



“Escorts Limited
Q4 FY2019 Earnings Conference Call”

May 07, 2019



ANALYST: MS. PAVITRA SUBRAMANIAN - SPA SECURITIES LIMITED

MANAGEMENT: MR. SHAILENDRA AGRAWAL – EXECUTIVE DIRECTOR –
ESCORTS LIMITED
MR. BHARAT MADAN – GROUP CHIEF FINANCIAL OFFICER &
CORPORATE HEAD - ESCORTS LIMITED
MR. SHENU AGARWAL - CHIEF EXECUTIVE OFFICER – ESCORTS
AGRI MACHINERY - ESCORTS LIMITED
MR. AJAY MANDHR – CHIEF EXECUTIVE OFFICER -
ESCORTS CONSTRUCTION EQUIPMENT - ESCORTS LIMITED
MR. DIPANKAR GHOSH – CHIEF EXECUTIVE OFFICER - RAILWAY
EQUIPMENT DIVISION - ESCORTS LIMITED
INVESTOR RELATIONS TEAM

Moderator: Ladies and gentlemen, good day, and welcome to the Escorts Limited Q4 FY19 Earnings Conference Call hosted by SPA Securities 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. Please note that this conference is being recorded. I now hand the conference over to Ms. Pavitra Subramanian from SPA Securities Limited. Thank you and over to you!

Pavitra Subramanian: Thank you. Good evening, ladies and gentlemen. On behalf of SPA Securities Limited, I welcome you all for Escorts Limited Q4 FY2019 Earnings Call. I also take this opportunity to welcome the management team from Escorts Limited.

Today, we have with us Mr. Shailendra Agrawal, Executive Director, Escorts Limited, Mr. Bharat Madan, Group CFO & Corporate Head; Mr. Shenu Agarwal, CEO - Escorts Agri Machinery; Mr. Ajay Mandahr, CEO - Escorts Construction Equipment, Mr. Dipankar Ghosh, CEO - Railway Equipment Division and Investor Relation team at Escorts Ltd.

We would start this call with brief opening remarks from the management followed by an interactive Q&A session. Before you start, we would like to add that some statements that we may hear will be forward-looking in nature.

At this point, I am handing over the session to Mr. Madan for opening remarks. Over to you, Mr. Madan!

Bharat Madan: Thank you, Pavitra. Ladies and gentlemen, a very good evening to you all. Thank you all for joining us on the earning call for fourth quarter and financial year ended March 31, 2019.

A snapshot of company’s standalone annual performance is as follows: FY2019 was a tremendous year for your company achieving a turnover at Rs.6196 Crores it is up by 23.5% against 5016 Crores in previous fiscal led by double digit growth across all segments. Tractor volumes went up by 19.9% to 96412 tractors as against 80417 tractors in previous fiscal. Construction equipment volumes up by 23.5% to 5544 machines against 4486 machines in previous fiscal.

Highest ever EBITDA of Rs.733.4 Crores is up by 31.6% as against Rs.557.2 Crores in previous fiscal. EBITDA margin now stands at 11.8% as against 11.1% in previous fiscal. The EBIT margin for the company has gone up by 100 basis points at 11.8% against 10.8% in previous year in line with our guidance for this year. Finance costs went down by Rs.10.1 Crores to Rs.18.5 Crores as against Rs.28.6 Crores in previous fiscal. The total debt outstanding as of March 2019 is Rs.277 Crores it has increased due to increase in working capital requirement. Net debt however continues to remain negative at about 200 Crores.

PBT from continuing operations and before exceptional items stands at Rs.710.2 Crores is up by 37.8%, against Rs.515.6 Crores in previous fiscal. The company achieved the highest ever net profit at Rs.484.9 Crores as against Rs.344.7 Crores in previous fiscal year. The Board of Directors have recommended an increased dividend payout at 25% that will be 2.5 per equity shares for the year ended March 31, 2019 against 20% in the previous fiscal.

Now moving onto company's quarterly performance, the turnover is up at Rs.1631.7 Crores up by 13.6% as against Rs.1436 Crores in previous fiscal. Tractor volumes up by 6.7% to 25136 tractors as against 23568 tractors in quarter ended March 2018. Construction equipment volumes went down by 5.6% at 1455 machines as against 1541 machines in quarter ended March 2018. EBITDA is up by 9.3% at Rs.189.8 Crores as against Rs.173.8 Crores in quarter ended March 2018. Net profit for the quarter at Rs.121.4 Crores is up by 7.8% as against Rs.112.5 Crores in previous fiscal same quarter.

On consolidated basis the turnover at Rs.6261 Crores is up by 23.2% against Rs.5080 Crores in previous fiscal and net profit at Rs.474 Crores as against Rs.346.6 Crores from continuing operations. The consolidated EPS stands at Rs.55.67.

Now moving onto segmental business performance, starting with the Agri Machinery business, domestic tractor industry volumes went up by 8% to 7.87 lakh tractors as compared to 7.29 lakh tractors in previous fiscal. Our domestic volume went up by 19% at 93323 tractors as against 78446 tractors in previous fiscal. Industry in our strong markets of Northern and Central India grew by 12.8% whereas industry grew by only 2.6% in the opportunity markets of the Southern and Western India.

In line with our Vision 2022, we have gained market share across all major states. Our market share in the strong markets went up by 70 basis points and in opportunity markets it went up by 120 basis points resulting in overall domestic market share at 11.8% as against 10.8% in previous fiscal. Market share for quarter ended March 2019 at 15% went up by 191 basis points as against 13.1% in corresponding period last year.

On export side industry went up by 4.2% to 93K tractors as compared to 89K tractors in the previous fiscal year. Our export volume went up by 56.7% to 3089 tractors as against 1971 tractors previous fiscal driven by new product introductions and market penetrations.

The EBIT margin for year ended March 2019 stands at 14% as against 13.6% in the previous fiscal year. During the quarter ended March 2019 the product mix was unfavorable as we sold 56% products by volume in sub 40 HP segment as compared to 53% in the previous fiscal same period does adversely impacting our EBIT margin in the tractor business.

In Q1 FY2020 domestic tractor industry expected to witness some slowdown because of elections against initial guidance of over double-digit growth. On full year basis domestic tractor industry is

expected to grow between 5% to 8% depending on how well the monsoon fares and the government trust and the policies against the rural markets.

Last week we announced a new feature called 24X7 Care Button for customer service across entire range of Powertrac and Farmtrac tractors. Now all our customers can just press this special button on the tractor any time of the day for any technical or other help and receive a call back from a trained company engineer within two minutes. Going forward we will be launching new innovative products to increase our customer productivity and earnings.

Coming to the construction equipment business. Construction equipment industry grew by 16% in FY2019 with respect to FY2018. All major segments have seen a positive moment. Our served industry Backhoe Loaders, Pick 'n' Carry cranes and compactors went up by 22.6% in FY2019. Cranes have been the biggest gainer in FY2019 with growth of 26% followed by Backhoe Loader that grew by 22.2% and compactors that grew by 20.5% in FY2019. Our total volumes manufactured, and traded products went up by 23.6% to 5544 machines against 4486 machines in the previous fiscal year. EBIT margin for the year ended March 2018 stands at 3.6% up by 166 basis points as against 1.9% in previous fiscal. Barring some slowdown because of financing issues, ongoing central elections and external environment, we will be improving our margin in FY2020. Going forward we expect that our served construction equipment industry will continue to grow in mid teens in medium to long-term and we will be launching new innovative products and volumes to cater to this growth.

