"Escorts Limited Q4 and FY '20 Earnings Conference"

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MODERATOR: **MR. VIVEK GEDDA – HSBC SECURITIES AND CAPITAL MARKETS INDIA PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Escorts Limited Q4 and FY '20 Earnings Conference Call hosted by HSBC Securities and Capital Markets 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vivek Gedda from HSBC Securities and Capital Markets India Private Limited. Thank you and over to you, Sir.

Vivek Gedda: Thank you, Steven. Good Evening all, on behalf of HSBC Securities, I Welcome you all for Escorts Q4 and FY '20 results earnings conference call. I also take this opportunity to Welcome the Management team from Escorts Limited. Today, we have with us Mr. Bharat Madan, Group Chief Financial Officer and 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 Relations team at Escorts Limited. We would start the call with some opening remarks from the management followed by interactive Q&A session. Before we start, I would like to add that some of the statements that we make in today's call will be forward looking in nature and are subject to risk as outlined in the annual reports and investor releases. At this point, I would request Mr. Madan to make his opening remarks. Thank you and over to you, Sir.

Bharat Madan: Thank you, Vivek. Good Evening everyone and thank you all for joining us on this earning call for the fourth quarter and financial year ended March 31, 2020. We hope during this unusual time, you, your family and your dear ones are all safe and well. Over the last few weeks, we remain fully focused on securing health and safety of our employees and all our stakeholders. COVID-19 has impacted industry and respective businesses operations and it will take some time to regain normalcy. This quarter reflects the partial impact, but we are preparing ourselves to innovate and digitize our ways to engage and connect stakeholders for the business operations ahead even as the uncertainty of affairs still exist. During this difficult time with the support of local administration and all Escortians, we are running various outreach programs around Faridabad helping local communities and we have committed to live up to our social responsibility to prevent the pandemic spreading further while ensuring business continuity. Last week, company has received the permission from Government authorities to resume its operation in single shift at all its plants at Faridabad with restricted workforce. We are aligned to Government advisories and we will ensure taking all the precautions and preventions at our facility.

Few highlights of our company's standalone financial performance for FY '20 are as follows. Turnover at Rs. 5761 crores against Rs. 6196.4 crores in previous fiscal is down by 7%, this is primarily due to drop in tractor and construction equipment volumes. Tractor volumes went down by 10.8% to 86,018 tractors as against 96,412 tractors in previous fiscal. Construction volumes went down by 27.1% to 4042 machines as against 5544 machines previous fiscal.

EBITDA at Rs. 675.8 crores as against Rs. 733.3 crores in previous fiscal is down by 7.9%. EBITDA margin now stands at 11.7% as against 11.8% in the previous fiscal. Finance cost went down by 3 crores to Rs. 15.5 crores as against Rs. 18.5 crores in previous fiscal. The total debt outstanding as of March 2020 is Rs. 6 crores down from Rs. 277 crores in March '19. Net debt on the balance sheet continues to remain negative. PBT from continuing operations and before exceptional items stands at Rs. 648 crores as against Rs. 710.3 crores in previous fiscal. Net profit at Rs. 485.5 crores as against Rs. 484.9 crores in previous fiscal. EPS stands at Rs. 40.63 as against Rs. 40.58 for last year. The Board of Directors have recommended a final dividend of 25% that is Rs. 2.50 per equity share of face value of Rs. 10 each for the year ended March 31, 2020, which is same as in the previous fiscal.

Moving onto company's quarterly performance, turnover at Rs. 1380.7 crores as against Rs. 1631.7 crores in previous fiscal same quarter, tractor volumes went down by 20% to 20,108 tractors as against 25,136 tractors in last year corresponding quarter. Construction equipment volume went down by 32.2% to 986 machines as against 1455 machines in last year corresponding quarter. EBITDA at Rs. 194.4 crores as against Rs. 189.8 crores in last year's corresponding quarters. Net profit for the quarter at Rs. 140.4 crores is up by 15.7% as against Rs. 141.4 crores in last year corresponding quarter. On a consolidated basis, turnover at Rs. 5810.1 crores as against Rs. 6262 crores in previous fiscal, a net profit at Rs. 471.7 crores as against Rs. 477.9 crores. Consolidated EPS stands at Rs. 55.04 as against Rs. 55.82 in the previous fiscal. Moving onto segmental business performance, starting with Agri machinery business, domestic tractor industry volume went down by 10% to 7.09 lakh tractors as compared to 7.8 lakh tractors in previous fiscal. Our domestic volume went down by 11.9% at 82,252 tractors as against 93,323 tractors of previous fiscal. Our domestic market share stands at 11.6% for year ended March 2020 as against 11.8% in previous fiscal year. Normally, Escorts registers a considerably high market share in March and in Q4 related to other months and quarters, however, the nationwide lockdown in March announced right before the peak season of Navratra, adversely impacted our sales and market share.

On export side, the industry went down by 18% to 76K tractors as compared to 93K tractors in previous fiscal. Our export volumes went up by 21.9% to 3766 tractors against 3089 tractors previous fiscal driven by new product introduction and penetration in the new markets. During the year, Farmtrac to Powertrac ratio improved to 41:59 as compared to 39:61 in previous fiscal. Also, our product mix has improved towards higher HP tractors, more than 40 HP proportion improved in FY '20 to 51% against 47% in FY '19. On channel front, we added 32 new dealers on a net basis in India during the quarter, total dealers count now stands at 1000 plus. Going forward, we will continue to expand our dealer network specifically in our opportunity markets. All our rural sentiments are positive because of a record output of Rabi crop and a favorable initial prediction of this year's monsoon. Sale and repair of heavy machinery was exempted from the lockdown by Ministry of Home Affairs as early as April 3, 2020, thereby helping to start a trickle of sales in April. Opening of *mandis*, aggressive procurement of crops by Government, and timely opening of banks and NBFCs will further help in near term demand recovery. Going forward, we expect tractor industry to regroup faster as compared to lot of other sectors; although it is a bit early to say, we are already witnessing pent-up demand coming from the lockdown period. We expect that this pent-up demand shall help industry to show a growth in June to October 2020 period, full year industry estimate though will only be clear sometime during Quarter-2.

