said for the products so have we seen a significant improvement in our product cost because of the value engineering.

Bharat Madan: See so this cost initiative which we are doing so, part of the cost initiative actually savings is coming for the value engineering proposal so all the 50% was from the commercial side on the negotiation front and balance 50% was on the value engineering side. So of now till March I will say about 75% or 80% project is through so most of the savings will start accruing on the P&L but balance 20%-25% which is more engineering-led savings are expected to start accruing from July August onwards where the project end by June, so that project is still running so, I think once they complete the project and the things will be materialize so we will see the improvement happening from July August onwards.

Mayur Milak: All right, so by when do you think we should be able to match the industry standards of margin as such?

Bharat Madan: The industry standards have two reason see material cost was only of the initiative which we have taken so on material cost obviously we will be benchmarking today the almost best in the industry but on the other front such as man power cost is still an issue so you look at our portability this is almost 11%-12% is still in man power cost which is very high, so this one issue which cannot can be addressed in the short-term so like depending on when we did this VRS and all the other reduction initiative which we are taking so that is something I think which will take slightly then the expected so material improvement definitely will happen so we start seeing the result from this year itself but on the man power cost I think we still need to wait for some more time.

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

Mitul Shah: Sir, I have two questions, first is on your growth estimate of 8% to 10% so can you give broadly region wise what is your internal assessment whether North and Central would be more or less flat and higher growth from the other regions or you expect those regions also to grow nearly to 8% to 10%.

Ravi Menon: If I were to answer that question very simply it will be very difficult because typically there are a lot of factors which go into growth one of which is of course the monsoons so the estimate is that the Southern part of the country would continue to grow faster than the Northern part, now will it grow at 90% or 80% which is growing right now the answer is no. But the growth would still be a healthy percentage and that will also depend on how the range pan out going forward. But we expect that the North from whatever estimates we have currently may not have as good monsoons as the central and the Southern part of the country what we know today. Given that I think the growth will significantly come from the regions which have stronger rainfall and that would be the Southern and the western parts of the country and central. North may be a little slower in terms of growth. Exact numbers are very difficult to state at this point.

Mitul Shah: Yes. But do you expect growth even or it may not grow even….

Ravi Menon: No, what we are understanding right now is the monsoon may not be as strong as it would in the South. So we would expect a small growth and a slightly larger growth in the Southern, central and western parts.

Mitul Shah: And on the sir, HP wise growth do you give some broadly what is your internal assessment going forward what would be the trend?

Ravi Menon: The trend you are asking for the industry or for the company?

Mitul Shah: For industry HP wise.

Ravi Menon: See our estimate is that the 41 HP to 50 HP is currently about 56% to 57% of the total sales and this is the segment which is growing the fastest. We also expect two other areas to grow well one being the (+55) HP because there are a lot of these Tractor going to construction activities and with -- the 21 HP to 30 HP segment which we expect to grow and the (+50) HP would be roughly about 8% each of the industry and the 41 HP to 50 HP would be in the range of 37% or so. So growth will be relatively different but these are the three segments which we think will grow on the industry.

Mitul Shah: Okay, sir. And just to again reconfirm this 8% to 10% growth we are estimating that is for the industry or for our company also probably same, because we are seeing that South will grow reasonably higher where we have not very stronger market share so, there is possibility we may not be able to match the industry growth.

Bharat Madan: The expectation was in the Northern market are still under pressure so they are not growing so this will be more like our numbers in terms of industry because we are seeing margin growing 14% to 15% so far and May, June probably will see a similar trend so overall the industry will still probably grow by 8% to 10% may be in this quarter. But as we had expected earlier it will depend on the monsoon fairs, sentiments result today turn positive but this can actually give you a very positive surprise and the market also grow in a high double-digit number 15%-20% also you can expect. So as of now it is very difficult to predict like Ravi said so we are still predicting the numbers which is based on the market scenario and the regional growth which is happening so far. So this is sot of our growth number which we can say.

Mitul Shah: Okay. So then second on this restructuring of the reporting would be indicated initial remark so we have done as per the previous method then what would be the difference in the revenues approximately.

Bharat Madan: We said about Rs. 10 crores is the adjustment done. On the selling cost so which has been adjusted in this quarter so, on a full year basis it will be close to Rs. 35 crores to Rs. 40 crores.

Mitul Shah: So that full year adjustment is being done in Q4 only or….

Bharat Madan: No, so this has been done only for two quarters now, so last quarter also we have done the similar thing so it is the same thing which we have done in Q3 and Q4 follows that but when you compare with last year there is will be some disparity because of that.