Coming to the railway division, revenue is at Rs.394.1 Crores went up by 37.5% as against Rs.286.6 Crores in previous fiscal. EBIT margins went up by 529 basis points from 19.9% as against 13.9% in previous fiscal. In Q4 FY2019 revenue went up by 30.2% at Rs.103.5 Crores as against Rs.76 Crores in the same quarter of previous fiscal. EBIT margin at 15.2% as against 15.9% in same quarter previous fiscal. During the quarter we have executed more orders for the new products with more import content as compared to previous fiscal this led to some EBIT on margins. In future though we will be able to mitigate the impact with gradual localization of these components and improve the margins. Order book for this division stood at more than Rs.490 Crores, which will get executed in the next 14 to 15 months. Going forward we expect railway equipment segment to grow at 15% to 20%.

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

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Thank you Sir for the opportunity, congratulations on a good FY2019 and all the best going forward. Sir couple of questions, one is on the tractor side. How do you see the growth panning out over the next few quarters, which will finally cumulate into a 5% to 8% growth for the full year, also how is

the competition intensity like off late there has been some slowdown leading to like a higher competition both on the pricing side and on the discount side, how do you see that panning out? That was my first question.

Shenu Agarwal:

As we have said in our opening comments the tractor industry is going to be somewhere around 5% to 8% growth level in fiscal year 2020 that is what we can estimate right now. Of course there has been some pressure in the industry since Q4 of last fiscal and that is mainly because of a very, very high base as we have explained before that Q4 in 2018 the industry had grown by about 49% so we were sitting at a very high base and therefore this year Q4 2019 there was a negative industry growth that we have experienced, which was also kind of foresee because of very high base. Now this has continued a little bit in Q1 mainly because of some disruptions, because of elections and some amount of uncertainty, but we continue to believe that fundamentals in the ground are all positive except that we have to wait for, wait to see how the monsoons pan out because right now the water reservoir levels are quite low and therefore we are hoping that as per the IMD forecast if we have a normal monsoon then we think there could be a better scenario and right now our estimate is to between 5% to 8% for the year.

Raghu Nandan:

And what I wanted to understand was sir like Q1 is lower than what was initially expected, how do you see the growth picking up, would it be stronger post elections, how do you expect 2Q, 3Q or 4Q to pan out because the base effect continues?

Shenu Agarwal:

The base effect is not that high as it was in Q4 for whole year the industry last year grew only by 8% while Q4 was very, very substantial at 49% and therefore the base effect is not that enhanced in Q1, Q2, Q3 as it was in Q4, but in any case we think that after elections the market should return to some normalcy and there has also been an effect in March and April or some delayed harvest and the market has still not picked up until now, but I think when the harvest would be over I think the market will pickup and we have seen some signs of that happening in states like MP where the harvest is almost complete in a market they have become very buoyant already. So, after harvest and possibly after the elections the market will see some growth back, which we have not seen in March end.

Raghu Nandan:

Thank you Sir. Sir my second question was how has been the mix between Powertrac and Farmtrac for the full year versus last year and like has Powertrac been launched in all the Farmtrac states, is there any further scope for penetration there?

Shenu Agarwal:

Yes, as far as mix is concerned I think Powertrac and Farmtrac as a ratio of the total sale is 39:61 as it was last year that only slight changes. As you know we have a strategy to grow both the brands and we have a dual distribution strategy, which we have put in place for the last couple of years and we are extending, in last two years we have now created a dual distribution separate for Powertrac and Farmtrac in about six states and now going forward we are going to continue to implement that

strategy in the rest of the states also. So, in the next two to three years we hope that we have a pan India network for both the brands separate distribution network for both the brands including the site.

Raghu Nandan: Thank you Sir. I will come back in the queue for more queries.

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

Hitesh Goel: My question is first is related to the EBIT margins in segments, in tractor I understand there is a mix impact, which has impacted the segment, but construction margins have been pretty volatile, so can you please explain what has happened in this quarter and how should we look at construction margin in next year and in railways also first half this year was very, very strong and then margins have come off so how should we look at margins in railways as well and my last question will be on the balance sheet basically we have seen a significant deterioration in working capital, we have been indicating that dealer inventory levels have not increased at normal levels whereas if I look at inventory at the factory has increased quite significantly even receivable days has increased and payables have reduced, so can you just shed some light on the working capital as well?

Bharat Madan: Coming on the construction equipment segment I think if you look at the quarter performance for construction sector the last quarter is the best quarter and also in this quarter we have taken a significant price increase right from the first month in January itself that is one of the long pending issue, which was impacting the overall margin for construction equipment segment so we are not able to pass on the inflations in the market for almost last five to six quarters. So, this time we have taken that call and as we took that conscious call, which led to purely some volume impact also, which we have seen in this quarter with volume went down by about 5.5%, but the margins have been pretty good at about 7% EBIT margin, which we have achieved in this quarter for the construction equipment segment. So overall I think if you look at full year basis we are still lower than what we had guided for, we are expecting 4% to 5% sort of margin in this business in the full year basis, but because of this delayed passing on the inflation impact I think it has some impact on the overall margin, which get ended about 3.6% last year on construction side. So, going forward I think next year we think should be able to improve the margin so again should be back to about 4.5% to 5% sort of range on a full year basis. then coming to the railway front. So like I said in railway it will all depends on what sort of mix we sell because every order is unique in the first quarter and this fiscal we had sold very large order, which we had received was on account of couplers with the miles are very good, but going forward obviously the mix started going down and if you have seen in the last quarter also the maximum sale which happened 27% of the volume on the railway side came to the new products where the margins have been pretty low because of high import content, which we have in those component today. So overall, we think still we ended the year with about 19.9% EBIT margin and for next year we still expect the growth is happening more on the new product side. So overall margin maybe slightly under pressure compared to what we seen in this year because this larger order, which came on the coupler side, but still it should be anywhere between 17% to 18% sort

of range on a full year basis for next year for railways and given the kind of order book, which we have today. So, the other question was on the working capital yes, I think we have been facing issues on the working capital side because the growth momentum, which continued in the first three quarters of the year, is very aggressive. So, we were looking at expecting very good quarter to go at Q4 too. In predictions remember even for Q1 we had guided probably the growth rate will be somewhere between the double digit at 10% to 15% range. So actually the production was running at a high utilization levels in December to January also which are typically the off season months, which led to some impact happening at the year-end because all those production our tractor has got produced, which were still lying in the inventory with this time the Navratra season got shifted to April and we are expecting the season will be very good, but actually we did not see much pickup happening in most of the key market in growing market like Gujarat there is typically high season market in Navratra, but they also seen decline actually in the spend. So that is an issue on the inventory side, on the receivable side and there are payables and most of the pressure happened in the initial month of December, January and after that we took a cut down on the production, so the payable days also went down on March 31, 2019. So if you look at the debt level also, which has actually moved up so even though compared to the last year's numbers we were actually on a negative debt position it is only 50 Crores of term debt for there, but we had 600 Crores plus of cash on the balance sheet this year we ended with only about 200 Crores of cash on the balance sheet on net basis. So about 400 Crores got utilized in this year because of working capital issue, which the company had faced, but we are correcting that situation, but these are most internal in nature and within another three, four months' time we should be back to the normal working capital levels. So maybe by July we expect we should be back to that position, which we were in the cash would be back on the balance sheet.