While the situation around supply chain remains dynamic, we are happy to state that we resumed production of tractors effective day before yesterday post permission from the Government authorities to operate our plant on a single shift basis with restricted manpower. The production is currently at 20% of the normal single shift capacity, the situation with the suppliers is improving rapidly and that makes us believe that we should be able to progressively ramp up production to about 50% to 60% level by middle of June. We are fortunate to have enough pipeline stocks so as to not to lose any significant retail sales until the end of June by when our production hopefully should also come close to normal levels. Coming to the construction equipment segment business, our served industry, the backhoe loader, pick'n'carry, and compactor degrew by 23% in FY '20 over FY '19. Our total volumes manufactured and traded products went down by 27% to 4042 machines as against 5544 machines in the previous fiscal. Despite volume drop, EBIT margins have remained flat at 3.6% for year ended March 2020 as against previous fiscal.

Construction equipment industry has seen slowdown in FY '20 on account of financial sector woes and delayed payment for ongoing infra projects. The industry had started to recover from December '19 due to Government clearance of payments and increased spending. The lockdown from March '20, however, pulled down this growth momentum. The new emission norms coming into effect from October 1, 2020, also in the short term impacted the demand scenario in the industry. We expect industry to start showing the initial recovery from Quarter-2 FY '21 and clear momentum to come from Quarter-3 onwards. Central Government has already projected for Rs. 1.7 lakh crores for infrastructure and disinvestment is likely to kick start the economy and construction equipment segment recovery. Coming to the railway division, revenues at Rs. 477.2 crores went up by 21.1% as against Rs. 394.1 crores in previous fiscal. During the year, we had executed 38.5% of total orders from new products category with more import content and lower margin as compared to previous fiscal when it was 27%. EBIT margin was at 18% as against 19.9% in the previous fiscal. In future though, we will be able to mitigate the impact with gradual localization of these components.

Under Make in India program, recently we got our RDSO approval for Escorts made microprocessor controlled electric brake system called MCBS for three-phase locomotives. We are the first Indian company to join the league of select few companies worldwide with capability to design and manufacture complex braking system. Currently, the same is undergoing field trials and is likely to be commercialized in FY 2022. Order book for this division stood at more than Rs. 500 crores which will get executed in the next 12 to 15 months. For FY '21, we still expect railway equipment segment to grow by (+15%) and margins for the segment are likely to be maintained around (+20) level.

Just an update on the Kubota's collaboration, our manufacturing plant in JV with Kubota is delayed now due to nationwide lockdown. It is likely to start commercial production now by beginning of Q3 FY '21. The allotment of fresh shares to Kubota has been approved by the shareholders and we are currently awaiting other regulatory approvals. The share allotment process is likely to be completed sometime during June-July FY21. I now request the moderator to open the floor for Q&A, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hitesh from Kotak. Please go ahead.

Hitesh: First, I would like to mention that I hope everybody is safe and healthy in your firm and in your families. My basic question is more related to the financing in tractor segment. We have been whatever you have told us in the opening speech that rural sentiments that these are quite positive because of the crop, but there is also an issue of funding tractor purchase, so what is happening on that front, can you give us some sense, how the public sector banks, NBFCs, private banks are behaving and what are your tie-ups in the banking space and are you seeing any issues on funding?

Shenu Agarwal: As everything else, the banks and NBFCs and private banks all closed down in the lockdown, but the good thing was that the MHA actually exempted banks and NBFCs a little bit earlier than the rest of the thing, so we had actually bank started opening up around last week of April to some extent and right now the position is that about banks are running at about 60% to 65% of their normal capacity already, which means that the branches are getting opened where they have branches, where they have people about two-third of the people have started moving to the field for visible verification and disbursement has started happening. I think it will take another maybe couple of weeks for the banks to operate fully except in the containment zone.

Hitesh: Shenu, my question was more related to whether you are seeing a lot of risk appetite from banks going of especially in this tractor segment because what we are hearing is because of the moratorium that they have given to most customers, they are being very, very cautious until and unless they see what is happening to their moratorium book, any issues in terms of customers getting credit on their tractor side, that is what my question was actually?

Shenu Agarwal: Nothing at all, of course there is a moratorium and of course the collection of the previous loan portfolio had become an issue, but right now actually we are seeing them that they are very, very hungry, because Agri is one sector where they can really increase their loan book, I mean we have been talking with all the banks during the lockdown period even in the top-level and what is their outlook and most of them are telling us that they will focus much more on Agri sector this year than other sectors because other sectors they will not get that much of business. I mean in our case actually every bank is behind us to give them cases and I think the same situation will stay, I mean the comfort that banks are getting although the moratorium is there, which I think about 40% of the customers have taken at least in our sector, not every customer has taken it. The comfort is that Rabi crop has been very, very good and the prices of most of the crops is very, very good. Government is focusing much more on procurement, I mean you would have seen the announcement from SBI the kind of procurement they are doing is totally unprecedented, I mean they have never done this kind of a direct procurement and I think the procurement is up to the level of 78-79 million tons what they have proclaimed, if they do that there will be lot of money in the hands of the farmers.

Hitesh: Year, that is very heartening to hear because there was lot of statements on the financing side that we are raising, just wanted to get a sense that how do the farmer behave in terms of because there are lot of migrant labors who are going back to their villages, right, so they do not have work right now so their burden is also coming to the family, and also lot of labor will be now available for the farming side, so do you see that as a headwind for tractor for next three, four, six months until this migrant labor issue gets sorted out, so what is happening on the field in terms of these dynamics playing out?

Shenu Agarwal: We have been tracking this issue of Agri labor quite closely actually and you know that in India most of the Agri labor it comes from about five or six states and it spreads over all of the country, since about let us say 30%-40% of the Agri labor has moved back not all, we hear all that in the news, but not everybody has moved back, so about 30%-40% of the labor has moved back, so definitely there is some scarcity in some States and there is little bit of excess in some other States where they originally belong to, the shortage of labor is actually going to help us, both in the near and the long run because people who do not have machines or equipment and they have no choice but to invest in the equipment and the situation with cash was since it is really good after the record Rabi crop, I mean the sentiment is extremely positive, so because farmers are not hesitating in the machinery, so that is why we think there is lot of pent-up demand that is coming up. I mean normally you would say that if the sale is gone, mostly they have gone but in our case I think we are seeing at least 40%-50% of pent-up demand already knocking on our door in terms of enquiries and leads and all that. I think shortage of labor or migration of labor is only going to help Agri sector in terms of mechanization.

