



“Escorts Q4 FY 2017 Earnings Conference Call”

May 29, 2017



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MR. AJAY MANDHR -- CHIEF EXECUTIVE OFFICER,
ESCORTS CONSTRUCTION EQUIPMENT
MR. DIPANKAR GHOSH -- CHIEF EXECUTIVE OFFICER,
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MR. BHARAT MADAN -- CHIEF FINANCIAL OFFICER,
ESCORTS LIMITED
INVESTOR RELATIONS TEAM**

MODERATOR: **MR. DHAWAL DOSHI -- PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**



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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Escorts Q4 FY 2017 Results Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

I now hand the conference over to Mr. Dhawal Doshi from PhillipCapital (India) Private Limited. Thank you and over to you, sir!

Dhawal Doshi: Thanks, Stanford. Good evening, everyone and on behalf of PhillipCapital. I welcome you all for the Escorts Q4 FY 2017 Result Conference Call. I would like to thank the Management Team to give us the opportunity for the call today.

From the Management Team, we have Mr. Ravi Menon – CEO (Escorts Agri Machinery); Mr. Ajay Mandahr – CEO (Escorts Construction Equipment); Mr. Dipankar Ghosh -- CEO (Railway Product Division) and Mr. Bharat Madan --CFO. Along with other Management and Investor Relations Team at Escorts.

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

Bharat Madan: Thank you, Dhawal. Ladies and Gentlemen, a very good evening to you all. Thank you for joining us on the Earning Call for Fourth Quarter and Financial Year ended 31st March 2017.

A snapshot of Company's standalone annual performance is as follows: Turnover at Rs. 4,167.6 crores up by 21.2% as against Rs. 3,438.7 crores in the previous fiscal led by volume growth in both tractor and construction equipment businesses.

Tractor volume is up by 24% to 63,786 tractors as against 51,455 tractors in previous fiscal. Construction equipment volume is up by 29.6% to 3,315 machines against 2,555 machines in previous fiscal.

Material cost down by 90 basis points to 67% as against 67.9% on the previous fiscal. EBITDA at Rs. 323.7 crores up by 83.2% as against Rs. 176.4 crores in previous fiscal.

EBIDTA Margin up by 263 basis points now stands at 7.8% as against 5.1% in previous fiscal. Finance cost went down by Rs. 18.4 crores to Rs. 31.1 crores as against Rs. 49.5 crores in previous fiscal. A total debt outstanding as of March 2017 is Rs. 263 crores down from Rs. 360 crores in March 2016 because of reduced working capital.



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PBT from continuing operations and before exceptional items stands at Rs. 273 crores up by 118% against Rs. 125.5 crores in previous fiscal. Net profit at Rs. 160.4 crores as against Rs. 3.5 crores in previous fiscal.

The Board of Directors has recommended a dividend at 15% that is Rs. 1.5 per equity shares for the year ended 31st March 2017.

Moving on to Company's quarterly performance. Turnover at Rs. 1,043.9 crores up by 29.8% as against Rs. 806 crores in previous fiscal. Tractor volumes up by 26.7% to 14,978 tractors as against 11,823 tractors in quarter ended March 2016.

Construction volume up by 40.7% at 1,037 machines as against 737 machines in quarter ended March 2016. EBITDA is up by 70% at Rs. 74.4 crores as against Rs. 43.7 crores in quarter ended March 2016. There is a one-time gain of approximately Rs. 15 crores in the quarter on account of income receipt from Escorts Benefit Trust towards surplus left in the Trust after meeting all the liabilities of the Trust towards Fixed Deposit Holders of Escorts Finance Limited.

Board has appointed Ernst & Young as our Internal Auditors and recommended Walker Chandiook & Co. as our Statutory Auditors.

Now, moving on to segmental business performance, starting with the Agri Machinery business, domestic tractor industry volume is up 17.9% to 5.81 lakh tractors as compared to 4.93 lakhs tractors in previous fiscal.

Our domestic volume went up by 23.7% at 62,699 tractors as against 50,698 tractors in previous fiscal. Industry in our strong markets North and Central grew by 12.5% whereas industry grew by 25% in the opportunity markets of south and west. We have gained market share across all major states; our market share in strong markets up by 100 basis points and in an opportunity market is up by 50 basis points resulting in overall domestic market share at 10.8% against 10.3% previous year.

Market share for the quarter ended March 2017 is 12.4% up by 128 basis points as against previous fiscal same quarter. EBIT margin in Agri Machinery stands at 10.3%, up by 212 basis points against 8.2% in the previous fiscal.

Continuing with our strategy to offer innovative products we had launched Farmtrac 6055 with T20 with technology. It is world's first double HP tractor giving around 25% more fuel efficiencies. The market response for all the newly introduced models has been over positive. Our market share increases from 10.9% to 11.7% in 41 HP to 50 HP category in FY 2017.

Going forward we should continue to bring new product both for domestic and international markets.



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In Q1 FY 2018 domestic tractor industry is expected to grow by 13% to 15%. On full basis, domestic tractor industry is expected to grow up between 8% to 10% depending on how well the monsoon fares.

Coming to the Construction Equipment Business, the industry grew by 30% in FY 2017 with respect FY 2017. All major segments like earth moving, material handling, road construction, have seen a positive movement.

Our served industry that is Backhoe Loaders, Pick-n-Carry Cranes, and Compactors went up by 33% in the FY 2017. Backhoe loader have been the biggest gainer in FY 2017 with growth of 34% followed by Cranes that grew by 31% and Compactors grew by 22%.

Our total volumes manufactured and traded products went up by 29.8% to 3,315 machines as against 2,555 machines in the previous fiscal. Construction Equipment turnaround in Q4 FY 2017 with volume growth of 40.7% at 1,037 machines as against 737 in same quarter of previous fiscal.