Hitesh Goel: So, July basically you are expecting it to become negative working capital, right?

Bharat Madan: Yes, so we cut down on inventories and production also, so obviously that impact will take time, by the time your vendor payment gets realized and it gets impacted, so I think it takes a two, two-and-a-half months' time so hopefully that correction is setting in now. So hopefully by end of July we should be back to the normal position there.

Hitesh Goel: Great. Thank you. All the best.

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

Mihir Jhaveri: Thanks for this opportunity. I just want to know when you talk about inventory what is the inventory situation right now?

Bharat Madan: The inventory you said with the channel or with us?

Mihir Jhaveri: Both.

Bharat Madan: So with the channel like I said it is obviously in the end of March we were at close to four weeks of inventory with the channel partners, which also was slight buildup compared to the three, three-and-a-half weeks so which was running till February because we did the buildup only because the Navratra this time was in the first week of April. So, we were expecting it will be a good season. So, let us say some buildup happened in the end of March, but now as we purely will exit month of May and it should be back to the same level of about three-and-a-half weeks or sort of four weeks of inventory level which purely will go down further in by end of June. So, by end of June we will be back to about three, three-and-a-half weeks' level of inventory. As far as the company is concerned in March definitely like said since we were actually we had made tractor assuming the season will go off well, but again since the question had to be taken so cut down happened in the production numbers going forward in April and May also cutting down, so again by end of June we should be back to normally we maintain two to three weeks' inventory with the company, so we should be back to that level by end of June.

Mihir Jhaveri: And sir at the end of the fourth quarter probably you had guided for a 10% volume with double digit, which you said 10% to 15% for Q1 we have already seen a negative number, so is it that the first and with this inventory correction and all do we see that the wholesale dispatches probably for the quarter would be negative, is it fair to assume that way because if I got to look at it from next eight months perspective for Escorts for our company as such baring the monsoon months the base is pretty high, which is what one of the analysts also question. So just wanted to understand how we should look at it from that demand perspective for Escorts particularly?

Bharat Madan: Shenu you would like to answer that?

Shenu Agarwal: Yes, I would. So, as we said more than the stocks I think this is a kind of a matter of elections a little bit of delayed harvest and a higher base in Q4 that is leading to some pressure on the growth levels. So Q1 estimate is still not very encouraging for the industry, we would bounce things and industry is going to grow in Q1 that much although a lot is yet to be seen after the election results are out there is a possibility of some growth coming back, but right now the industry growth that does not look very favourable in Q1. Of course, Escorts has been able to beat the market trends whole of last year we were the fastest growing tractor company in the country last year we had about 19%, 20% growth as against 8% industry growth. So, our effort will be towards that to beat the market trend in Q1 as well.

Mihir Jhaveri: And secondly sir, how are the discount levels right now in the industry given that the volumes, same question as what competitive intensity, but do you see the discount levels have gone up at start of Q1 versus Q4?

Shenu Agarwal: See I think there are a couple of players who have resorted to a little bit of both discounting, but I do not think that is kind of a trend right now I think the intensity is same as it was in the entire last year also, but I mean we have just started the year a lot is yet to be seen, but for sure Escorts is not

resorting to any unusual discounting practices now or we have more plans. In fact, we are coming up with lot of new innovations, lot of new features in our tractors and we hope that customers would really like these Bharat also mentioned that in his opening remarks about this 24X7 Care Button and this is something that we are getting a lot of positivity from customers in the ground since we have launched. So, I do not think there would be any significant decrease in competition intensity going forward.

Mihir Jhaveri: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my question. Just two followup questions on the industry. You mentioned that there is a huge divergence in growth trend between South, West and Northern East, anything specific that you could explain to us like why is this meaningful divergence there and also secondly on the subsidies have you seen that this year towards the second half we saw lesser tractor subsidies from the government anything that you can give some sense on the subsidy, which are being offered?

Shenu Agarwal: Sure. So, you have seen the trends of geographical trends in India over last one year. I think those trends are going to continue for at least some more time, which means that North, East and Central are going to grow much faster than South and West and in state like Maharashtra and the entire southern region is going through a very bad phase as far as industry is concerned where Maharashtra going down about 50% from last year in last few months. So, I think that trend is going to continue because there are reasons behind that which we do not think it will get addressed very, very soon. So, I think this trend is going to continue and this is going to be favoring us a little bit more than the rest of the players because we are stronger in North, East and Center although we had gain market share in almost every market, but overall it is going to be favourable for Escorts.

Gunjan Prithyani: Sir Maharashtra you mentioned the trend will continue, this was more an issue of rainfall challenges that were there, but is there anything else that gives you the confidence that Maharashtra will remain depressed and South I thought particularly there were lot of subsidies in that market, but still the growth seems them in the decline seems to be pretty sharp in that market as well?

Shenu Agarwal: Yes, so see Maharashtra and south is mainly because of the water situation and it is not so much about the monsoon, it is more so about the water reservoir levels. For tractor industry if you analyze it, it does not have as high a direct correlation with monsoon as it has a water reservoir levels of course monsoon impact goes, but with a lag effect. So, water reservoir levels in Maharashtra is quite pathetic right now also in some states of South. So, I do not think even if we have a reasonably okay monsoon this year, the South and West situation will change very dramatically of course it will help for the next year if we have a good monsoon in South and Maharashtra it will help next year, and I think this year it is going to continue to be depressed. So, subsidy, on the subsidy part it is true that many of the

Southern states have kind of slowdown their subsidy outlets in the later half of the last year and even now we do not have any visibility of any major subsidy schemes getting out in the South and the West and therefore that factor is also playing a little bit negative for those regions.

Gunjan Prithyani: So overall subsidies accounted for how much volumes in FY2019 and if you are not seeing any visibility there does it mean any risk because last two years this has been a big support for the industry in terms of accelerating the replacement.

Shenu Agarwal: Yes, so subsidy has been a major phenomenon in South and West only I mean in Northern states we have not seen much subsidy even last year or the year before last except for Assam where we had some subsidy schemes that was running by the government last year. So, I am specifically speaking about South and West right now and South and West the subsidy would have been about I would say about 70% to 80% of the total subsidy that has been given in the country, which has kind of vanished in the last few months. So, let us see after elections if something comes up we are hoping that government will kind of resort to some measures to at least the rural sentiment.

Gunjan Prithyani: Overall industry how much would it be in terms of volumes like 10% of industry volumes coming from these subsidies or any number?