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

Mitul Shah: Congratulation for a very strong number, Sir. I have two questions, one is on the Agri side in terms of enquiry level as you stated of pent-up demand close to 40%-50% returning, so can you share some geography wise color on how this Rabi crop played out in key geographies and how the enquiry level variation between the North, South, East and West our stronger and weaker markets, that is first question? Second question is on the railway side, we are indicating again growth despite the situation, so in terms of payment from the Government side as well as how confident you are that order book will not get cancelled or will increase, and lastly on the construction equipment side, if you can throw light despite such a high decline, you reported decent margins?

Shenu Agarwal: Mitul, thank you for the question, right now, it is very, very difficult to say how this will impact the distribution of demand because I am still like there are some areas which are opening up, there are some local problems on the ground etc., but broadly speaking see Rabi crop is mainly dominant in the areas where we are strong, so actually paddy crop comes a little bit later in the paddy belt, so right now the crop which has come is primarily in Haryana, Punjab, UP, Rajasthan, Bihar, and MP and so on and these are our strong markets, so right now in our strong markets we are seeing that pent-up demand coming back because of the good crop and a positive rural sentiment. On rest of the market, it will take some more time for us to determine, how the demand output will be because when that crops gets harvested then we will now like how it is, but I think the situation on the ground is pretty positive. Also because monsoon, first prediction is good and that is on top of the fact that the reservoir levels are already very, very high, so there is no dearth of water actually for this season. If the monsoon goes well, then I think we are all set for at least couple of years if not three years in terms of water availability, which is a big factor in tractor industry. I think overall it is going to be okay, I do not see any area where we are seeing stress specifically or any crop where we are seeing any distress so I think it is quite universal.

Mitul Shah: Because of this geographical advantage our market share should improve, right?

Shenu Agarwal: It should because of the Rabi crop, I mean Rabi crop always helps us, I mean Bharat had said in his opening comment that normally in Q4 or March, our market shares are very, very high and one reason of that among others is that Rabi really helped us relatively better then on the other crop because Rabi is mainly dominant in North, Central, and Eastern India.

Dipankar Ghosh: Let me answer the railway portion of your question, Mitul, first and foremost we are seeing a very good response from Railways wherever we have already submitted the bills and all the documents, Railway has started to pay us and the payments are coming there is no bottleneck for payments not coming so we feel that once the other offices open, we would be pretty confident about all the collections and receivables, and parallelly we have been having lot of interactions with senior people of Railway Board and also many other people of the zonal Railways and the Railway production unit who are also pretty confident about maintaining the already existing tenders and also growing in the numbers what they have projected before, so we feel that we should be able to maintain that 15% plus growth if not more in FY ’21.

Mitul Shah: Lastly on construction equipment margins?

Ajay Mandahr: What we have done in last couple of years is that we have started chasing the products where we make money and predominantly our growth if you see segment wise also in pick’n’carry probably on the higher side of the market, there you have the right kind of margins, the volumes and the market shares are very, very nominal, you talked about 68%-70% roundabout, and on the low end of the market, we are generally low on operations and we do not want to operate in those markets where we do not make money and on those product segment also where we do not make money, so that structural change we have done, plus we have worked on the cost. The official efficiency has improved quite a bit. At one side, the quality is going up and on the other side we are looking at cost, trying to make all our fixed cost move them into dynamic cost, so that is the benefit that we are getting on the breakeven point, if you see the breakeven point probably would have come down by 30% for us, so we are working on that section and I think it is basically the upturn that is going to happen on the volume will give you a huge kind of leverage in terms of margins that we will get. As far as we are concerned, I think we are going linear, we are lean on costs and on the right products. We are doing all our product development on the right products only and we do not want to get into areas where we do not make money so we will be looking at profitable growth.

Mitul Shah: Breakeven point would be around 700 units per quarter now?

Ajay Mandahr: Roughly, yes.

Moderator: Thank you. The next question is from the line of Raghunandan from Emkay Global. Please go ahead.

Raghunandan: I have two questions both to Shenu Sir, firstly on the demand side how is the demand in non-Agri segment for tractors and what would be the share of this non-Agri segment and how do you see the impact on overall demand this year? Secondly for FY ’21, which regions do you expect to do better like in the March quarter, South and West actually did better than the North and Central region, so what are the expectations on region wise performance this year?

Shenu Agarwal: Thank you, Raghu. For the non-Agri sector which is a commercial sector, I mean last year as I had been telling you that last year we were facing some bottlenecks and some hurdle because the construction industry was not behaving very, very well until about December-January, so I mean there was a little bit of pushback in the non-Agri demand, but this year, so it started improving already like January-February and of course then we got into a lockdown, but I think this year all that demand should come back. I think the focus on and Government’s focus also on construction will improve going forward and most of the projects which were banned like mining etc., etc. they were already opened up, so we are yet to see finally how it will shape up and it is too early to say, but broadly thinking I think it should be much better than last year. Of course the contraction will continue probably in that for a longer time as compared to Agri demand, so Agri demand is already kind of like I said we are already getting pent-up demand from the lockdown period, so for non-Agri it might take some more time for that to happen, so that was one.

The other was the distribution of demand that is right because normally the last fortnight of March is extremely good for North, Centre, and East up to Bihar because that is the period when this Rabi thing happens and farmers already like in March or late February starts getting a feel of how good the crop will be and what kind of sizes they will get, so in North and Centre normally there is a huge pickup in the demand in whole of March rather, but especially in the last fortnight of March. Now, unfortunately because that did not happen because of the lock, so overall in quarter you will see that South and West are looking much better relatively, but that is going to change, this whole pent-up demand that we are expecting will come mainly from Northeastern, so I think that Q1 or Q2 scenario will be quite different than Q4 scenario.

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

Gunjan Prithyani: Sir, just a clarification on the previous question you answered that South and West did better in Quarter-4, is that understanding correct?