EBIT margin for Q4 ended March 2017 at 2.1% is up 542 basis points as against negative margin of 3.3% in same quarter previous fiscal. The market response for the newly introduced Jungli Backhoe Loaders Hydra 14 EX Plus Crane and other variants has been very positive.

In Q4 we have introduced CT 15 Crane smart solution for smart cities with advance features. Going forward, we expect that our **served** Construction Equipment industry will continue to grow at 10% to 12% CAGR growth for next two years to three years and we will be launching new innovative products variance to get into this growth.

Coming to the Railways division, the overall revenue for the segments are up by 6.5% at Rs. 242.5 crores as against Rs. 227.8 crores in previous fiscal. EBIT margin is up 280 basis points to 12.7% as against 9.9% in the previous fiscal.

In Q4 FY 2017 revenue is up 17.2% stood at Rs. 66.6 crores, as against Rs. 56.8 crores in same quarter of previous fiscal. EBIT margin is up by Rs. 554 basis points to 10.8% as against 5.2% in same quarter previous fiscal.

Order book for this division stood at approximately Rs. 155 crores which will get executed in the next six months to seven months. Bogie Mounted Brake system fitment order of 1,000 quantities approximately has been executed in this fiscal and for Axel Mounted Disk Brakes 120 sets have been executed.

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



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- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We take the first question from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** My first question was in March 2017 there was a Media Interview of Mr. Nikhil Nanda where the MD had indicated tying-up with a global consultancy firm for three years that will help in reducing material and labor cost. Can you please share any targets under this program? Thank you.
- Bharat Madan:** When the contract has already been signed with the consulting firm and they are already on the job, so I think entirely the Company had taken the target to double its EBITDA numbers over the next three years timeframe and obviously, this will build-up of everything including the front end strategy to building up volumes, building up share market, as well as cutting down on the cost and rationalizing existing cost structure. So, that is the entire target which the company has taken, so do not bind us by that but that is something which the company is working on the consulting firm now.
- Raghu Nandan:** Understood, sir. And the jump which would come from the current 8% to 16% over the next three years would that be a mix of both gross margin and the headcount reduction?
- Bharat Madan:** First, we did not say it will grow from 8% to 16%, is we said it will be an absolute amount doubling of the EBITDA, so percentage may not be 16% it may be lower than that but like you said it will be a mix of all, so it will be front led actions, so it which will the initiative I will have the cost led initiatives to be there. So, I can give you combination of both.
- Raghu Nandan:** Thank you, sir. My second question was on the Construction Equipment FY 2018 outlook on the margin side, sir.
- Bharat Madan:** So, the margin like we had indicated last time also so everybody expecting in H2 normal industry does well so this also H2 of FY 2017 we are expecting the business will be to breakeven at EBIT level and which is I think what we have seen overall if you look at the numbers, we have been to manage that but again, I think it is more like a seasonal sort of industry. So, normally H1 is weaker and H2 is stronger period for this equipment business also. So, I think going forward FY 2018 also we expect the overall you will still be I think at minor EBIT positive but again H1 it will challenge sort challenge can still be negative. But H2 is likely to be positive. So, overall for the full year we expect it will be positive, slight positive.
- Raghu Nandan:** Thank you, sir. My last question was on railways outlook the Presentation mention that 20% to 25% growth over the next three years, can you please elaborate on the growth drivers?
- Dipankar Ghosh:** This is Dipankar. The growth drivers are primarily from the new products, we have actually introduced a number of new products which are on the verge of being commercialized. So, these



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would be the primary growth drivers parallely we have taken up a quite amount of restructuring for cost and also margin improve program internally, so all these three together, we should be able to hit those numbers.

Raghu Nandan: Thank you, sir. Which are the new products?

Dipankar Ghosh: The new products are the Axle Mounted Disk Brakes will now be under the localization phase, so there the margin improvements will be there and similarly we are gain launching the Locomotive Brake Electronics which also would be high margin product for us where we see a significant amount of growth. And parallel we have few I will not be able to discuss now immediately in the call, we have also taken up few things in the metro segment which we are pretty hopeful by H2 of this financial year we should be able to commercialize.

Moderator: Thank you. We take the next question from the line of Chintan Modi from Motilal Oswal. Please go ahead.

Chintan Modi: Sir, my question is related to the higher pace of growth that we are seeing in the north and the central part compared to the south and the west region which was I think some time back the other way around. So, what has been the key region for the same and do you see this pattern continuing in FY 2018 also?

Bharat Madan: It is very difficult to comment on what will happen for the year. But I think, the growth numbers which we are seeing in terms of especially in the states of Haryana Punjab, U. P., Rajasthan, and M. P., will I think continue for at least a quarter for sure and for the second quarter as well is my guess at this point.

Chintan Modi: Okay. But sir, what has been the key, I mean what has changed significantly that this growth has shifted more towards the north now. Because I think we were seeing some similar kind of a 20% kind of a growth in the south region I think a quarter before in the previous quarters.

Bharat Madan: Okay, two or three reasons. One is that there has been a base effect because as you know this region was not performing very well last year during the same period, so that is one. Number two, if you look at the crops the kind of performance the crops have had we had a bumper mustard crop, we have had a bumper weed crop, and the MSPs are also reasonably stable. So, with the result that without any great additional input cost because of the good rains the margins to the farmers have also gone up and that has been one of the primary reason why these states have shown a good performance.

Chintan Modi: Okay. Secondly, sir, one of our competitor has already aggressively added capacity it has almost trebled the capacity, so I would like to know your thoughts like from an industry perspective are you seeing some structural shift happening which is why competitors are taking this aggressive steps?