Shenu Agarwal: Yes, it is roughly about, 10% for the last fiscal. So roughly about let us say about 70000 to 80000 tractors.

Gunjan Prithyani: Okay, got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Akash Mangani from BOI AXA Mutual Fund. Please go ahead.

Akash Mangani: Thanks for taking my question. I had a question on the working capital situation this has asked earlier, but I would like to sort of emphasize on this point, from looking at the working capital especially the operating cash flow in the business over the last decade or so this year probably seems to be the worst that we have had seen to the tune of negative 60 Crores, 70 Crores of operating cash. Now even in the previous cycle when we had sort of down years we have managed to generate somewhat of a decent operating cash flow whereas this year in spite of a healthy growth in sales, EBITDA, PAT, there is no cash flow in the system at all, so how soon can we restrict this and will this normalize during the course of FY2020 and could you elaborate on the reasons, which led to such a big deterioration in the working capital you mentioned one or two, but I was not exactly clear on the reasons?

Bharat Madan: If you look at the growth trend, which has happened in the last year in the tractor industry so first I think which was in the sense this is third year of growth happening in the industry so the first year in FY2017 we saw about 18% growth in industry and again next year grow by about 22% and this year again we are seeing about 8% growth overall, but if you look at the first eight months the industry

growth further I believe from April to November was running at about 14% then December we saw only small growth of 5%, January was flat industry, February was -3% and March industry we saw 15%, 16% decline happening. So, what I think till the time we are seeing, and Escorts were growing at double the rate of the industry growth. So, if the industry was growing at 14% we will be growing at 26%, 28% sort of growth level. So obviously the expectation was the growth momentum will continue. So till November we were likely holding the same belief that Q4 will actually be very good and probably we will be continuing to do that sort of volume growth happening and it will happen in this industry, but assuming based on that belief only so we active running on the high production levels till December and January month to build up inventory for the season month of March and April. Unfortunately, the industry starts collecting itself from December itself with a very small growth and the January onwards that we have seen the flat industry and decline started happening and the short decline happened in March and April which came more like a surprise, but initially over guidance and believe the industry will continue to grow at double digit even in the first quarter. So that has led to some increase in the inventory level, which we are holding as of end of March and because we produce those tractors in the month of December and January so most of the payment to supplier also had to be done before end of March because all those payments become due. So that led to the payable days also going down and obviously going forward we already cut down the production numbers in February and March looking at the market trend and looking at the trend scenario what Shenu just explained like Q1 is also not looking very healthy so it maybe flattish and it is slightly degrowing quarter and you know the election scenario the pickup may happen only in the June month after elections are over. So, we expect by end of July we should be back to the normal working cycle levels, so all the inventory will get liquidated will be back to the normal channel stock of three, three-and-a-half weeks of inventory and the payable days will come back to the normal trend with all these cuts in production happening in last two three months. So that impact will be more visible by end of July.

Akash Mangani:

And what has been your receivables?

Bharat Madan:

The receivable again is the same issue because normally when you see the industry is taking continuously about three years and we are growing more than the rate the growth in industry. So, dealers working capital also comes under lot of pressure, so even though they have been sporting the company so far, but obviously that is putting lot of pressure will increase right from the dealers and. So, some bit of correction that way I think is good for the industry held to where the dealer cannot afford to cope up with that sort of growth in a very short timeframe whether the banks do not really start lending your money just basis on that and they will keep doubling your limits every second day. So that is the limit of challenge, so I think we expect the debtor's level will also come down by I think end of June or by end of July. So, which is the hope which we have so I think getting back 400 Crores, 500 Crores of working capital back in to the system by end of July is what we are looking at right now.

Akash Mangani: Okay let us hope we achieve this. The other question is could you talk of if there are any cost pressures in the tractor business and what is the outlook on EBIT margins for this business for next financial year?

Bharat Madan: So, cost pressure, if you look at the commodity prices so obviously Q4 we did not see really much impact on the commodity side, so it is flat quarter. So, no really inflation, deflation really happened, and we are not really seeing any pressure from the commodity side at least in this quarter two. So, we expect I think that sort of level will get maintained. From the overall margin business, I think if you look at the Escorts overall number last year we had improved our margin, operating margin at a company level by about 100 basis points and we expect by on a full year basis even for next year if assuming we are able to grow at a level of even 5% to 8% of the industry number what we really talked about. Even if that sort of number and the cost initiative what company is taking we should be able to improve the margin by 40 to 50 basis points what we ended this year with.

Akash Mangani: Okay this is provided to grow at least in sync with industry, right?

Bharat Madan: At least in line with the industry that is right.

Akash Mangani: Okay got it. Okay that is all from my side. Thank you.

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

Mitul Shah: Thank you for my question sir. Sir I have two questions one is on the tractor side. Basically, we are saying 5% to 8% industry growth assuming normal monsoon. So, in that situation because of the last year's lower monsoon in the South and West base is very low that is possibility, if the monsoon is normal those regimes will bounce back more strongly. So, growth could be much higher in those regions and our stronger market may not grow to that space. So, what is your view in terms of growth in the South and West compared to UP, MP, Bihar, which is our stronger market?

Shenu Agarwal: So, Mitul as I explained we have seen in last several, several years that monsoon does not have a very, very high correlation with tractor industry in the current kind of period because the higher correlation is with the water reservoir levels. Now if the water reservoir levels would have been on at a reasonable level in South and West then of course a good monsoon, which has really spurt the industry in South and West, but I think even a good monsoon this year will not have that kind of an effect because people will first wait for the water reservoir levels to come up before the sentiment gets built-up. So, I think it will have a lag effect just because of the current situation, the degrowth may not be as high as it has been to get a good monsoon in South and West, but I think North, East and Central will continue to beat South and West when it comes to industry growth even this year.

- Mitul Shah:** And within this sir how much would be approximately non-agri usage right now in current situation and how much would be purely agri based so which will not have even effect of this monsoon?
- Shenu Agarwal:** Yes, the non-agri usage has become quite substantial now over the last few years and therefore also this is also one of the reasons why we see that monsoon does not have a very, very direct correlation at least to 20, 30 years ago. So non-agri usage is how I got a little bit random, lot of it depends on the government policies and the amount of expenditure that is done on the cost structure, etc., but just to give you a number I think it comprises of about 30% to 40% of the impact on tractor purchases.
- Mitul Shah:** Okay sir. My second question is on the construction equipment side. Sir this Q4 numbers in terms of ASP also very strong as you stated price hike has taken, but is it any onetime product mix kind of impact or we can expect similar product mix on a full year basis for next year or Q4 was inclined over better product mix?
- Ajay Mandahr:** If you look at the price increase, we were behind in five quarters on the pricing side because the inflation was too high, and the competition was not passing on the price increase, but we have passed on the price increase generally and the people have followed up in that respect. This price increase coupled with a better product mix, if you see the overall growth, which we talk about 23.6%, 24% and the topline growth in revenue is about 34% the mix has changed altogether. So, we are more concentrating on the products, which are giving us the better contribution now, that is the gain that we are into now and that is what we are doing, we continue to do on that side.
- Mitul Shah:** So, there is no seasonality impact in Q4 in terms of product mix?
- Ajay Mandahr:** No. The growth went to the lower side in the quarter four because of the run up to the election and uncertainties, the liquidity crisis between so I think going forward the formation of the right government at the center and with lot of orders, which are already there in the pipeline I think this momentum will continue.
- Mitul Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sachin C from Credit Suisse. Please go ahead.
- Jatin Chawla:** Yes, hi good evening sir this is Jatin, just on the working capital thing I also wanted to check on the GST refund side what is the amount that is still pending from the government and is that a factor as well?
- Bharat Madan:** Jatin total amount, which is due on GST account as of the end of March was close to 177 Crores, which was a mix of audit duty refund for tractors as well as from the refund, which is due because of export. So, some of the amount for example on exports we received some amount in month of April and as we started seeing the money is coming back now to the system. So, we expect I think by again

like you said by July we expect 80-100 Crores should come back with the system after the election the government will start reliving the money so that is the hope, which we have today on that.