Shenu Agarwal: Relatively, yes. Overall in Quarter-4, the industry degrew by 9%, you were hoping that industry will actually grow in Quarter-4 by about 10% or 11%, but at an industry level we lost about 35,000 odd tractors because of the lockdown. Also remember that *Navratra* was actually lockdown happened right before the *Navratra* and *Navratra* is very, very strong in North, Centre, and East as compared to South and West, so we were hoping for a huge upsurge in demand because everything was moving so well in Quarter-4 relative to Quarter-1, 2, and 3, where we actually saw negative industry growth, but in Quarter-4 we were actually expecting the industry to grow to 10%-11% level, but finally it ended up at minus 9 and most of the hit that came from there was because of the lockdown in the North, Centre, and East, so that is the clarification.

Gunjan Prithyani: Now, just on this point which you mentioned about *Navratra*, I would have anticipated that typically this is a very seasonal demand, right at the time of harvesting or around festive is when typically farmers come and buy, and unfortunately, the whole lockdown period coincided with that, so to that extent do you really anticipate that the demand that we lost out in the month of March particularly in the North region are in the regions where *Navratra* is important, will that come back as the market relaxations happen, and also the second thing I wanted to know around your dealership, what proportion of your dealerships are now open across India?

Shenu Agarwal: Firstly for your first question, yes, we think that demand will come back because we are already seeing that lead some bringing back to us which we could not deliver tractors during March or *Navratra* so most of them, let us say 50% of them are very, very interested in buying a tractor right now and some more are interested in buying a tractor between June and October period, so I think that will happen just looking at the ground situation. Sorry, what was the other question?

Gunjan Prithyani: If you can give some sense on how much of the dealerships are open and as dealerships open, what are the challenges you are facing in terms of like, of course you spoke about the financing, but are farmers really walking in given the fear of the virus, any sense you can give on the dealership side?

Shenu Agarwal: On the dealership side, as of yesterday, we had about 65% of our dealerships open for sale which means their showrooms were open about 65% and the situation is actually improving rapidly every day, so every day like another 50, 70, 80 dealerships get opened every day, now that is on the showroom of the sales side. On the workshop or the repair side, almost about 90% of the dealerships are open, so these are the dealerships where they just are providing doorstep services to customers and providing other services on tractors repairs etc., but they are yet to open for sale because they have not received local permissions etc. for showroom opening, but as I said the situation is improving very, very rapidly.

Gunjan Prithyani: Footfalls, I mean you are not sensing any people are hesitant to walk into the showrooms yet because of the whole fear around virus?

Shenu Agarwal: In tractor industry, it is a very BTL-based industry, it is not an advertising led industry, so not many people they walk into the showroom. Normally, the way the sales happen is that our sales team or dealer sales team have to use their network in the villages and hunt for leads and then they have to go to the villages and get the leads done. Now, all that I mean is something that will change because of the current situation at least for the next six to nine months, so we are devising actually very innovative new digital methods to do our lead generation exercise, I mean lot of it is social media, lot of it is phone calls, video conversation, we have developed great tools instead of a field demo we can probably give a demo on the phone or a tab or something and also we are doing lot of partnerships with other companies like companies in seeds and fertilizer domain, even telecom companies and lot of other companies, lot of these people who are startups in the Agri sector etc., so I think the sense of demand generation will be very, very different, will get changed over the next six to nine months, but the fact that the sentiment is very, very high is very, very positive in rural India, so our leads are actually at reasonably good level, they are not normal, but they are about 90% of the normal right now.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi: Sir, congrats on reasonable numbers in this kind of environment, my first question pertains on your margin performance for tractor business, we have seen a very impressive margin improvement both on YOY and on QOQ basis, is there any one-off in that if not what are the drivers of this margins and how much is sustainable?

Bharat Madan: The one-off is in the sense that this time we had a good inventory levels in the quarter, the sales suddenly stopped, so we actually landed with almost four to five weeks of inventory on our books, so that has led to some impact coming in favorable because some overheads should have actually got recognized when you had the sales booked up, but we had to be organized and take it to inventory, which is roughly 2% of the margin actually has come from that, which will have a negative impact in the coming years, so when you actually sell those tractors, so barring that rest of stock is normal.

Jinesh Gandhi: Second question pertains to you referred to the RDSO approval for the braking system, any sense on what would be the revenue opportunity in that and who are the current suppliers and how soon we can expect orders on that primarily the RDSO approval for braking?

Dipankar Ghosh: The prototype approval has already happened, it will go for one year of field trial which it will go very soon and the market size is around 700 to 800 crores market size with the present number of locomotives being manufactured in the country, but the way things are we would be getting it at fixed side of coming up and there are lot of other export potential being explored by the locomotive production units both CLW and DLW and this particular locomotive brake system can even go in for the other two big locomotive casting both for the GE and the Alstom, so we see a big potential out there, but as of now the present total market size is around 700 to 800 crores and they are only two multinational players, which is Knorr bremse & Fabley are the two people who are supplying this 800 crore market.

Moderator: Thank you. The next question is from the line of Pravin Yeolekar from CGS-CIMB. Please go ahead.

Pravin Yeolekar: Sir, my question was on down trading in terms of horsepower wise, have you seen any kind of certain trends in the past that the down cycle customer, farmers generally down trade?

Shenu Agarwal: You are right actually, that is what happens normally in a down cycle, the customers tend to migrate towards slightly lower HP, but there are two factors here, one is that the industry itself is on a rise and we are also on a rise like you have seen, we have done much better in 41 to 50 HP compared to lower HPs in the last year and that is on behalf of like lot of new product launches we have done, so there has been a launch actually in Q4 which we have not been able to mature completely because of the lockdown, but we launched a new series called Farmtrac Power max series which we are getting actually some very, very reviews and this series actually starts at 47-48 HP and goes to the 55 HP. We were also doubting in the initial days of the lockdown that probably that will happen, but how it has couple of products now with positive sentiment, good cash flow in the pockets of the farmers, so we are not seeing that actually. I do not think that is the thing to worry for future also because I think the farmers sentiment is very positive, so they are not hesitating in putting another one lakh and buying a higher HP tractor if they really need that.

Pravin Yeolekar: Sir, second question on the dealership, how are we supporting our dealers in terms of this liquidity crunch, on the financing side we are supporting to dealers?