Mitul Shah: So quarter-on-quarter there are no difference so this margins and everything are RM by sales all those there is no difference in Q-o-Q, right?

Bharat Madan: Yes.

Moderator: Thank you. The next question is from the line of Narayanan Ravindranathan from E&R Advisors. Please go ahead.

Narayanan R.: Sir, I just wanted to continue on the previous question on this adjustment so if I look at the discounts that you have reported as part of other expenses in FY'15 that was about some Rs. 90 crores. So is this Rs. 35 crores adjustment, is it for the full year?

Bharat Madan: No, Rs. 35 crores will be the full year but the adjustment done in this quarter is about Rs. 15 odd crores.

Narayanan R.: Yes, okay. But is this number the same as what you have reported around Rs. 92 crores in FY'15 and if I look at the annual report?

Bharat Madan: No, it is not exactly the same number, it is not all the selling expenses you get netted-off from the sales. It is only the variable portion which earlier was given to credit notes now being given also in the invoice so there is some accounting which has happened on that so that is the only impact which is coming. So not everything will likely netted-off from that sales line then some costs we will see happening on the fixed cost on the other cost.

Narayanan R.: Okay, got it. And the second thing which I wanted to understand, if we look at the kind of downturn the industry has been over the last two year - three years on a recovery we would typically hope that the growth is something like high-teens or sometimes more than that but speaking to yourself as well as even the other companies that sense of confidence is not that so on a good monsoon year so, is there any reason for that like would farmers probably want to deleverage first and what is happening on the ground which does not still give you the kind of confidence in terms of the growth picking up.

Bharat Madan: We said the growth way happen but again it will depend on the monsoon and monsoon is only factor. Then there is a crop prices, how they get impacted, what is the output the yield with the former so how money they really get in the hands, how much is the MSP which is announced for the crops so, what is the financing arrangement in the market at that point in time. So there are a lot of other factor which are today impacting industry. So monsoon is only factor which is actually impacted. So we will really know the case when the monsoon really happens we will see the turnaround happening, which is why I said, so may be H2 also give you positive surprise from the industry numbers.

Narayanan R.: Okay. And how much of the factor is farmer level debt, do you think the first set of cash flows will go for repayment rather than spending on new tractors is that one of the factors which is behind this cautious outlook?

Bharat Madan: Debt in terms for the farmers you are saying or for the company?

Narayanan R.: Yes, for the farmers.

Bharat Madan: So that really we do not know so it will depend on case to case so I do not know each customer will have its own unique case to handle.

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

Sameer Deshpande: When I was looking at the results, if you see the standalone results and the consolidated results, there is a loss of about 14 crores on amount in the subsidiaries this year because if I compare these two figures what is the reason for that big loss?

Bharat Madan: So one is this is our Poland subsidiary because in Poland the industry has gone down this year by almost 30% and that is change in emission now which has happed in Europe, which is impacting the profitability of most of the players there where the people who are trading with the old inventory our old engines, with the old emission norm they have been forced to get a discount. So this year we actually ended the year for the Poland subsidiary almost Rs. 10.5 crores of loss on the top-line of about Rs. 80 crores with 500 plus taxes and then there is also the small Tractor company which we have a JV with in the last quarter where we sell our smaller tractor less than 28 HP tractors so this is first year of operation for them they went after the commercial production but this year also had a loss and we had a JV partner there to the extent of the JV partnership so that loss at least the part of the consolidated results which we have published now.

Sameer Deshpande: Okay. So outlook going forward there continues to be grim?

Bharat Madan: Outlook for Poland as of now the government is still come to up with the subsidy program which is the major impactor of the market there so, if you talk about now in the last two months the industry is still showing the similar de-growth of about 30 odd percent but the numbers are expected to recover probably in the second-half this year by the time you will announce the subsidy and the pick-up will happen in the demand and we also take a lot of cost initiatives in that company and whatever emission norm will be there and the inventory get liquidated so it will be over with that impact and then will probably start growing on the margins from second-half on wards. On the smaller tractor we expect this year that of the first year we did about 600 volumes - 700 volume in that company but this year we expect the numbers will start growing and there again there is a lot of cost initiative which we are working on last year which could not materialize and they will get materialize in this year so we are hoping that the numbers will likely improve from this year onwards for the small JV also.

Sameer Deshpande: And currently our capacity utilization is around only 50% no in Tractor?

Bharat Madan: That is right.

Sameer Deshpande: It is hardly anything when we consider so the operating leverage whenever the volumes pick up there is a….