Jatin Chawla: My second question is on this commentary that tractor sales have slowed down during elections, what exactly happens which causes a slowdown because it is, I am just thinking why should things, why should a farmer not go and buy a tractor because it is this election time?

Shenu Agarwal: Okay, it is a bit of a kind of tactical situation that we think during elections and not so much in these Central elections or more so in State and Municipal and other elections, but still you know because we are a very kind of push base kind of a rural market and lot of states get very politicized at the ground level, so which is like such a achar sanhita and stuff like that. So it is the movement on the ground becomes a little bit tougher and the kind of market activations that you want to do to fetch a more demand that all that stuff goes a little bit slow, lot of people get engaged in canvassing, etc., etc. and it is just a kind of the environment that we have in the villages is not very, very conducive to face for just very, very tactical reasons so that is one. I think on a broader macro level people kind of just tend to wait till the election results are out and they kind of start hoping that something will come out with the new government, etc., but I think that is not such a big reason I think more so it is quite tactical in terms of the company's ability to kind of reach out to the customers do market activations, etc.

Jatin Chawla: Okay thanks this is useful. On FY2020 I think on the tractor side you said your margin ambition is 40 to 50 bps improvement. On the market share side what is the ambition for FY2020?

Bharat Madan: As I said we are going to continue to beat the industry and as per our vision 2022 document also we want to grow at least 1% market share each year and last year we grew about 1.1%. So, we will try to repeat that kind of a performance going forward.

Jatin Chawla: Okay thank you.

Moderator: Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Thank you for the opportunity Sir. Just elaborating more on the question asked previously. The tractor EBIT margin you have guided for 40, 50 basis points of improvement on FY2020 so I think you have achieved 40 basis point improvement in this year on a very strong volume growth of about 20% or so and FY2020 obviously the volume growth will not be that much. So, what gives you that kind of confidence that we may achieve, we may continue to improve the tractor margins. So that would be my first question?

Bharat Madan: First, the guidance which we given for the margin is at a company level not specifically for tractor segment. So secondly I think if you look at overall last year we obviously have improved the margin by about 100 basis points at a company level or at a EBIT level and obviously there are lot of cost initiatives, which are underway even though the operating leverage may not be there next year the

kind of levels we got last year, but still going forward the kind of initiative, which we are underway which the impact of which will start coming in from second half of this year. So maybe you may not see the same sort of margin improvement happening now in the initial first or second quarter but maybe towards the end of second quarter or third, fourth quarter we will see the impact of those initiatives coming onto play specially on the material cost from which we are working on today. So those initiatives will play out and we think overall at a company level getting that sort of margin improvement is the possibility, which is exist there.

Bharat Gianani: If you would like to give guidance on the tractor segment?

Bharat Madan: Tractor obviously will be the largest segment, so we are talking about 78% volume is coming from tractor segment on the topline, so the major impact will come on the tractor segment only. In the railway we are not looking at any margin expansion there compared to current year so railway I think will slightly go down it is only construction we see some improvement. So, both likely typically railway, construction we get balanced out so definitely it will be left only with the tractor business.

Bharat Gianani: And that you are saying that is contingent on if the industry goes on the higher side of the band sort of 8% kind of a growth?

Bharat Madan: That is right.

Bharat Gianani: Okay fine sir thanks and all the best.

Shenu Agarwal: Yes, I also want to add that one of the major challenges in the tractor business we are facing right now, which is the product mix. So, we would all remember that last year in around January 2018 we had taken a strategic call to launch several new products in the segments, which were not that remunerative. So, for example in Farmtrac we never played below 45 horse power, and then in January 2018 we launched a couple of products that were below 45 horse powers, we also launched rice special tractor and we launched a compact tractor for Orchids. Right now, those tractors, all those tractors were not very remunerative and kind of contribution that we normally do especially in the Farmtrac range of products, but we consciously make that call to kind of cater to the market and order to grow in certain markets the way we wanted to. Now after having launched those products for about 12 to 15 months those products have established quite well in those markets there. So now we are in a better position to kind of look at their contribution both in terms of cost savings but also in terms of the price positioning and see whether we can probably generate better contribution from those models now since we have significant volume from those and they have established quite well. Now very essentially, we took a price increase on some of these models, which will help us going forward and in future also we are going to continue to look at those revenues.

Bharat Gianani: Okay sir that was very helpful thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Reliance Nippon Asset Management. Please go ahead.

Pratik Poddar: Just one small question, which was regarding the tractor guidance for the industry 8% at 10%. As you just said in the initial comments that 10% of the tractor sales comes from subsidy and in case if there is a scenario wherein there is no subsidy doled out by the state government or by the central government next year, is it fair to assume that then in that case industry growth would be flat?

Shenu Agarwal: Yes, it is kind of, I am sorry about that, but it is kind of a hypothetical question because there is no scenario like this that will happen I think subsidies will be there for sure and we are just kind of speculating at this point of time how this will pan out, but we are not looking at any scenario when there will be no subsidies at all and there are few things already in the option in several states that those will be kind of rolled out after the elections. So, I do not think there is any scenario whereas we have no subsidies at all maybe, maybe it is slightly better or slightly worse than what we have seen now.

Pratik Poddar: And Sir what are the assumptions broadly when you guys for an 8% to 10% industry growth just wanted to understand what is the basis of that, on what basis I mean are we projecting that kind of tractor growth?

Shenu Agarwal: Yes we are actually projecting 5% to 8% not 8% to 10% right now for the whole year FY2020, but of course there are lot of external research and internal research that we base it on, there are lot of statistical data, but most importantly I think what we have going for us is the pulse on the ground so we sell tractors in villages every day and we interact with our customers every day so we know what is happening on the ground, so that is a purely good idea what can pan out of course with some limitations and then we also rely on lot of external reports of different agencies and see what they have to say.

Pratik Poddar: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: I just have one question and it is still not very clear hence I maybe repeating the question but compared to where we were at the end of third quarter expecting some reasonable numbers for the industry for Q4 as well as Q1 what necessarily has gone wrong for us to see such sort of a change in trajectory for us as well as for the tractor industry. You touched upon elections as well as harvest maybe if are this is the only factor or is there anything because we have also heard from some consumer companies trying to outline that rural markets are in some sort of a stress and the demand there is weak across in other auto companies, are there any other trends that are emerging, which may sustain even after the elections, which are causing this pain in the rural markets?

