"Escorts Limited
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Escort Limited Q4 FY2021 Earnings Call, hosted by Kotak 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 Mr. Hitesh from Kotak Securities Limited. Thank you and over to You Sir!

Hitesh Goel: Thank you Mallika. Good evening and on behalf of Kotak Securities Limited, I welcome you all for Escorts Limited Q4 FY2021 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 the brief opening remarks from the management followed by interactive Q&A session.

Before we start, I would like to add that some of the statements that we make in today's discussion, will be forward-looking in nature and are subject to risks as outlined in the annual report. At this point, I request Mr. Madan to make his opening remarks. Over to you, Sir!

Bharat Madan: Thank you Hitesh. Good evening, everyone, and thank you all for joining us on these earnings call for the Q4 and financial year ended March 31, 2021. The second wave of the COVID-19 in India is way more severe and we are all affected by it somewhere or the other. We trust during this unusual time you and your family are well and safe. At Escorts, safety and health of our employees, customers, dealers, suppliers, and wellness of our business ecosystem is of utmost important. The company is taking all my measures in line with government advisories including mass testing and vaccination drive to cover all its eligible employees.

The year 2021 is the 75th Platinum Year of the company and also a landmark year for us. Few highlights of our company's standalone annual financial performance for FY2021 are as follows. Turnover at Rs.6,929 Crores against Rs.5,761 Crores in the previous year is up by 20.3%. Tractor volumes up by 24.1% to 1,06,741 tractors as against 86,018 tractors during previous year, it is first time ever that the company has crossed 1,00,000-unit landmark in tractor sales and tractor production in India in any fiscal year.

Construction equipment volume at 3,913 in FY2021 as against 4,042 machines in the corresponding year also, this happens to be the Golden Jubilee year for Escort Construction Equipment business.

EBITDA at Rs. 1,129.2 Crores as against Rs. 675.8 Crores in the previous year is up by 67.1%. The finance costs went down by Rs. 4.5 Crores to Rs.11 Crores as against Rs.15.4 Crores in the previous year. The company continues to be debt free with sufficient available liquidity for future growth and explanation as of March 2021. PBT before exceptional item stands at Rs.1,157.1 Crores up by 78.5% as against Rs.648.1 Crores in the previous year. Net profit at Rs.874.1 Crores is up by 80% as against Rs.485.5 Crores in the previous year, our highest ever. The Board of Directors has recommended the payment of final dividend of 50% that is Rs.5 per equity shares. In addition, the Board of Directors have also recommended one time Platinum Jubilee year special dividend of 25% that is with 2.5 per equity share to commemorate 75th financial year of this company. The total dividend for the year ended March 31, 2021, will be Rs.7.50 per equity share which is 75% against Rs.2.50 per equity share which is 25% for the previous year ended March 31, 2020.

Moving on to company's standalone quarterly performance for Q4 FY2021; turnover at Rs. 2,210.5 Crores is up by 60% as against Rs.1,380.7 Crores in the previous year same quarter. Tractor volumes up by 62.1% to 32,588 tractors as against 20,108 tractors in the last year corresponding quarter, our highest ever quarterly volume so far.

Construction equipment volume went up by 62.7% to 1,604 machines as against 986 machines in last year corresponding quarter, again our highest ever quarterly volumes so far. EBITDA at Rs.344.7 Crores up by 77.3% as against Rs. 194.4 Crore in the last year corresponding quarter. Net profit for the quarter at Rs. 271.3 Crores is up by 93.2% as against Rs. 140.4 Crores in the last year corresponding quarter.

Now on a consolidated basis, financial performance for FY2021, the revenue from operation at Rs.7,014.4 Crores at the year ended March 2021 was up by 20.7% as against Rs.5,810.1 Crores in the year ended March 2020. Consolidated net profit we got it at 871.6 Crores in the year ended March 2021 was up by 85% as against the profit of 471.7 Crores in the previous year. Consolidated EPS stands at Rs. 92.15 as against Rs. 55.04 in the previous year.

Moving on to segmental business performance, starting with the Agri Machinery business, the Domestic tractor industry volume in FY2021 went up by 27% to 8.99 lakh tractors as compared to 7.09 lakh tractors in the previous fiscal. This is an all-time record for the tractor industry. All macro-economic factors which is crop production, crop prices, a good monsoon and availability of retail finance have made positive. This was further ended by a record crop with owned by government last year. Despite a slowdown in the first two months of the year, used pent up demands surface post the lockdown period, our domestic tractor went up by 24% at 1,01,848 tractors as against 82,252 tractors in the previous fiscal. This is the first time the company has crossed 1 lakh tractors sales in the domestic market. The company maintained lean inventory both at its own depots and its leaderships, because of this and coupled by the fact that we faced huge supply chain issue in the first eight months of the year leading at the peak sales even at Diwali, we lost market share gains this period.