Bharat Madan: If you look at the industry it has gone down in the last two years by almost 25% so from a peak level of 635,000 units this time it is down to 493,000 units it is a big drop which is happening in the industry so which is pretty steep so unless it is the recovery happening in the industry also utilization will be under pressure.

Sameer Deshpande: Yes. And in Construction Equipment volumes we in the last conference call, it was mentioned that we have about 3,000 annual volumes the Construction Equipment segment is likely to report a breakeven so, now we are at some 2,500 odd figure now in this the Backhoe continues to lag because of the competitive prices and all those things. So what is the real profit making activity which can happen there because cranes have always been a drag to my knowledge though we are the largest player there they have always been a drag on the profitability so what is the turnaround factor there?

S. Sridhar: See this is not necessarily through that sometimes we make a highly profitable product also in not profit making product something very funny things we end up for doing it. So if you look at it crane systems we have to see it like two different segments there is a segment where we are clearly the leader and these are all heavy duty cranes where we sell in what we call industry granite, cowries and all that, there we have a clear program of how to improve the contribution further and here I am not talking about what you called cost compression. How to charge the customer a little better so those initiatives are already on so there is other segment where the is a competitive segment where we have to be a little more smart about this, so this together when it comes to per unit realization itself we will recover this will not be worst. But having said that the growth is going to become very high amongst the three segment I spoke about road making at 60%, earth making a 30%, and then Pick 'n' Carry at the 10%. The Pick 'n' Carry is always a drag it comes a later so if other two guys are growing at that rate this also will follow soon now it is the question of how many quarter it takes. So the numbers of what we have taken about 3,000 is a given thing now what does it look like 3,500 is a visible area now. We do not know what more can happen along every quarter you will see. That means the quantities are going to go realization we can make a smart move both together is what I talked about 7% EBIT is ditching to possibility 4% is visible we will see what best is possible I will cover it with you after couple of quarters. So this past story and the future story is going to be very-very different. Having said, that the backend Backhoe we cannot offer it the way we are working the products are going through a completely revamp in terms of positioning so possibly the story you will hear being cooked now 1st of October onwards you will see a major impact on this. So both together this is where I talked about in a 12 months' scenario 10% margin EBITDA margin is very visible story so let us see both the turnover as well as EBIT.

Sameer Deshpande: In this current year you expect to make some EBIT margin of 4% to 5%.

S. Sridhar: Of course this is what I am saying actually.

Sameer Deshpande: Okay, it is before interest and tax that is after depreciation.

S. Sridhar: Yes and the interest is there I said it use to be high negative now we have substantially reduced. Now the EBIT story is the growth story is what we are targeting now.

Sameer Deshpande: So even at net level also the Construction Equipment should be something positive.

S. Sridhar: Net we cannot say there is a struggle there but drastic construction is happening when I go into that please give me two quarter that is last thing being cooked I will tell you in the October conference and November conference I will have the full disclosure on actions.

Sameer Deshpande: No, if you can recover the loss from 32 even 5 crores odd then also we are substantial achievement so is it likely we can hope for that?

S. Sridhar: See first and foremast this kind of a defensive things let us give up start looking for much better things actually. So I think better we will speak after couple of quarters. It is being cooked so let us may be October and November call will be a far better call actually.

Sameer Deshpande: But the Q1 also is expected to be better no? Is the Q1 for Construction Equipment a better one?

S. Sridhar: Let me tell you just now for example the Q1 supposed to be one of the weak quarters and Q4 is supposed to be the best quarter, this will be on par or a little better than quarter four.

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

Raghu Nandan: On the debtor days it seems have increased by 44 days from 36 days last time and in absolute terms it has gone up by 7%. Can you elaborate on this sir, why is this increase?

Bharat Madan: Yes, so in the Tractor business especially the debtor days gone up so there is a March quarter typically see what happen last year there was an entire Navrata season what I see in March so it started from March and this time everything was shifted to April so all the dealers stock build up happened in March so which is why the reason is in March outstanding actually went up and that will got liquidated so it is story which is more linked to the auspicious phase when the billing will happen when the deliveries of retail will happen so because of that it is a temporary phenomenon but on the weighted average basis for 12 months so the debtors are pretty much under conclusion. So we will cut down on the credit period from the tractor business which normally use to be about 60 days so we cut it down to 30 days now.

Raghu Nandan: Okay. And sir, like capital employed when I look at it has reduced for Agri, Construction Equipment and unallocated areas whereas it has increased for Auto products and Railways can you elaborate on the reasons?