Shenu Agarwal: No, see I do not think something extraordinary has gone wrong here because I think we were always even at the end of Q3 or some time in Q3 is getting about 10% for the whole year and 10% to 11% and it ended up at 8% so definitely Q4 was a little bit of surprise, but we always knew that we were sitting on a very, very high base in Q4 and I always use to say that in 2018 grow by about 49% so it was a situation where things would go a little bit wrong, but speaking on the situation of the ground let me a bit more optimistic than what we read in the newspapers right now because what we see on the ground is not as that as we read in various things. So I think the sentiment is quite positive I think the only two fundamental factors that are not rated very high is the water reservoir level, which actually depends on the monsoon and if we believe the IMD forecast of a normal monsoon then hopefully that should turn out to be very positive and the second is of course a high base so we have had three years of splendid industry growth and there is a chance definitely that we will have probably a year of mellow down industry growth this year. I think other than those two there is no negativity on the ground in farmer's mind or anything that you though will track the industry.

Riken Gopani: Understood and Sir if you could touch upon the finance situation, the percentage vehicle finances this year for you and what is this internally financed by your own finance company if you could highlight those aspects?

Shenu Agarwal: Yes, so that of course this industry is very splendid on finance on retail finance and somewhere close to 92% to 95% of the tractors are financed so only about 5% to 7% of the tractors are like bought on full cash. So, it is a highly dependent industry, but the situation in the financing side is okay we are not facing any challenges. Now as far as our virtual joint venture with DLL is concerned, which we call Escorts credit there we are reaching about 15% penetration levels and of course we are going to continue to grow there as we go forward.

Riken Gopani: Understood, alright. Thank you.

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

Mayur Milak: One on the VRS, so I remember that couple of years back we were trying to do VRS for about 1000 employees of which about 400, 450 had taken it and we were waiting for a natural retirement of those in the next three, four years, so wanted to know that has that retirement happened and can we expect substantial savings in the staff cost going forward?

Bharat Madan: The retirement obviously is happening because last year also so on an average when we have guided this we had given a VRS scheme at that time we had almost 450 employees have exited over two years and after that about 150 employees were getting retired every year that attrition obviously is happening in terms of the normal course though then all the lever attrition has come down to about 90 to 100 employees for a year on an average so yes the numbers have come down. So, if you look at the

last five years I think from the regular work so close to 4000 plus workers today we are down to about 2000 numbers and the number is further depleting three is no further addition happening on the regular manpower. So that obviously is coming in line, which is why I think you will see the manpower cost also on our P&L this time and from a high of 11% to 12% is now down to about 7.2% this year so that correction has been obviously the result of all the initiatives what company had taken in the past.

Mayur Milak: So, do we expect further savings on those lines or this is where we will steady out?

Bharat Madan: No, we do not think it will be easy to go down further from the current level and especially the operating leverage may not really work to our advantage going forward. so that could be one bit of challenge so yes, the company is still working on looking at base and means of managing that cost going forward, but we do not think it will do a significant impact on the overall percentages.

Mayur Milak: And just secondly on your gross margins is it really fair to understand that because the material cost in the international market there are some which are going up and there is this variation so just wanted to understand that how directly does it impact us in terms of the lag effect do we expect the higher cost going forward because of this increase in steel prices?

Bharat Madan: Yes, if you look at the last few quarters I think six to eight quarters the inflation has been pretty aggressive especially on the steel side also with the government imposing antidumping duty on the steel so obviously there was an impact now on the commodity prices side and which is the one also which was impacting our margin in the construction equipment business. Though in the tractor business we will be able to pass on the increases to the market though with the lag of about a quarter but in construction we had faced a challenge and we were rightly sitting on some of the inflation which we are not able to pass on to the market with every contract deal there is a negotiated deal unlike in tractor business, which is more like stock and sell model to the channel partners, but going forward we expect I think if the industry soften further and when you are seeing that impact happening across all the industry so hopefully the pressure on commodity prices should not be there, but yes if there is a global change happening on the prices that definitely does translate to the impact on the Indian market too.

Mayur Milak: Alright, thank you so much.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura Securities. Please go ahead.

Siddhartha Bera: Thanks for taking my question. Sir can you first indicate what will be the quantum of price increase we have taken in the tractor segment in this quarter?

- Bharat Madan:** In tractor segment there is no price increase taken and not in this quarter we have taken the price increase in the December quarter I think end of November we have taken after the season was over we have taken that impact, which is why I think in the last quarter we did not see any impact really on the cost and pricing front, so it is no really requirement as of now to really take any price increase on the tractor side.
- Shenu Agarwal:** Just to clarify as I was explained there were some new models that we had launched about 12 to 15 months ago and we have taken a small price increase in those models to just balance our kind of growth and profitability objectives, but that is not a wholesome price increase that is only on a couple of new models that we have taken in April.
- Siddhartha Bera:** So, but if I compare sequentially the EBIT margin in the tractor segment has still come down quite a bit compared to the last quarter so just wanted to understand is it entirely driven by adverse mix or what has led to this decline in this quarter's margins what is the tractor segment?
- Bharat Madan:** As I explained in the beginning also the major impact is on account of mix because our sales volume in the sub 40hp category has actually moved up from 53% to 56% in this quarter so that has an impact versus most of the sale, which has happened in those segment really typically are the low margin products unlike in the higher HP segment so that does impact the margin significantly and also pushes the material cost ratio if you look at even the financials from P&L side the material cost movement at least on that account.
- Siddhartha Bera:** So, for annual basis you think that should normalize next year?
- Bharat Madan:** Yes, assuming the mix does not deteriorate further I think it is depending on like I said which states grow and which business grow typically if you grow in the states where the requirement is more for the higher HP tractor then obviously the impact is low, but if you really look at that whole rural bed states like UP or Bihar, Jharkhand where the growth is more in the lower HP side so there obviously it does have an impact on the overall mix.
- Siddhartha Bera:** Okay sir thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Sir my question is on the availability of finance at the dealer end for financing the inventory after the NBFCs has started to see some pressures at the end of last year there were some pressure inventory levels were rising not specifically for you, but for the industry so what is the situation right now and can that be a risk for volumes for next year whereas the availability of finance to dealers?
- Shenu Agarwal:** See firstly the industry I do not think is dependent on NBFCs for dealer financing for their inventories NBFCs are playing a very, very important role in retail financing, which is like financing to customers

they talk to dealers. It is most of the channel financing is coming from banks and of course we have not seen any unusual phenomena or any phenomena that would scare us in terms of dealer financing, but of course it is also true that the industry has gone through three years of substantial growth and therefore from a working capital perspective dealers always find them caught up in a situation where they need more capital that it takes for them longer time to kind of raise that capital, but other than that there is nothing that we would like to comment on this issue, but this year if the industry forecast is lower at 5% to 8% I do not think that would be a problem actually that would possibly going favor of the industry from a working capital perspective.