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Management: No, I think this competitor you are referring too has been reasonably stable for the last three years if you have been following the numbers. And if you look at the number last year also, it was somewhere in the region of 11.9% which is same as in the previous year. Now, of course they have enhanced the capacity and what we are hearing from the market is that both on export and in domestic they want to become aggressive because they want to get the capacity utilization up as quickly as they can. So, we have seen some distinct moves in the export market and also some very aggressive advertising and promotion in the last two months. Now, how long that will be sustained your guess is as good as mine.

Chintan Modi: Okay. But sir, what would be your outlook on the industry I understand for FY 2018 already Mr. Madan has explained but from a three year or a five-year perspective how do you see? I mean in the past we have seen that you know a two year of growth is followed by a de-growth, so is that cycle continue to happen or you still see some improvement on the ground level driven by some government initiatives or something?

Management: See, there are two or three things. One is that if you look at the penetration of the tractors in India we are still at 31 units per thousand hectares this is quite a low number and therefore, if you ask me the potential is it there definitely it is. Now, when the cyclicalities goes away from the business is something which I at this point comment on. So, the way we are looking at it is we are saying that for two years it will be good years is our estimate. But on the third year we are saying that we would not look at growth at that point. We are looking at a zero kind of situation. But will that be minus 4 or will it plus 1 that I do not think I can comment at this point.

Chintan Modi: Sure. Last question from my end. On the GST, the rate is now 12% on tractors which use to be 5% to 6% from an output tax perspective. I understand we also get around 6% to 7% of input tax credit. But does this primarily mean that from a purely billing perspective we will have to take some price hikes to add this to the new rate?

Management: See, what happens if you add-up everything that goes into all the taxation that we were doing in the current regime that number comes to around 13.8% or 13.75% to be more accurate. Now, this number is going down to 12%. So, what we are saying is that the challenge is not really the number per say but the fact that the input cost will be taken at 28% that means all the parts that will come at 28% and then you will have 12% tax coming in. So, to us that is I think the bigger issue and we are trying to see how best we can address that.

Moderator: Thank you. We take the next question from the line of Mitul Shah from Karvy Stock Broking. Please go ahead.

Mitul Shah: Sir, I have question on the Construction Equipment side to sustain the breakeven assuming the industry would grow by 10% to 15% would needs to done strategically for Escorts to have a positive EBITDA like right now you are saying it is a seasonal, it may be a negative in the first-

half and again second-half would be more or less mild be positive. So, to sustain the margins with growth assuming 15% strategically what Escorts needs to do?

Ajay Mandahr: Good evening, this is Ajay with you. See, there is a penetration in the market that is going up that means more dealerships are coming up that should give us more spread and the volumes and the plant we are looking at cost cutting, we are trying to rationalize our cost structure. I think going forward cost structure rationalization and increasing our penetration level in the market would stand steady. Plus, we are going to increase our width on the credit products going forward that should give us more margins to work on.

Mitul Shah: Any major product change shift or segment shift within construction?

Ajay Mandahr: No, we are approximately representing 57% of the market our construction equipment market and we would do all our activities mostly in areas where we are present now like moving material handling space and the road construction and these are the segments which are really growing faster. So, this is the area for us to grow and our concentration would be more on these three areas.

Mitul Shah: And any strategic decision in terms of like what we did with the Auto Ancillary anything similar to that something some stock hiving off or some?

Ajay Mandahr: No, not. We have not thought in that direction.

Mitul Shah: Sir, my second question is on the CAPEX side, if you can give broadly CAPEX and segment wise CAPEX in this Railways Construction and Tractor?

Management: Total for FY 2018 it will be somewhere in the range of Rs. 140 crores to Rs. 150 crores, as mentioned earlier, so it will be more on the product side as the major CAPEX is happening on the Tractor side only but there will be a bit of capacities also devoted to the construction and railway business. But again more like product led CAPEX which will be there nothing significant there I think we will save up, 80% will still on the Tractor side and 20% will on the railway

Moderator: Thank you. We take the next question from the line of Rakesh Jhunjhunwala from Escorts. Please go ahead.

Rakesh Jhunjhunwala: My question was the Construction market has grown by 30% last year, what makes your estimate that it will grow by 10 percentage? The Construction Equipment market in general has grown by 30% last year.

Management: You are saying on the Construction side.



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- Rakesh Jhunjhunwala:** Yes, that is there in your Presentation I mean that overall market has grown by 30%.
- Management:** There is a trip side on that. You know this grow has come after multiple years of de-growth in the market....
- Rakesh Jhunjhunwala:** But how do you say, why are you so bearish about it, can you that is not continuing for one year more after all the road projects all the places here this has been used people say that the in fact investment in India is not really started it is very low. So, why do you take there is bearish view it will be 10% - 12%.
- Management:** So, we are not bearish at all. In fact, we are bullish about the growth that is happening in India. But you know there are couple of things which are going to impact us. Like, last month we had an impact of the BS-IV confusion that come up which pull down the volumes and then we have the issue of GST which is how GST is deployed in the country. But we feel as of now, even industry feedback is about 10% to 15% growth cycle and we would live with it if there is some change happening, it will be positive for us.
- Rakesh Jhunjhunwala:** I do not know. But industry association is said growth 10% - 15%, my personal feeling is growth in this segment should be much higher. I think can be wrong, you can be right.
- Management:** That will be very good.
- Rakesh Jhunjhunwala:** Pardon.
- Management:** That will be very-very good for us. But industry as of now is talking about yes 11% to 15% growth kind off, there could be increase happening somewhere on the road side, so one has to see that investment cycle to be completed as yet.
- Rakesh Jhunjhunwala:** Sir, slowdown was for how many years?
- Management:** Sir, it was 2011 onwards.
- Management:** So, almost five years.
- Rakesh Jhunjhunwala:** So, after a five year slow down you can always have three-year s of very good growth.
- Bharat Madan:** Yes, sir.
- Bharat Madan:** But sir, if you look at the industry segmentation also, if you look at the sector where we are operating and the major growth which is coming in the earth moving segment which is Backhoe Loaders, and there we are not very strong as of now. So, there the market share for us is very small. So, the major two parts is competitor and we are the market leaders really in the Crane