Shenu Agarwal: There has been of course a liquidity crunch I mean in the terms that their cash was blocked in the stocks and the tractors that they had advanced to the customers hoping for getting the loans financed, I mean the Agri sector was actually exempted on April 3rd, I mean just after about 8, 10, 11 days of lockdown and the banking sector also started opening of about 10 to 15 days of them, so we were not hit as much as some other sectors were hit because of this but we have announced a lot of relief measures for our dealers and have given them some concession on interest. We have also given them some selection incentives, so they can move their people and focus their people more on connection at this time to get out of any crunch they might be facing and of course most of the banks have given a moratorium even on working capital loans, the situation is not that bad and of course wherever it is, we are working very closely with the dealers to support them in whatever way we can.

Pravin Yeolekar: My last question on this Kubota deal, have we finalized the plan to monetize this deal, anything to highlight there, how are we going to utilize this money?

Bharat Madan: I think the business plan between the two companies are still in the finalization stage, so I think it will take maybe another two or three months before the entire five years roadmap played out and that roadmap will also have the investment details where this money will be utilized, so as of now we are not ready with that, but it is a work in progress.

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

Siddhartha Bera: Sir, first question is on the margin side, you have indicated that close to 200 BPS will be from due to higher inventory, but gross margin improvement seems to be pretty anything else which is benefiting margins in the quarter or?

Bharat Madan: Like you mentioned, obviously there has been improvement in the product mix also, there is also some value addition which happened and some cost initiative on the material cost front and also the deflation in the commodity prices which has helped in this quarter, so the material cost actually has improved, but on a year-on-year basis if you see the improvement is 2% to 2.5% and the quarter obviously is significant, so even if you remove the 2% effect from material cost still there is a 2% drop even on a sequential basis, so that is the benefit which is been there and right now I think in this current situation, we also do not see major inflation pressure is going to come in till the time you see the recovery happening on the production side, so I think the market looks like soft as of now, so the things will continue, the margin trajectory should continue.

Siddhartha Bera: What will be the impact from the product mix, can you indicate that?

Bharat Madan: As you mentioned, the product mix has been favorable like we said in the Farmtrac to Powertrac which has also improved by almost 2%, so the Farmtrac typically when you mentioned, we had not been fully able to still realize the potential of the new launch we did in Q4 and also our sales has shifted more towards the higher HP segment which is 40 HP and above, which is typically a normally high margin product range, so that is something which is going to benefit in the longer term.

Siddhartha Bera: Sir, my second question is on the financing side again, sorry for coming back on it, we were hearing some news from dealers that the banks were lowering the loan-to-value ratios for more customers due to the moratorium and funding issues, so have you heard anything on that front or the loan-to-value continues whatever it was earlier?

Shenu Agarwal: Siddharth, that is very, very sporadic, that is happening only in a few areas where still there is kind of a Red zone etc. where the movement is not very sharp, but those are very, very sporadic and limited, but in most of the other areas actually a few banks on our request have actually enhanced the LTVs because they want to be very, very aggressive and they want to increase their market share in tractor segment because they are getting hit in other segments by auto and bike and even trucks etc. so I mean most of the banks are actually eager to support the Agri industry right now, but yes, I mean you are right in some very sporadic cases it might happen that the LTV might be reduced but even in those cases LTV reduction is very, very small like 5% or so.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India. Please go ahead.

Prateek Poddar: Sir, just one question, today in your view if supply a major constraint or your demand, what are your more worried about, would it be supply or demand as we speak today?

Shenu Agarwal: Right now we are more worried about supply because supply chain is a complex mechanism and you know our vendors are spread throughout the country and if the tractor has 3000 parts, we have to have all 3000 to be able to produce even a single tractor. That of course we had some inventory in hand, so we had started production as Bharat mentioned day before yesterday after taking all the requisite permissions from the Government, but supply chain is definitely going to be a challenge for at least next four weeks. Right now, we have started production at a very, very low level but we hope that we will reach to normal to about 50% of normal production level by mid of June and by beginning of July, we think we should be very close to normal production, we did anticipate that it will take some few weeks.

Prateek Poddar: But what steps are you taking to mitigate this because as of now this Red zone, Green, and Amber is so dynamic, I was just thinking about what are mitigating steps you are taking because if one of your supplier is asked to shutdown and you said there are 3000 parts in a tractor you will not be able to supply a tractor, so could you just talk a bit about the supply chain rationalization or circuit breakers which you would have in place so as to what fallback options which you would have in place so as to not lose sales because of this lack of production or because of a vendor?

Shenu Agarwal: Two or three things, one is that we are working very, very closely with our vendors, I am almost dialoging on a daily basis, we are trying to help them like all vendor community in Faridabad we are actually trying to directly help them with resuming their operations, you know even to some extent helping them getting permissions from the Government authorities etc., so that is one. The other thing is that, most of our parts if not all, we have alternate source, so I mean to some extent like even for the particular part, one vendor cannot operate, we can actually start with other vendors and that is why I said that even by middle of June, we are hoping for only 50% of the production because even if like some vendors can close, the other vendor cannot supply the whole quantity, but at least he can provide us probably half the quantity or something like that, so that is kind of mitigation already built in our supply chain structure. We cannot change the structure of the vendors or supply chain at this moment in time, that is a long drawn process, it takes about six to nine months at least to develop a vendor and do all that stuff, so we have to work with a vendor that we have right now, there is no two ways about it, it is just that the more we collaborate with them, the more we discuss with them, dialogue with them, the more we can help them, probably they will be able to get back to normalcy faster.

Prateek Poddar: Lastly, Sir, what about the efficiency at the plant level if you could talk about throughputs, the social distancing norms, do you believe there could be an impact in terms of labor efficiency?

Shenu Agarwal: We are not having a problem because of the migration of labors because most of our labor is local. The second thing is that right now we are operating at about 20%-25% of the labor, I mean it has been two days that we started supplying after requisite repair, maintenance and all that, so labor is not going to pose a problem. I think the main challenge is going to be or social distancing in plants, we have already received permission for 75% labor that we can bring in our plants of normal times. Of course, we have spent a lot of effort, time, energy and money to make sure that everything is safe and social distancing norms are met and there are like thousands of markings on the floor ensuring that people do not move from their space, they maintain all the precautions, so labor is not going to be a problem, as I said we have already received permission from the Government for deploying 75% of the labor and we are just working with 10%-20% because we want to correct the supply chain first, but supply chain you are right I mean we are hoping that it will be okay by July sometime, but there could be some surprises here or there because the situation is quite dynamic.