Amyr Pirani:

Okay. Thanks.

Moderator:

Thank you. The next question is from the line of Kushan Parikh from HSBC. Please go ahead.

Vivek Gedda:

I just wanted to get a sense on dividend payout in the coming years how do you look at it in the future years?

Bharat Madan:

Regarding the overall if you look at the cash requirement for the company it is one obviously we explained the scenario, which we are in today because of high working capital, which has likely moved up significantly I believe it will take a three, four months time before we bring it down to just normal levels and also I think for the next year if you look at the requirement of cash I think we have requirement of over 250 to 300 Crores of capex, which has lined up for FY2020 and a part of it is a spillover from the last year in this entire capacity expansion on the machining side, which is supposed to happen last year did not happen I think so that got delayed and it is not happening in this year. On top of it there is also investment, which will happen in the joint venture that the company has entered into so we had done some investment in last year also so second installment or second phase of investment will happen at least in this year will be close to 80, 90 Crores, which will go into this joint venture and then obviously going forward there is also some pressure from the government perspective if you look it there is new requirement coming up on the MSME vendors front so the government is pushing a lot to bring down the payment terms to the suppliers and in our case is almost 250 odd suppliers are acting into this category where we were enjoying earlier the extended payment terms so they will always be some working capital pressure, which will be there from these suppliers and on top of that we had issue with the GST refund, which stuck now with the government for quite some time so as I mentioned we are close to 177 Crores as of end of March, which is recoverable from the government so I think all these issues rightly come together so which is putting lot of pressure on the cash side especially in the next year and really the year after. So I think these two years we think maybe tough maybe FY2021 may not be that tough as purely FY2020 so FY2020 we still see a challenge and therefore the overall meeting this entire cash requirement, but FY2021 maybe slightly a decent year and on top of that we also have aspiration to look at some inorganic opportunities for the railways segment, which again will require some sort of cash for the system so we think FY2020 will be quite tight bounce in terms of overall I think on the cash requirement so that

is why any further policy on the liberalizing on the dividend distribution side purely in this year looks very difficult maybe FY2021 onwards maybe even the things ease out because most of these are one time investment, which are happening on the capacity front and may not be required going forward again to at least for next five, six years. So maybe 2021 onwards we think the cash position will ease out and probably company will be able to really reward the shoulders with much better distribution measure.

Vivek Gedda:

Got it thank you Sir.

Moderator:

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

Sameer Deshpande:

Congratulations for the excellent results and it is on auspicious day of Akshaya Tritiya the company has posted highest ever sales and profits, so I think the investment in gold should be discarded an investment in our company should be considered or logged on so that it will be a gold so let us hope your efforts yield results for the years going forward. I would like to know mainly we have sold our shares in Hughes communications for 63 odd Crores so actually the cost in the balance sheet was some 45, 46 Crores so have we booked that profit in other income?

Bharat Madan:

No, so if we look at our policy which is credit policy for the equity investment any sale of the mark-to-market valuation for the equity investment actually is done through the balance sheet not through the P&L so the income actually was getting reflected in the other company as income in the OCI below the profit line after the PAT, which comes, so the investment at least happening on the balance sheet, but it is not a normal recurring income, which is there, which we never wanted to use in the P&L side. So, P&L likely to should reflect the normalized business operational level and these are the income, which normally are adjusted in the balance sheet itself. So whatever the book value was there, which is running about 45 or 46 Crores is that we have received cash of about 50 odd Crores and the balance is still to come subject to the company getting the FDI approval for these investments from their foreign parent so hopefully that will happen during this year and we will see is the balance cash flow will come into the company in this year.

Sameer Deshpande:

How much balance cash you expect?

Bharat Madan:

So overall, we expect it will be somewhere close to I think another 10 odd Crores.

Sameer Deshpande:

And this other expense has gone up by 23 odd Crores in Q4 compared to the last year as well as the December quarter, so is there any one off in that?

Bharat Madan:

So I cannot say totally one off, but yes like I say since there have been some consulting, which normally we are paying to the agency, which is in we are working now so that is a contract, which is continuing and it will continue at least the next year till FY2020 end so those are the payouts, which

are happening and typically these are also linked to the performance and that is the share of market and the profitability so see the payout goes up as market share also moves up and we are seeing the market share was highest in this quarter so linked to that is a variable payout so the impact has come into this quarter and on top of that we are also taking some provisioning for the inventories in this quarter we actually come out with a new policy, which is what approved by the board where we are taking now provisioning for the inventory based on the aging, which is on a very conservative basis compared to what we use to do earlier so that also has an effect of about 16, 17 Crores in this quarter, which has actually impacted the results. So obviously if you take all those initiatives, which are now getting built into this prospectus, so that has impacted slightly the margin on the overall.

Sameer Deshpande: Okay, because 16, 17 Crores is quite a large amount so if that has excluded them the impact on the margins will be nullified entirely.

Bharat Madan: That is right.

Sameer Deshpande: And the last one is do we expect to outperform the industry tractor industry this year also which we have been doing for last two, three years?

Shenu Agarwal: Yes, Sameer Ji this is Shenu I mean we are really hope so that we will continue to do it and not just because we have been doing it so far but because we have some very fundamental initiatives in place, which we have spoken about in the past both on the distribution side and on the product side, so we are very hopeful that we will continue to beat the market this year also.

Sameer Deshpande: Okay. So, let us hope the monsoons also places and all the best to you people and all. Thank you.

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

Chirag: This is Chirag here. Sir I had just one question on the demand side. Is it possible to indicate how is the demand breakup between new and replacement demand any colour you can share, and which segment has seen a major slowdown between new and replacement?

Shenu Agarwal: So replacement is now on of course is rising and it will continue to rise as we go forward because I mean the more and more we reach the levels of saturation in the industry of course we will have lot more replacement I do not think there has been like a very, very significant shift and it is a very, very slow phenomena so it will happen over a period of like five, six years when we will see like 2%, 3% shift in replacement versus new because the industry is far from I mean we believe industry is far from saturation and therefore it is a slow phenomena right now, but it is increasing gradually and it will continue to increase. Now some markets which are very, very mature for example like Punjab and Haryana in terms of tractor penetration of course about maybe about 80% of the demand is replacement demand while some of the markets, which are very virgin right now for example like Chhattisgarh, Orissa East and some of the North East, the replacement demand is as low as 30% to

40% so yes so I think this phenomena is going to continue that it is going to go very, very slow until they reach more saturated levels in the industry.

Chirag: And both the segments have seen a similar slowdown, or it is driven more by new demand?

Shenu Agarwal: Yes, slowdown is very temporary right now and March and April pretty much and we can count maybe Q4 until Q3 things were balanced, so it is hard to say what it is we do not have data to share right now on this, but maybe separately I can look at the data and respond to you.

Chirag: Yes, and there is just one clarification you indicated on this 5% to 8% growth if you look at that some of the regions like West and South even if we have a reasonable monsoon are unlikely to see a recovery, so are you making a case that the other regions could grow in a strong double digit and hence the average growth of 5%, 8%?

Shenu Agarwal: Yes.