segment which has actually not done well if you look at the last year number also, there is lowest growth in that category for us. So, there is one other region I think we will have to really expand our product portfolio as well besides what we are having today. So, with the growth really comes in the earth moving segment so that the benefit will be more to the competitor then really benefiting us beside the issue I think which I think Ajay talked about in the issues on BS-IV emission norms, ruling the Supreme Court issue and then GST transition issues which may probably come up. So, I think this is a conservative estimate I think from our perspective. But yes, from capacity point of view we are ready. So, obviously we got a low utilization capacity as of now in the construction business. So, if that opportunity really comes up, so I think we will definitely be happy to gain that and take it back.

Rakesh Jhunjhunwala: And your tractor you said what is your capital investment program this year?

Bharat Madan: On the capital investment side?

Rakesh Jhunjhunwala: Yes.

Bharat Madan: So, there is nothing on the capacity expansion as such. So like you said the last year our utilization level was only about 63% - 64%. So, obviously we do not expect there will be any major drawback there. So, I think we will be able to be within 70% - 75% sort of capacity utilization range likely to be based on the whatever growth rate we are listening and the market. So, but definitely this time the investment will be more on the product mix. But next year if the growth continues which is also likely in the margin must be pretty good this time and also moving to the election the growth continues, so that is way probably we will have to look at the expanding the capacity in tractor business also.

Rakesh Jhunjhunwala: Your present capacity has got 1 lakh or 80,000 or 70,000?

Bharat Madan: No, so present capacity is about 100,000 units and utilization level last year was 64%. So, with 10% or 20% growth for this year you should factor in this will be about 75,000 units - 76,000, so there will be scope for us to really go for it for next year.

Rakesh Jhunjhunwala: You are not doing any capacity enhancement this year?

Bharat Madan: We have possibility to even do some balancing and some enhance capacity from 100,000 to 120,000 in the existing unit. But like I said, next year will be the year of planning for us in terms of the capacity expansion if the industry continues to do well.

Rakesh Jhunjhunwala: So, how much will be your capital investment plan this year?

Bharat Madan: So, total is Rs. 140 crores to Rs. 150 crores out of which 80% will be actually for the tractor business. 20% is for the other two businesses.



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- Rakesh Jhunjunwala:** So, you will spend Rs. 80 crores but you would not increase any capacity, only balancing equipment
- Bharat Madan:** That will be more the product led side, more on the product and technology side.
- Moderator:** Thank you. We take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir, I have a question on usage of tractors for non-farm purpose, road constructions, haulages, etc., which has been the case in the previous cycle where we had seen strong demand for tractors on road side activities. Are you seeing those signs coming back or not yet?
- Ravi Menon:** See, typically the percentage of tractors used for commercial and non-agricultural applications can range between 20% and 25% roughly. But what happens typically is that when you see a bump-up in the construction industry happening also then what we have noticed in the past is that there are the small contractors who suddenly turn up, who convert the tractors into things like Backhoe Loaders and Graders and so on, which are used in smaller applications of the construction side. So, typically in a boom, when both are booming this number percentage. Could go up to somewhere around 30% of the total sales also.
- Chirag Shah:** Are you seeing those signs as of now or it is too early?
- Ravi Menon:** No, I think it is too early to comment.
- Chirag Shah:** Because road activity has picked-up basic mining activities also have picked-up off late.
- Ravi Menon:** Because what happens typically in tractors this is seen when you see a bump-up in the (+51) category. Typically, (+51) when we see an upswing we will see this performance going up to may be 8% or may be even 10% of the total sales. So, as and when we see that I am sure we will be able to confirm the news.
- Chirag Shah:** Fair point, sir. The second question is GST have clarification, so you indicated that there is no price hike would be required at the customer end, right because your input would be at 28%, so net-net there would be enough input credit available to pay 12% tax rate.
- Bharat Madan:** Yes, correct. But only problem will be that there will be a cash flows because when you get in the inputs at 28% and when you are passing it on a 12% there will be gap between receiving that benefit, so to that extent what happens is something which we need to look at.
- Management:** And the increase which will be likely will be likely it will be more on the spare part side because the input cost and the spare parts have been put into 8% category which earlier use to be about



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18%. So, as the price increase happen it will be more on the spare part side and not on the finished good side.

Chirag Shah: So, the spare parts could see a significant price hike?

Management: Yes, that will be on the MRP and the tax rate has been increase by 10% so that is something that will also impact the market.

Chirag Shah: And sir, second question on the spare part side, especially on tractors and also on Backhoe and on the construction site, what is your assessment of the benefits in the short to medium-term of GST on unorganized spare parts, do you really see that changing meaningfully given the tax rates where they are today or because everybody is very gung-ho on the entire GST in the short to medium-term also.

Ravi Menon: Let me talk about tractors because see there are a lot of these unorganized people who sell spare parts in the hinterland. So, for those people I do not know whether the government will be able to clamp down on each and every one of them and ask them to shut their shops because they are not registered or they are not following the government procedures. Now, if that happens, great because then it will allow us to sell our parts very freely in the market but to comment on that now I think is premature.