However, after supply situation improved, we bounced back and achieved a market share of 12.8% in the last four months of the year. For the whole fiscal year, our domestic market shares stood at 11.3% as against 11.6% in the previous fiscal.

During the year about 62% of our domestic sales came from about 40 HP tractors as against 51% in the previous fiscal. This resulted in significant moral mixed games and is reflective of the success of our new products in the higher HP segment. With continued efforts and on channel explanation the total dealer count in India is more than 1100. Following our dual distribution strategy for our key brand will continue to further expand our deal in network specifically in our opportunity market.

On export side, industry was up by 16.5% to 88600 tractors as compared to 76000 tractors in the previous fiscal. Our export volumes went up by 30% to 4893 tractors as against 3766 tractors in the previous fiscal given by new product introduction and penetration in new markets. Sales through global Kubota network also started late in the year and will gradually increase going forward as we open more markets for our products within Kubota channel.

EBIT margins for the Agri machinery business went up by 521 basis points to 18.2% as against 13% last year. This is record profitability for us in the Agri business aided by not just higher operating leverage and better product mix but also our acute focus on cost efficiencies. Inflation against a worry going forward as commodity prices are going through the roof to partially neutralize the impact, we have taken two price increases lately, one in mid November and another in the beginning of April this year. One more price increase is eminent in Q2 of this fiscal year. By such frequent price increases are anticipated in our industry, we hope to recover the entire impact of inflation during the ongoing year.

At the start of the year, the prospects of the tractor industry for FY2022 we are looking quite positive as all macroeconomic factors continue to stay strong including prediction of a very good and timely monsoon again this year. The second wave of the pandemic however has proved to dampener so far and this time around the pandemic has also affected the rural heartland of the country. We are watching on ground situations and believe that like last year the industry may see a pent-up demand again this year as soon as the current conditions improve. Given that assumption, we still expect full year FY2022 tractor industry to go in mid single digit.

Coming to the construction equipment business; our served industry, backhoe loaders, Pick n carry cranes and compactors, grew by 11% in FY2021 over FY2020. Crane Industry remains flat year-on-year, but due to COVID-19 and cash flows issues in market, Pick n carry cranes industry has shifted more towards price sensitive hydra segment. Compactors industry grew by 10% and Backhoe Loaders grew by approximately 15% year-on-year.

Our total volumes, manufactured and traded products, went down by 3% to 3,913 machines as against 4,042 machines in the previous fiscal. Segment revenue for the year came at 776.1 Crores as against 839.8 Crores in the previous fiscal. During the year, we saw 58% of total cranes from Hydra category with lower margins as compared previous fiscal when it was 47%.

Despite volume drop and commodity inflation, we have been able to maintain EBIT margins at last year level of 3.6%. Last year industry saw a good traction from September 2020 onwards resulting in 34% growth in served industry between October 2020 and March 2021. Despite some supply related challenges during same period, our volume grew by approximately 41% during October 2020 to March 2021. In April 2021, industry was majorly impacted due to the massive surge in Coronavirus infection all across the country and currently due to the shortage of certain critical items including industrial oxygen, the production is also adversely affected. The situation is however likely to improve with the accelerated vaccination program and other measures being operated by the government in the near term. During the government thrust on monetization through disinvestment and huge projects under National Infrastructure Pipeline, we expect industry to show stronger recovery going forward. For FY2022, we expect construction equipment segment to grow in higher single digit and margins for the segment to improve further led by our various operating matrices and cost control measures that we have spoken about many times in the past.

Coming to the Railway division: Revenues at Rs.479 Crores went marginally up as against Rs.477.2 Crores in the previous year. During the year, we have executed 59% of total orders from new product category with high import content and lower margin as compared to previous year when it was only 38%.

EBIT margin for FY2021 was at 16% as against 18% in the previous year impacted mainly due to product mix and one-off provision towards GST rate differential on orders executed after September 2019. Indian Railway is still not running its full operations due to unprecedented COVID-19 pandemic situation and has some divisions in the production plants affecting fresh orders standing and order inflows.