Chirag: And would it be a right statement that South and West may not see a further decline in sales is that a base case that we should work with or if monsoon is weak or even it is normal monsoon sales could be lower than this year in South and West?

Shenu Agarwal: If you look at the figures in the last year I think we have also shared it in the opening statement that overall the market is growing in India by 8% while North and Center grew by 13% and the South and West grew by about 2 or 3 so we think the same kind of distribution will continue to happen for this year also at least in FY2020, but FY2021 the situation could be different South and West could be more prominent in terms of growth, which we have a good monsoon this year.

Chirag: Fair enough, this is helpful. Thank you very much.

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

Harshal Agarwal: I am eager to know your guidance for the exports for the tractor industry in this fiscal and which markets will rise the growth for the industry and what other factors can hit the growth?

Shenu Agarwal: So, this last year FY2019 the growth in the export industry is at about 4% to 5% while of course we have grown by much larger percentage and that is only because we are sitting on a very, very low base. So, going forward I think we will see possibly similar amount of similar kind of trend of growth in overall export industry out of India. Now again since we are at a very low base of about 3000 tractors this last year our ambition to grow is much higher we have shared with you in the past that the company has invested a significant amount of resources in creating our export product liner, which is now pretty much ready and now therefore their focus has for the last few months has shifted to expanding our distribution on import and export markets, which we are continuing to do. So, we will

grow much, much, much better than the industry and growth and hopefully as per our vision 2022 document we want to reach a figure of about 10000 by 2022 so in line of that we hope we will do somewhere close to 4500 to 5000 tractors this year.

Harshal Agarwal: And which markets will drive the growth for the industry?

Shenu Agarwal: Yes, so there are couple of focus areas where we will drive in these volumes, one of these is Europe where we will be driving some volumes, you are also aware about our relationship with Kubota where we are trying to utilize some of Kubota's international or overseas network to drive our exports volume, so lot of these factors are going in favor of us on new product line, better distributions outside India and of course this relationship with Kubota, all these will have to garner some players in export volumes.

Harshal Agarwal: Okay thank you.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Mumuksh Mandlesha from Emkay Global. Please go ahead.

Raghu Nandan: Raghu hear again from Emkay. Sir just wanted to understand on the new products, which is the Atom series and the rice specialist tractor how much was the volume in FY2019 and how do you see the improvement going forward?

Shenu Agarwal: I am sorry Raghu I do not have volumes right now maybe Bharat if you can help with that, but definitely these are the markets where we have just entered and we were one of the late entrants in these markets as you know and therefore we will continue to see a substantial growth in these segments going into this year and also in future. Prateek do you have some numbers?

Bharat Madan: In Atom we did about 1000 plus tractors in FY2019 on a full year basis.

Raghu Nandan: Rice specialist tractor.

Bharat Madan: Rice specialist still under field trial so it is very small volume I think this year we done I think only 40, 50 odd tractors.

Raghu Nandan: Understood and that should increase substantially because I think the rice market as you had previously indicated was as large as 1 lakh units per year?

Shenu Agarwal: Yes, rice market is pretty large, but this is a very unique tractor this is kind of a tractor that is not available with all the manufacturers right now this is a very light weight kind of a tractor we call it crossover because it is kind of a mix of very specialty rice tractor versus a normal utility tractor so we are going very carefully with these tractors it also means that we have to change some tractor sales on

the ground. We have received very, very positive response from this in many parts of the country and we are going to continue to promote this concept of this new kind of a rice tractor. Now as far as compactor is concerned that market is quite large now although last portion of this basket is in Maharashtra, which has not improved a very good base of growth, but still since we are a new entrant we have a huge opportunity to kind of expand our volumes.

Raghu Nandan: Thank you Sir. Some clarifications, one is on the gross margin side there is some improvement Q-o-Q on the gross margin what has led to that Sir?

Bharat Madan: You are saying for the quarter?

Raghu Nandan: For the quarter if I take Q-o-Q basis raw material to sales there is some improvement Q-o-Q what has led to that?

Bharat Madan: Yes, there is a price increase, which we have taken towards the end of last quarter I think November we have taken the price increase to cross on the inflation so actually in this quarter the full impact was there and there is no further inflation in this quarter, which is why I think the better material cost ratio in this quarter compared to the sequential one.

Raghu Nandan: Thanks for that and Sir like on the construction equipment side the Q-o-Q increase in realization what would be the contribution of price increase in that because like the remaining part I understand is the mix which is favorable, but how much price increase was there in construction equipment?

Bharat Madan: So, increase is in the range of 4% to 5%, which was basically like you said lag effect of the inflation, which has been there, which we not able to pass on so with this price increase we have been able to neutralize that impact really on the commodity prices.

Raghu Nandan: Understood Sir and sir like one more clarification the GST refund that would be part of the current assets right or the current assets item?

Bharat Madan: That is right, yes.

Raghu Nandan: Got it and just one last clarification on the investment side Kubota investment was at 1.2 billion and Tadano was at 0.3 billion so how much has been done in FY2019 and how much is expected in FY2020?

Bharat Madan: The Kubota we have done 50% so 60 Crores had gone last year in March and 60 will go in this fiscal year in FY2020. On Tadano initial investment was about 60 Crores out of which our share was roughly 30 Crores which has gone last year, but there is some product preponement, which they are looking at so there is some more capex, which will be required to about 20 Crores they have projected further for the JV out of which our share will be about 50%.

- Raghu Nandan:** And Sir like capex was expected at 2.5 to 3 billion in FY2020 how would be the breakup of that capex?
- Bharat Madan:** The major capex was actually the deferral of the machinery capacity expansion, which was scheduled to happen last year, but we have placed the order slightly late and also looking at the kind of requirement which we had so it got slightly delayed so that roughly close to 80, 90 Crores, which will likely get spend in this year and then there is investment, which is being done so there is a normal capex of about 60, 70 Crores across all three businesses, which is there and there is some investment, which we are doing on the product side especially on the emission norm changes, which were happening now since we are moving to the Euro IV or the Bharat Trem IV norms for both construction as well as for the tractor business so that investment, which is ongoing. We are also looking at some revamp for the entire product portfolio in the looks and designs in the field. So that again will need lot of ruling investment and it is more on the tractor side within the construction and railway side we think it will be somewhere close to 30, 35 Crores and balance is more on the tractor volume side.
- Raghu Nandan:** And sir BS-IV will come from April 1, 2019, right?
- Bharat Madan:** It is October 2020 with 50 HP model.
- Raghu Nandan:** That is for the construction equipment, only right?
- Bharat Madan:** Both.
- Raghu Nandan:** Understood and what about the entire portfolio?
- Shenu Agarwal:** There is no date for that yet. The only date we have right now from the government is October 1, 2020 for diesel engines about 15 horse power.
- Raghu Nandan:** Understood Sir. Thank you, Sir. Thank you so much for those clarifications.
- Moderator:** Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Bharat Madan for closing comments.
- Bharat Madan:** Thank you ladies and gentlemen for being present on this call. For any feedback and queries, feel free to write into us at investorrelation@escorts.co.in. We will meet again in the next quarter. Thank you very much and have a very good evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of SPA Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.