Chirag Shah: Fair point. And sir, just on last thing, on tractor outlook you said around 8% to 10%, right?

Ravi Menon: No, I think Mr. Madan stated in his opening comments it is 13% to 15%.

Moderator: Thank you. We take the next question from the line of Dhawal Doshi from PhillipCapital. Please go ahead.

Dhawal Doshi: Sir, Mr. Madan did mention about the tractor industry growth for the next year. Can you just elaborate our market share plans for the coming two years and how do we plan to expand in the regions where we are not strongly present right now?

Ravi Menon: I think growing into two years is I think a very tough ask. So, maybe I will start with a quarter. So, in the quarter I think we are hoping that we will be able to do better than what we did last year which is the range of 10.8% which was the share for last year. So, I think this quarter we should see a little bit of jump on that. Now for the year can we better that. That is something which we will have to wait and watch. So, I think with all the initiatives that are going on and as we said in the opening remarks that there is also somebody who has come into help us hopefully we should do a little better.

Dhawal Doshi: Okay. But any targets that you would want to spell out sir for the year or so?



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Ravi Menon: No, maybe I think we will just for the monsoon to do this and then we will come back with a very solid number.

Dhawal Doshi: Okay. And sir, your view on the export volumes?

Ravi Menon: Export volumes we are targeting something like 2,200 units this year as against a (+1,000) which we did last year, so that is something which we think we can do. And we will make some attempts to see if we can get some other additional institutional orders if we can which will then be plus.

Dhawal Doshi: Okay, fine. So, the institutional orders will be plus if that happens the volumes could probably be sizably higher than what you just mentioned.

Ravi Menon: Yes, exactly.

Dhawal Doshi: Okay. Sir, secondly on the GST part, so until now we were not really able to claim the excise duty benefits on the raw material. So, with this happening, with the GST coming in what kind of impact can we see on the profitability part, you did mention that the selling price might not alter too much but on the profitability part, how do you see the margins being impacted?

Bharat Madan: See, there are three challenges before the industry because of GST. One like we mentioned is the inverted duty rate structured when your import duties are much higher than the output. So, the initial discussion or proposal what was given to the government was that it should be at par so both input and output should command the same rate of duty but what has come out actually there is a combine duty structure between auto parts and tractors parts, so it cannot be segregated, so it has been classified under 28% category. That has its own issue because the refund mechanism still did not spell out which means the industry may have to block its working capital may be for the longer period of time. The existing experience on claiming refund is not very good for the manufacturers. So, that is something which can actually impact the industry. Second issue, which was a major issue is the transition provision which have been spelled out. Now, as per the transition provision whatever the stock is lying with the dealers and our depots and since, the tractors are exempted from excise there is no duty-paying documents available to support that duty payment on the inputs. So, the possibility of getting credit there is again risky. Which means we have to pay 12% output duty but the credit which you get is only 5%, so there is a 7% risk for the industry on the transition side so whatever stocks the line with the depots and dealers is at stake. So, that is something the clarification has been short from government but as of now the issue is to really clear. So, I think we are still waiting for the clarification to be issued from the government side. And third issue like we talked about earlier is on the spare part pricing where again the cost is going up. So, the tax rate is going up from 18% to 28%, so there can be a 10% increase in the spare part prices for the farmers. So, these three issues are really facing the industry. Till the time we get a clarity on these issues we do not know what will be the profitability impact above the line. But having said that, since, initially we talked about till the



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effective tax rate what we are paying today directly and indirectly is about 13% 13.85% and against that if you end up paying 12% and you get a proper mechanism of refund of the duty paid then there will be some benefit which will be therefore the industry on profitability side. But there is also anti-profiteering clause in the act which has been laid by government, so government is insisting that you pass on the entire benefit whatever we get back to the industry. So, I think we will have to see how the really acts and rules evolves and what will be the impact. So, I think it is too early to talk about it as of now on the profitability impact.

Dhawal Doshi: But probably given the clarity which is required at the existing stocks at the dealers and the depot, can we see some bit of de-stocking happening probably in the next month and that could impact our volumes?

Bharat Madan: Yes, so if the clarification does not come in time, so there may be some issue, so like you said there is a lot of uncertainty between the trade so of now they are not really sure. So, if there is major impact there may be some deferral of buying which can happen.

Bharat Madan: So, what is the kind of inventory within the system at Escorts and with the dealers and the depot that we are currently running?

Bharat Madan: So, I think industry will have inventory of close to (+3) months between the depots own inventory plus the inventory with the dealers and the advancing which there is the trade. So, all put together close to (+3) months inventory will be there which is huge against 600,000 tractors to almost 150,000 tractors inventory which you are talking. It is Rs. 600 crores impact for the industry.

Dhawal Doshi: And how would it be for Escorts?

Bharat Madan: It will be something similar we are in line with the industry, we are slightly lower than the industry but still more or less in line.

Moderator: Thank you. We take the next question from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

Deepak Jain: Sir, this double-digit margin target should we see it happening somewhere in second-half of FY 2019? What is the time line you are looking at?

Bharat Madan: You are saying for the tractor business?

Deepak Jain: Sir, overall.