Bharat Madan: No, in Railways, if you compare to last year it has gone down so Rs. 124 crores is down to Rs. 104 crores.

Raghu Nandan: On a Q-o-Q basis I was looking at, is it something…

Bharat Madan: Q-on-Q for the Railway is typically if you compare so like-to-like for last year it was typically in Railway the supplies really picks up in March when the selection is really poor because the Railway foes not pay in March because the yearend which you in the budgeted issues they normally start paying in April so that they already buildup of the outstanding in March quarter so if we really compare with the last year it is one of the highest year this year in Railways our outstanding have come down by Rs. 20 crores so, I think it would achieve for the Railway business so if we see on Auto products yes, we have paid off some of the creditors there we are scaling that business we are looking for partner there so we are not really pushing for that business. So when the reduction in the creditors the capital employed has gone up by Rs. 7 crores - Rs. 8 crores there.

Raghu Nandan: Understood. So this unallocated earlier it used to be higher on the December quarter has some part of that got allocated to various segment sir within the capital employed? The unallocated has reduced on a Q-o-Q basis has that got reallocated to other segments.

Bharat Madan: You are saying for the unallocated part?

Raghu Nandan: Yes, sir.

Bharat Madan: Can you repeat the question because I think unallocated part has actually come down on….

Raghu Nandan: On a Q-on-Q basis, has that got reallocated to other segments?

Bharat Madan: Yes, so that is reclassification which has happened so some liabilities which has transferred to the short-term liability so earlier it was issue on long-term so about Rs. 70 crores reclassification happened in this quarter. It is hospital related if you look at there is an escrow which is appearing in our balance sheet about Rs. 118 odd crores which is account under lieu and for the sale of hospital business to Fortis in 2005. So the corresponding liability which we acquired for against that about Rs. 65 crores and made some small adjustments Rs. 4 crores - Rs. 5 crores on some other account so there is actually being shown as a non-current liability earlier because the auditors have raised an objection there saying this is a demand which can come anytime and litigation grows against you so you show it as a current liability to it is reclassification in terms of span since it has moved to short-term liability thus the capital employed has actually gone down.

Moderator: Thank you. We will take the last question from the line of Dhaval Doshi from PhillipCapital. Please go ahead.

Dhaval Doshi: Yes, sir, just wanted to know the plans with regards to the Auto division I believe we were looking out for some partner out over there either for a complete sale or through some other restructuring so at what stage of the process are we in currently?

Bharat Madan: See we have received some proposal from one of the interested party and the discussions are on so it is not finalized yet, so they are still in the process of due diligence so I think once we close on that we will come back to the market will definitely let you know it is likely to be done in a short-time.

Dhaval Doshi: Any timeframe that you would want to put to that?

Bharat Madan: We cannot really define but yes, it will be done shortly.

Dhaval Doshi: Okay. And lastly, so on a full year basis you would mention that the Agri machinery business would see roughly a 1% improvement in margins so, this will be after taking into account the recent jump in the steel prices as well?

Bharat Madan: Yes, so inflation normally gets poised into the market and obviously depending how the industry reacts on that so that will be the assumption which will happen and if you look at last year in spite of the drop in volume by almost 13% we still improved our margins by 1% and next year we are expecting the industry to do well better than probably what was last year so definitely there will be margin improvement on the cost.

Dhaval Doshi: So if I have to look at it on a sequentially basis probably Q1 we could see lower margins because of steel price impact coming and probably then once our project starts giving us benefits in terms of the raw material cost savings that we were looking at from July, August onwards is when you will see the margins improving.

Bharat Madan: If you really look at the trend of last four rolling quarters, Q1 is normally the best quarter in terms of volume. So I think we will fit the margin also will be good so definitely some impact of material cost initiative will get spilled over to July, August onwards but in spite of that since the volumes will be good so, the quarter will have a good margin on it.

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

Annamalai Jayaraj: We thank all the participants. We thank Escorts management for sparing time for the call and also providing this opportunity to host the call. We now hand over the call to Escorts management for the closing comments. Over to you, sir.

Bharat Madan: Thank you, ladies and gentlemen for being present on this call. For any feedback and query feel free to write into us at investorreleation@escorts.co.in. I would like to mention that we distribute our earnings release through our website www.escortsgroup.com. So do refer to our website for our earnings releases as well as other details and this transcript will be available on our website after some time. You can also download our Investor Relations app from Google Playstore and Apple iTunes. You can visit our social media pages for the latest company news, development, etc. We will meet again in next quarter. Thank you very much and good evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference. Thank you all for joining and you may now disconnect your lines.