Moderator: Thank you. The next question is from the line of Ankit Suchanti from Axis Securities. Please go ahead.

Ankit Suchanti: My question is again on the demand front, so you are saying that there is a lot of pent-up demand as well as the production would be close to normal by July, do you expect the year-on-year growth in your numbers coming from Q2 itself or do you see that coming from Q3 and similar question in the construction equipment division, when do you see a year-on-year growth coming in FY ’21 given that FY ’20 Q2 was also weak?

Shenu Agarwal: I think Bharat mentioned about it briefly that the lockdown happened right before the *Navratra* and therefore for *Navratra* we had actually pumped up our pipeline of tractor stocks quite a bit, so at the time of the lockdown we had actually kind of three times the stock that we normally want to keep because *Navratra* is such a upsurge in demand, unfortunately because we did not see the *Navratra* at all this time, but fortunately because we have a huge pipeline of stock, we have let us say dealer stock is normal, but the depot stock is quite high, so right now we are thinking that it will take us through the ends of June with some crunch here or there, but we will not lose any sales until end of June and from July as I said, we are hoping that our production will come to and also the fact July and August are not big months, so I think we will not lose sales in July because July and August are actually the weakest months of the whole year for tractor industry, so I think to that extent the timing is okay, I think the stock availability in the pipeline is actually helping us and if we can meet our plans or what we are thinking, we should be okay.

Ankit Suchanti: On the construction equipment, similarly what timelines do you see on a year-on-year growth given that again construction equipment were pretty close to 25%-30% decline in FY ’20?

Ajay Mandahr: Ankit, what happened in March was 50% reduction basically the volumes that happened for that particular market. Typically, if you see in construction equipment, H2 is much more heavier, you generally tend to get 55% of your sales towards the H2. Now, when we discuss with the people in the construction equipment, talk to the Government, we are getting an impression that the tempo should build up going forward maybe the Quarter-2 onwards, then the monsoons will start, so there would be demand but they would not be that great a big pickup over the last year and from Quarter-3 and Quarter-4, we expect the market to recover. Overall, we do not expect market to be growing by leaps and bounds which used to happen earlier, still I think the plus/minus 10% I would say 10% minus over this year should be something which the market should look at. Again, having said that you are in a uncertain world basically you do not know how much money is being put onto infrastructure, if money is put onto infrastructure is much more of a bigger quantum then probably the growth can happen much faster and there could be much substantial growth.

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

Bharat Gianani: Sir, just one clarification, this is in continuation to the answer given to the previous participant, so all in all in FY ’21 because of the statements that you made that you have sufficient inventory to cover the demand, I mean you will not lose out on demand because of the sufficient inventory that you have in the system at the depot level and assuming that you reach normal production by July, so for year as a whole FY ’21 you had earlier in the call given a guidance of 5% growth, so again what is the kind of number you are looking at now, so that would be my first question?

Shenu Agarwal: I am sorry I do not think we gave a guidance of 5% growth by FY ’21, I think Bharat in the initial comments said that it is too early to say anything about FY ’21, but at the same time we do feel strongly that from June to October period, I think the industry growth would remain positive in the tractor, of course April and May would be bad, April was let us say 10%-15% of the normal demand, May probably we are looking at about 50% of the normal and June would see somewhere close to normal and then from probably July onwards, I think we will see some positive growth at least until October, but it will take us a few more weeks to ascertain all this because this is just our kind of intelligent guess right now based on the situation on the ground, so in another few weeks we should be able to kind of reconfirm this assessment and maybe have a better look at better guidance for FY ’21.

Bharat Gianani: Assuming that the monsoon is normal, so what is directionally your view on FY ’22 for the tractor industry, would you like to share any thoughts on that?

Shenu Agarwal: I think FY ’22 depending on the water situation, I think the initial prediction has already come, I mean more confirmative prediction will come in few days, but reservoirs are already very good and there has been a couple of disruptions in the recent past in the tractor industry, which is like last year in FY ’20 overall we were down and then this lockdown period has put some further restrictions on the demand, so I think there will continue to be a lot of pent-up demand in the market and FY ’22 both because of the structural situation and also because of monsoon, I think we should have a good year, I do not see anything going wrong right now for FY ’22 also, actually I think that it might surprise on the positive side.

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

Aditya Makharia: Sir, just wanted to know the Kubota deal, so the focus will remain on the premium tractors or will we even look to go down the range, what is the thinking behind the entire products from Kubota?

Shenu Agarwal: If you are talking about the JV that we have with Kubota which is called Escorts Kubota India Private Limited, I mean that is a kind of a manufacturing JV where Kubota will produce their own tractors and of course Kubota always has played on premium side and in that JV or in that plant we will also manufacture Farmtrac tractors and those tractors that we are going to producing in that plant would be also our premium products, so as far as manufacturing is concerned, of course it will be all for the premium tractor.

Aditya Makharia: Will we make any Agri implements also, is that also part of the understanding?

Shenu Agarwal: Not yet, it is part of a broader thinking process right now, but we are speaking with Kubota as to what we can do in that space as well, but nothing concrete as of now, but yeah definitely some thinking in progress.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Congrats for good set of numbers, just couple of things, one I missed out, somebody asked in the call also, that your supply chain there can be dependence on various components without which the whole assembly will not be possible and several areas are still under Red zone, so what is the update from that perspective I want to understand your complete supply chain and parts being available for full assembly?

Shenu Agarwal: As I explained earlier, it is not true that everything is going to be shutdown or is already shutdown in Red zone, Red zone like Faridabad itself is a Red zone, but we have permission to deploy 75% of people. I think the view of the Government right now going forward and even right now is that we have to learn to live with the virus and we just cannot stop economy and then hope to have a longer, longer period of lockdown, so I think the method is very, very clear that we have to all adopt very, very safety precautions etc., but we have to also start moving, so to that extent lot of our vendors who are in Red zone have received permission to operate. Now, the only point which is left, so the point is not whether this vendor will be able to supply or not, the point in future for the next few weeks is how much supply can we get, that is actually the point and as I said we are seeing improvement on that front, so we are starting with let us say 10% production and then we will gradually hope to increase this to 50% and that I am saying depending on all the discussions and dialogues we are having with our suppliers and probably by July sometime, I think we should be close to normal if not full.