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- Bharat Madan:** Overall double-digit this margin is something close to 7.8% at EBIT level. So, I think double-digit is still too far. And it depends on how the things will move up. So, it may or may not happen I think a lot of tractors are there for this year. I think it is too early to talk about that.
- Deepak Jain:** Okay. And sir, in the opening comments, I think you said that Q1 FY 2017 you are expecting 13% to 15% but for full year 8% to 10% is it for the tractor growth?
- Bharat Madan:** Yes, so it will depend on how the monsoon happens. So, if the monsoon happens to be good, you may actually see a double-digit growth. But if the monsoon is not really good and not well spread out then there is a conservative estimate you are seeing because the first-half is normally likely to be better. But if the monsoon is bad then probably your second-half may get impacted but if monsoon is good probably you see on the second-half numbers may be good. So, overall you may still see double-digit growth for the industry.
- Deepak Jain:** Okay. But industry would also have a demonetization impact in FY 2017 second-half, so that would not have any lower base.
- Bharat Madan:** But that if you look at the numbers, I think except for a month where the growth got impacted otherwise if you look at last three months four months it has been more than made up so you can see 24% - 26% growth happening in the industry post-demonetization impact. So, I think most of the things have already been covered. So, whatever buying have to happen is only coming to play.
- Deepak Jain:** And sir, what was the product gaps because you are spending Rs. 150 crores, so what are the product gaps left for us to work on?
- Ravi Menon:** See, there are few products we are bringing in which one of them I have already stated on opening remarks which is a model called 6055 T20. Now this a very unique kind of technology which allows you get double the speeds that you originally will get in a tractor and allows very smooth and seamless operation that is one. We are bringing and what is called the compact series which is for the smaller tractor which I used in the veneers and orchids that is one. We are also bringing in some export models which are good for markets like Brazil, Mexico, so on at 75 HP and 90 HP. So, these are some of the examples of the products that we are trying to bring out as we go through the year.
- Moderator:** Thank you. We take the next question from the line of Nikunj Gala from ASK Investment Managers. Please go ahead.
- Nikunj Gala:** Sir, if you see un-allocable expenditure, in FY 2016 it was Rs. 42 crores and it has been increased from Rs. 42 crores to Rs. 57 crores in FY 2017, what will be the reason for that?



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- Bharat Madan:** So, these are all the corporate office and head office expenses because we also centralize our export functions including finance and HR and IT, so all those costs which were earlier getting allocated between the divisions now it is all getting centralized, so it is coming under the un-allocable category. So, that is the reason basically for the increase.
- Nikunj Gala:** Okay. So, you expect to continue at this run rate?
- Bharat Madan:** Yes, it will be in this range.
- Nikunj Gala:** Okay. And what will be our effective cost of debt?
- Management:** Term loan could be something around 10.8 and working capital would 9.25 average cost for the year.
- Moderator:** Thank you. We take the next question from the line of Nikhil Sethia an Individual Investor. Please go ahead.
- Nikhil Sethia:** Sir, I have a few questions about the Powertrac ALT product we have. Can you give me FY 2017 unit sales and also the growth rate in terms of yearly or monthly basis whatever number you might have?
- Ravi Menon:** I do not have the exact numbers in my hand. But we will be selling around 200 and odd units more like close to 300 units per month. So, was there any specific reason why you asked the question?
- Nikhil Sethia:** No, just trying to figure out I mean how are we paining on that distribution on like are we doing it on a pan India basis or you are just trying it on particular markets?
- Ravi Menon:** See, this product was bought in specifically as a haulage product and therefore, the approach has been that while some of these tractors do go into a little bit of agriculture, the primary reason for launching this product was to use it as a haulage based anti-lift tractor. So, what we are doing now is that we have identified about I think about 60 points including river beds, mining and some of those of those areas where there are **gradiance** where normally tractors tend to kind of topple or lift from the front which is not a very safe way of working. So, what we are doing is we are demonstrating these tractors in those areas where the value to the customer is very high. And then we will take it from there after we have the initial round of success and I am sure we will be able to double at least double the kind of numbers that we are selling in a month today.
- Nikhil Sethia:** So, it is mostly geared for not for farmers or like mostly for the commercial purpose, is that correct?



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- Ravi Menon:** Might into a small percentage into some farm work but it is designed ideally for haulage applications.
- Moderator:** Thank you. We take the next question from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.
- Sameer Deshpande:** Now, regarding this monsoon. Now it is expected to be good one. So, as I have heard about the volume growth, etc., about (+10%) I think we will be in a position to do. Now, the Construction Equipment I think the volumes you have mentioned on a conservative estimate of about 10% - 15%. Our material handling equipment I think in this quarter had a very good volume growth that is Cranes. In GST what has happened for the Cranes and will any benefit be there in terms of pricing or some advantage will be there to us?
- Bharat Madan:** So, and Cranes our rates continue to be same, so it is 18% today also effectively and post-GST also it continues to be at 18%. So, only changes in the parts which is inputs which go into making claims, the earlier existing rate was close to 28% which is also being now put down to 18%. Overall for the company or the business as a whole it will not be a major impact, small impacts on the working capital side but it nothing major really on that part.
- Sameer Deshpande:** Okay. But the volumes in this Q4 you had very good, so in this Q1 also it normally before monsoon it is normally a better one for material handling?
- Bharat Madan:** No, normally as I mentioned second-half for the construction equipment is good post-monsoon. So, pre-monsoon the numbers in H1 normally are not that good.
- Sameer Deshpande:** Okay. And what will be the run rate of turnovers? We had some Rs. 600 odd crores, so if we have about 10% to 15% growth next year, so around Rs. 700 crores will we will in profit fully not only at EBITDA level in that segment?
- Bharat Madan:** Yes, so I mentioned like first-half can still give you a negative margin but on the second-half the volume growth is high in the second-half, so there you will see a positive movement. So, overall for the full year FY 2018 we are expecting this business to be slightly positive.
- Sameer Deshpande:** Okay. Not only at EBITDA level, it will be at net level?
- Bharat Madan:** EBIT level, Yes.
- Moderator:** Thank you. We take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.



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Chirag Shah: For the Construction Equipment at what level you think, you can achieve a reasonable or respectable margins in the business for all the four quarters we can see good profitability, where are we in terms of utilization, product, technology, etc.?

Bharat Madan: All right. Last quarter was profitable and we tend to go that way for that we had a number of actions that I mentioned earlier has been taken. We are expanding ourselves into the market, we are leveraging on traded products because traded products do give us the numbers in terms of bottom-line and we are looking at the product mix in the Pick-n-Carry segment. Last year basically the growth was in Hydra that is low-value segment where we get low contribution. Now we are work on the cost side to improve our margins plus at the same time we tend to sell more on higher segments 14 tonnes or 15 tonnes kind of segments and there we see last quarter was a good traction. So, we hope that will continue and once it continues then probably we are in line.

Chirag Shah: Fair point. But sir, can we expect that this business has a potential to go to tractor level EBIT margins?

Bharat Madan: Long way to go.

Moderator: Thank you. We take the next question from the line of Anirudh Singhi from IDBI Mutual Fund. Please go ahead.

Anirudh Singhi: I just had a question on the employee expenses, so what was the VRS cost this year?

Bharat Madan: In FY 2017, the cost is around Rs. 13 crores. Over 89 employees who got exited.

Anirudh Singhi: And what are the plans for FY 2018?

Bharat Madan: For FY 2018 I think the scheme is still being made up. So of now it is not yet firmed up. I think our target first to look at exiting about 100 to 150 employees in this first year so again, I think average cost can come away between Rs. 20 lakhs to Rs. 23 lakhs, so you can say anywhere between Rs. 30 crores to Rs. 40 crores can happen depending on when it gets launched and level of expense.

Anirudh Singhi: Okay. So, but employee costs have gone up 10% this year despite the VRS. So, will this continue in FY 2018 or?

Bharat Madan: So, like I said there was a settlement with the union which happened last year, so that was effective from 1st of November, so that is one impact obviously which has come into this year and obviously in the overhead otherwise normal inflationary increases which will be there. So, definitely if the company is trying to manage to make sure the inflation remains under checked whatever rationalization we are doing on the manpower cost. So, like we talked about the in the

beginning we are working with a consulting firm, so I think one of the key parameters is also to look at ways of controlling our man power cost. So, I think a lot of it is also legacy cost with allocation which we have allocated in as of now the number is something which you cannot change overnight. But every year steps have been taken to make sure that we keep the inflation under check and we do not really further increase the cost beyond the level which we are at today.

Moderator: Thank you. We take the follow-up question from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.

Sameer Deshpande: See, regarding this VRS, you mentioned we had some Rs. 13 odd crores VRS and if I have heard correctly, you still want to lay off our own 400 odd people.

Bharat Madan: Yes, so that is three years' plan like I had mentioned there are a lot of retirees happening in the next three years about 450 workers are getting retired in next three years. So, our current strength is close to 2,000 employees on workers category and after retirees it will still be left about 1,600 employees our target is to take it on the level of about 1,200 numbers by the end of three years. So, this 400 number which you talked about will be possibly, we will have to do a VRS to do that. So, this year 100 - 150 employees may go and then probably we have to launch another VRS scheme may be next year or year after for those balanced numbers.

Sameer Deshpande: So, in 2017 - 2018 may be 100 - 150 workers may be laid-off and may be 100 - 150 will be for next two years - three years going forward?

Bharat Madan: That is right.

Sameer Deshpande: Okay. And this tractor we have double-digit margin currently, so the material cost I think in January to March quarter that was I think substantial increase was there in rubber and steel, etc., but still we managed it very well. So, do we hope we still have about double-digit margins I think 11% - 12% going forward, if the volumes are about 15% or higher?

Bharat Madan: So, if you look at last year it is quite a fact that there is an inflation on the commodity prices, we have also been able to pass on some price increases to the markets. So, in fact last inflation has more or less neutralized now. But again, in the first quarter we are seeing the pressure on the commodity price, again the rubber has move up, the tyres price have come up, so that is one thing we are still not being able to pass it on to the market. So, I think it will all depend on at what point in time and how much we are able to recover from the market depending on how the competition and the industry reacts to those inflationary trends. And our target obviously internally is to make sure that we not really increase it further. So, I think we will only improve from the existing levels.

Sameer Deshpande: So, we hope to maintain it about 10% for tractor?



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- Bharat Madan:** So, tractor will definitely likely to be in double-digit only and our target like you said within next three years you are looking at doubling the EBITDA, so definitely there is an improvement of margin which you are looking at with the improvement happening on the volume front and then the industry is doing well, I think the expectation is we should be able to deliver better than that.
- Sameer Deshpande:** And last quarter, despite we have our loans, etc., we have content very well and I think at net debt level we are zero almost?
- Bharat Madan:** Yes, so net debt is negative as of now.
- Sameer Deshpande:** But still we had some Rs. 11 odd crores of interest cost.
- Bharat Madan:** That goes in other income category, so net-net we still increase negative.
- Sameer Deshpande:** Because in the earlier quarter we had some Rs. 5 crores as interest, this time we have some Rs. 11 crores.
- Bharat Madan:** Yes. Do not compare with the sequential ones, compare with the last year, so again last year Rs. 14 crores again a bit of seasonality there typically the Q3 is the best quarter in terms of cash flows and also there is operation of auto business because that business has been discontinued. So, whatever debt was there has at least shifted to other corporate office now. So, that is something which will likely have impact of about Rs. 2 crores - Rs. 3 crores on the interest cost line in this quarter and again, having said that now the cash flows again are going more into the season looking pretty good. So, in fact in the next year also we will be able to really cut down on the interest cost.
- Moderator:** Thank you. We take the next question from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** The Company's strategy was to have Powertrac dealerships in Farmtrac states. Can you share the progress in this regard and also what is the mix of Powertrac versus Farmtrac in fourth quarter and full year FY 2017?
- Ravi Menon:** If you look at the Powertrac to Farmtrac ratio was somewhere in the range of 57 to 43. Now, when you see the northern markets going up, this ratio will change slightly in favor of Farmtrac. So, if you look at the one month that has gone passed in the year this ratio has gone to somewhere like 53, 47 or something of that I do not remember it exactly but it will be somewhere in that range. So, there is a little bit of reversal when the northern markets improve. So, be that is it may there has been a movement of making more and more Powertrac dealers in the Farmtrac markets. So, the major gains that we have had been in Haryana, Punjab, and Rajasthan because these are the major Farmtrac markets and I think, we have added something like 32 or 35 number of