Basudeb Banerjee: Sir, various Tier 2 component suppliers or even large players are fearing that if there is any case of COVID in the factory, there is a risk of three months of production getting stopped and reports like that?

Shenu Agarwal: I want to clarify that at least what we have received information from our local authorities I do not know about the rest of the India specifically, but even if there is a case of COVID found in our factory, we are supposed to inform it to the Government authorities and contain that for about two to three days and get it sanitized by some special procedure, so that is what we have received, so basis on that we have already developed a disaster management plan and we are fully ready to cope up with those situations.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just one question on your regional mix how does your mix stack up between North, Central, South, and West for tractors?

Shenu Agarwal: I can send you some detailed data through Prateek later on this, how do we operate in different sections of the country geographically, but as you know we are much more stronger in North, Center, and East and we are trying to grow ourselves in rest of the markets and if you look at our detailed data, you will see that we have considerably grown in actually our opportunity in weak markets, so in the South for example in the four states, we have grown our market share last year like 120-140 basis points and in most of the other States also which are not in the South let us say in the West or in the Far East like Chhattisgarh, Gujarat, Maharashtra even like Orissa and West Bengal, we have had real good growth all in all those markets and those are coming on pretext of two things, of course one is that we are strengthening our distribution in these areas where we were traditionally weak in distribution and the second is we have developed many new which cater to such markets, for example, like we created an ATOM model which particularly caters to markets like Maharashtra, Gujarat, and Karnataka, but the data I will make sure you get it.

Pritesh Chheda: In the current mix, North, Central, and East will be what percentage of your sales?

Shenu Agarwal: Only 60%-70% sales from these regions.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Sir, what is the contribution for subsidy with tractor volume for industry and given the pandemic situation and limited fiscal and monetary with the State Government, what is the outlook ahead and what sort of impact in these regions?

Shenu Agarwal: The year before last which is FY '19, the subsidy volume was close to about 11% to 12% of the total volume, so roughly about 80,000 to 90,000 tractors in the whole year. Last year, the subsidy did not play out as well because of many local issues with States I mean in terms of administration of the subsidy etc. and some delays because of again local issues nothing structural or nothing that can be extrapolated in future mainly temporary local issues, but I think this year I think the subsidy sales will actually be better than even FY '19 as a percentage of overall industry because there are several schemes in the pipeline, which actually some of them got stopped because of the lockdown in the last phase, they were very, very mature something in Assam and something in Bihar and probably something in AP and Telangana, they were all stopped because of lockdown, so all they will start emerging; actually Assam has already started and we have also started supplying tractors in Assam and some other markets or some other states will come up very, very quickly now like Bihar, AP and few others, so I think this will be a good year, it is hard to say a number but I think it will be better than FY '19 number.

Abhishek Jain: My next question is relative with the outlook for the export as many countries are imposing high duty on imports, so what sort of the recovery are you looking in exports or what sort of the impact you are looking?

Shenu Agarwal: No, we are not looking at any impact, we are looking at a massive explosion in our growth volumes over next few years, as you know we have invested huge amounts of money in creating very formidable export products lineup. We are now going up to 110-120 HP and in the bottom HP segment we are going as low as 20 HP right now, and we are very aggressively expanding distribution in lot of countries, what our tie-up will also help us with export volumes, even last year you look at the data we were the fastest growing in terms of percentage increase in sales and exports, of course we are a small base so we should not talk about percentage, but even if the industry drops, even if there are any problems we will be all right and I do not think these import restrictions will be applicable on agriculture sector anywhere in the world barring one or two may, somebody will do something but I think generally Agri sector is always prevented from these kind of policies.

Moderator: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

Siddarth Mohta: Sir, I have got one question which is on your wage agreement in your presentation I think you have return it has been settle down, so if you can quantify that amount and in FY '21 what can be the number which I should consider?

Bharat Madan: Siddarth, the settlement is not yet done, so in the lockdown obviously the negotiation likely was stopped, so now since the things are opening back again so we are again in discussion with the union, I think once the settlement is signed then we will also come back to you, as of now it is not signed.

Siddarth Mohta: Historically, it has been between like 9% to 10% or should I wait for the final conclusion?

Bharat Madan: We will revert because this time the situation is different, so every time since the base changes and since the number of employees have also gone down so compared to what it used to be six-seven years ago, so I think we had a very low level of workforce now, so let us wait for the settlement to happen and then we will come back to you.

Moderator: Thank you. The next question is from the line of Rajendra Mishra from IDFC Mutual Fund. Please go ahead.

Rajendra Mishra: I just want to know what risk the COVID lockdown will have an impact on market shares and whether things will remain status quo or whether market shares can change or how do you see that among the top players?

Shenu Agarwal: You are talking about tractor industry?

Rajendra Mishra: Yeah.

Shenu Agarwal: Structurally, COVID will not impact anyone, anyone's strength or weakness or anything like that, I mean in the longer run there would be no effect of COVID on market share at least. Of course market share can move still, but not because of COVID because of the other things so I do not think there will be structural impact on market share. In temporary terms like three months, six months' period, it may happen because of the supply situation of different manufacturers or demand situation in particular States or something like this, but I think that would only be short-term.

Moderator: Thank you. The next question is from the line of Mahantesh Marilinga from Finquest Securities. Please go ahead.

Mahantesh Marilinga: Sir, actually I heard in some of the news that there is some crop losses due to the farmer is not able to reach their products to the market in spite of that are you able to see a demand uptick in the near-term?

Shenu Agarwal: I think this is all just media hoopla, there is no truth about it. These are very sporadic cases, please do not take it generally. I think generally there have been no losses, even in hailstorm, etc. I read in news that in some areas there was like huge devastation etc., believe me those are only sporadic cases. We are in touch with lot of farmers and we are not seeing anything of this sort on a large scale.

Mahantesh Marilinga: Sir, you also mentioned about the pent-up demand of 40% to 50%, what do you exactly mean by that, you mean the like-to-like March-April numbers demand going up by that number or what is the meaning of that?

Shenu Agarwal: What I mean by pent-up demand is definitely there was a loss of sales at the industry level in March and April and continues to be in May also, so my rough guesstimate is that we might have lost about 70,000 to 80,000 tractors at the industry level just from the lockdown period until now, so when I say 30%-40% will come back which I mean is whatever demand we lost because of the lockdown about 30%-40% of that will come back and we will see that in June-October period over and above the normal levels of June and October, so that is what I mean. I think June-October will definitely see a growth in volume as compared to last year because of this pent-up demand and then of course if there are any other positive factors then they will also contribute.

Mahantesh Marilinga: So along with the normal growth of June-October industry growth, you expect around 40% to 50% of the 70-80K loss during the three month?

Shenu Agarwal: That is a rough estimate, yeah.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Sir, I just had two clarifications question, one is on the subsidy that you said that this year you are expecting a much stronger subsidy sales, but given the fiscal condition of the States what is giving us confidence in terms of the subsidy sales and, the second question is if you can, the tractor division has seen significant increase in gross margin in the current quarter, so if you can provide a reason for that?

Shenu Agarwal: Governments are not worried about fiscal deficits and all that right now, right now they want to support people to come back to normal life. We hear this 10% of GDP as the relief package, I mean we do not have those extra funds available right now, but Government wants to spend that right now because they want to just bring the economy and business and rise back to normal as much as they can, so I mean Agri is always a priority sector, there are lot of mass population affected through Agri, so we think that Government's focus will actually increase this year on Agri because they want to benefit all these people.

Nirmal Bari: For the material cost decrease on tractors?

Bharat Madan: We had responded to this question in the earlier, somebody had asked the same question, so it is that one off benefit which has happened in this quarter also because of the higher production base their and there is lot of inventory which we had to carry when the lockdown happened, so that is roughly 2% margin is coming from there, and in addition, as we mentioned in the opening remarks, so there have been improvement in the product mix this time because we are selling higher Farmtrac and higher HP tractors more than we did in the last year and also some material cost initiative which have been there and is also deflation of commodity prices which has actually helped in improve the margin.

Nirmal Bari: The higher inventory should not be impacting the material cost line item, because the revenue that we have booked….

Bharat Madan: When you produce tractor it gets inventorized if it is unsold and that inventory ultimately leads to the lower cost of goods sold, so that benefit comes in the material cost, so this is like you said is an non-recurring item, but the benefit in this quarter it will come in the subsequent when the tractors actually get sold.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi: Sir, just two questions, one is on the tractor financing, how much of financing would be coming from NBFC and second question would be with respect to the CAPEX for 521 what are we budgeting for?

Shenu Agarwal: As far as financing is concerned, you know that public sector banks have absolutely no role in tractor financing anymore, so that as percentage would be like hardly 1% or 2% or 3%, so most of the finances is through private bank and NBFCs and between the two, I think the ratio will be about two-third and one-third, the two-third could be NBFC and one-third would be private banks.

Jinesh Gandhi: And CAPEX?

Bharat Madan: Jinesh, if it was a normal year our ideal plan was to spend close to 250 crores this year on the CAPEX which was also the plan last year till the time the lockdown happened. Now depending on when the complete position opens up, so obviously there are projects which are in the pipeline where the money is already committed and that is actually spent, so it will all depend on how the opening up happens. The recent plan was 250 crores and it should be obviously below that looking at this critical condition also anywhere between 200 to 250 would be the wild guess at this point.

Moderator: Thank you. We take the last question from the line of Bhaskar Bukrediwala from ASK Investment. Please go ahead.

Bhaskar Bukrediwala: Sir, couple of questions, one on this Kubota deal wanted to understand the tractors that you will be selling abroad will that be co-branded or would be purely under Kubota brand, so how is that going to be?

Shenu Agarwal: That decision we are going to take based on which market we are entering and the market dynamics, but so far wherever we have started, we are using a joint brand, which is joint brand but based on the market to market phenomenon and dynamics, we will choose that going forward.

Bhaskar Bukrediwala: Sir, just to understand I mean as I understand one is of course to leverage the distribution network that Kubota has and possibly to enter more high end markets either leveraging their brand or a co-brand, but from an overall partnership or joint venture perspective, I mean setting up a manufacturing facility in India for somebody like Kubota where you get it more efficient and lower cost probably compared to some of the other markets is also a reason why we are setting up manufacturing and then it becomes a win-win for both the partners, is that a broader thought process also?

Shenu Agarwal: This relationship has lot of facets, I mean we are going to cooperate and collaborate in many, many different ways, so like exports is one, manufacturing is another, we are also thinking about how we can collaborate in developing products jointly for the global markets, so a lot of facets, I mean we are going to learn from each other on manufacturing processes, on selling processes, on other business processes, so I mean this is a kind of a deep and wide relationship.

Bhaskar Bukrediwala: Just one small last question on the working capital side saw significant improvement this year, would you like to talk a little bit in terms of what exactly the company has done and do you think that this is going to be the working capital control that we have bought this year is going to be sustainable in future?

Bharat Madan: Bhaskar, there are two-three reasons for this, so if you look at the numbers which are there in FY ’19, a lot of money actually got blocked in the working capital, so there is some amount which is stuck with the Government under some supplies which happened under the subsidy program that we also had issues and not getting the GST refunds in time, so there is a two years recognition which was there as of March ’19 and also I think lot of work which has happened on the inventory front because we were expecting a good season in April ’19, so we get active buildup good inventory at that time and also stock the channel at that point in time, so the receivables were also quite high, so I think all those connections have been done now in this year, so we started getting from the Government on the subsidy-based scheme this year which is close to 100 odd crores. We also got the refund from the GST from export as well as from domestic which was again close to 100-125 crores this year and obviously the inventory levels which were there in last year, we could not collect that because the lockdown happened suddenly, we are at least up to this inventory, so that has still to happen, so we will see to keep that inventory level going down this year too, so some working capital release will happen this year, so that is where we stand today about 350 crores of working capital has got released last year.

Moderator: Thank you. 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 or any queries, please feel free to write into us at investorrelation@escort.co.in. Thank you very much and have a great evening and please stay safe. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of HSBC Securities and Capital Markets India Private Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.