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dealers in these markets over the last six months. I may be wrong by a few numbers here and there but that is the rough number.

Raghu Nandan: And sir, Powertrac products have been doing very well especially products like Euro 45, Euro 50, I understand the monthly run rate was higher than 1,000 units for these products, would that be broadly correct?

Ravi Menon: Okay. One small correction, it is not Euro 45, it is Euro 50. And Euro 50 you are right, Euro 50 would have sold something like (+1,200) units in the year. So, your guess of a 1,000 units per month or more is bang on.

Moderator: Thank you. We take the follow-up question from the line of Rakesh Jhunjhunwala from Escorts. Please go ahead.

Rakesh Jhunjhunwala: What did you say about the net debt?

Bharat Madan: Net debt actually by excluding the escrow account where it is about is Rs. 123 crores is that we do not have access to those money otherwise it is about Rs. (-5) crores as of end of March. So, against Rs. 263 crores of debt we get about Rs. 268 crores in cash and bank balances.

Rakesh Jhunjhunwala: That means Rs. 120 crores with that Fortis?

Bharat Madan: Yes, that is Fortis so that is something which we do not access, so we do not count that. So, excluding that also it is a negative.

Rakesh Jhunjhunwala: Excluding that it is negative.

Bharat Madan: That is right.

Rakesh Jhunjhunwala: We have actually Rs. 5 crores of cash

Bharat Madan: That is right.

Rakesh Jhunjhunwala: Will we get refund of that we will have around Rs. 30 crores of cash?

Bharat Madan: Absolutely.

Rakesh Jhunjhunwala: Why do you keep so much liquidity and not pay down the debt?

Bharat Madan: Like I said it is a seasonal industry because normally if you look at there are few months where the cash flows are pretty good and again like now, when we are running into off season month then it is really goes down. So, the working capital realization grows up, so it keeps on fluctuating. So, from a negative, positive, as Rs. 200 crores - Rs. 300 crores utilization level

remain in the off season like December and January it was there. For meeting those seasonal fluctuations, we need to keep some liquidity into the system and obviously, in the long-term if you look at the cash flows being good, so there will be definite option is to we will be able to prepay the debt.

Rakesh Jhunjunwala: And where do you account the interest income, in the other income?

Bharat Madan: Yes, it comes in other income.

Moderator: Thank you. We take the next question from the line of Ankush Agarwal an Individual Investor. Please go ahead.

Ankush Agarwal: My question is regarding the revenue share, currently your every Construction and Railways Equipment has 80% - 40% and 6%. So, considering that the growth is very high in Railways Equipment where do you see our revenue share from three years to five years down the line?

Bharat Madan: I think overall still tractor business will remain the dominant business for us. So, today if the share is almost 80% - 84% coming from the tractor business and 15%-16% coming from the other two businesses, the ratio may get slightly changed but we are still having 20% - 23% of revenue can from other the other two businesses. But still, tractor business will continue to remain the dominant business going forward.

Ankush Agarwal: Railways Equipment division, is the share of that business going to go up compare to other two?

Bharat Madan: Yes, so like we said, so the share of both the businesses is likely to go up. So, we are expecting good growth probably will happen on the Railways side as well. But since the base today is very small, so still on the overall share of total business perspective it may still not be very significant. So, like today the tractor is still the dominant business, so going forward also next few years down the line they still remain the dominant business within the company.

Moderator: Thank you. We take the next question from the line of Navin Kumar Dubey from Narnolia Securities. Please go ahead.

Navin Kumar Dubey: My question is on Shikhar project how much benefit we have received in FY 2017?

Bharat Madan: In FY 2017 this accrual of close to Rs. 184 crores which has happened on the P&L from that project and obviously having said that there is obviously there are some offsetting which has happened with the change of product mix, so this is based on the original product mix wherein the project was conceived two years ago. So, again, it is something which is 100% sustainable whether there is a change of product mix so it can keep on fluctuating going forward.



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Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Dhawal Doshi from PhillipCapital (India) Private Limited for closing comments.

Dhawal Doshi: Thank you, everyone for joining the call. I would hand over to the management for their closing comments.

Bharat Madan: Thank you, Dhawal. And I think, I will just come back on the guidance front which I think there have been a lot of questions which have been there, just to clarify again on the tractor industry growth front, which as we mentioned is there is 13% to 15% growth likely in the Q1 and after that if the monsoon happens to be good, so we will again surely see a double-digit growth happening on a full year basis. So, our 8% to 10% guidance is based on the monsoon not being good but the initial feedback which was there. But overall, I think we still expect the monsoon so far indicating good, if it remains positive so overall full year basis we will still probably continue with the double-digit growth on the tractor industry price.

So, having said that, thank you, ladies and gentlemen for being present on this call. For any feedback and queries, please feel free to write into us at investorrelation@escorts.co.in. We will meet again in next quarter. Thank you very much and a good evening.

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