With government safety measures and vaccination drive picking up at fast rate we expect that trending process will get back to pre-COVID level by end of Q2 of current year. During the year, we made an entry into metro business by bagging contract for retrofitting work. Order book for this division at the end of March 2021 stood at more than Rs.340 Crores which is likely to be executed over next six months to eight months. For FY2022, we still expect railway equipment segment revenue to grow by lower double digit and operating margins for the segment are likely to be maintained around 16% to 18% levels.

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

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

Hitesh Goel: Thank you. This question is to Shenu. My question is related to how do you see the situation on the ground? I understand, people may not be coming out and buying tractors, so how is the sentiment on the ground with various structures you have described Rabi crop is very good, Kharif has also going up and monsoons being normal, so what percentage of tractor dealerships are open, what is the financing situation in tractors and what is on the ground situation, so if you can give us some sense on that?

Shenu Agarwal: Thank you for the question. Hitesh you are right. All the macro economic factors are very, very positive whether we talk about production or prices or monsoon or even government procurement etc., and availability of finance; however, the on ground situation is not very good right now and it is very, very dynamic as well, so on daily basis the situation changes from geography to geography but we are slightly kind of monitoring it and making sure that we can serve the communities that need either the spares or services or even new equipments but currently roughly about two-thirds of our dealers are either closed or if they are open they are open for limited hours, so that is basically the situation. So, the focus right now is with other than conducting business especially where people need us, customers need us, we are also focusing on the medium term right now by making sure that maximum staff at our dealerships get vaccinated as soon as possible and we are also helping our dealer staff as part of initiatives where we can support them. So, one thing is just the actual situation on the ground which we are all aware of, but other thing is also this little bit of fear psychosis that has benefitted in Tier-II, Tier-III, rural areas, so we are doing our best to see how soon we can come out of that, but the situation is dynamic right now.

Hitesh Goel: Just a follow up here, so basically there is a lot of concern in investor community that is by June end if this continues and normalization does not happen, one season actually goes away for farming, right, in your opinion, how big an impact can it be, should we then start looking at decline for the full year or it can be compensated from July-August onwards?

Shenu Agarwal: Hitesh, there are two things that we are keeping in mind and I think we should also keep in mind that one of the things is that even in the last year although the penetration was not very deep in the rural area of the virus, but we know from experience with the last year and otherwise that the resilience in rural India is much more higher that is just DNA of our country and the other thing is that you are right that we are in a very, very critical phase this time of the year because last year the lockdown was primarily in March and April and early part of May and then it started easing out but this time we are already in the middle of May and the sowing season is about to start. We are also getting a lot of feedback from our customers because most of our teams are in touch with them over calls now, we are also hearing that customers are not getting enough tractors on hiring right now because of areas restrictions or just kind of a hesitation in customers to go to other farms and do hiring work and therefore there has to be kind of some push that will come or some pull that will come from the customers side as well as we get nearer to the sowing season, so maybe we are optimistic right now because as I said the situation is very dynamic but we do believe that it is virus wherever it goes has a kind of five to six week cycle, when it peaks up and goes back to little bit kind of reasonable levels and therefore we do think that sometime in end of this month or early June we will have some markets that will open up, the sowing season will pray the pull towards that irrespective of situation on the ground and therefore I think we will see some momentum very, very soon in the next few weeks. Now, as far as the whole year is concerned, we are very hopeful that this year overall whether it opens up in early June or late June, we are very sure that this pent-up demand will come back only because macroeconomic factors are extremely, extremely positive.

Hitesh Goel: Great, I will fall back in the queue. Thank you and all the best.

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. I had a couple of questions. Firstly, the follow up, so what Hitesh has eventually on the financing side also what we pick up is the situation is not as great, now is this that the staff is not available, or you see some setback from the bank or financial institution is where you have given the situation is pretty dynamic as you yourself spelled out, so if you can talk about the financing and also the inventory levels in the channel right now?

Shenu Agarwal: Thank you for your question. Let me address the financing issue first, we have been of course in touch with all our banking partners on the retail finance side very, very close to and generally the situation in the retail financing for tractors particularly is that there has been a kind of slowdown as far as the collections of the current portfolio is concerned, which is basically EMI collections but the slowdown is not as much as the slowdown is in the demand right now and therefore in terms of cash flows, most of the banks and NBFCs have very little concern. The main concern they have is because of the stricter provisioning norms that we are following in the country for last few years, even if like one payment is missed, they have to know provision more aggressively for that and therefore they have a worry for their balance sheet with the help of their balance sheet may not look very, very good in this quarter. Now that problem will not be solved via restricting new business activation or new customers or loans because that new customer acquisition depends more on cash flow and less on the health of the balance sheet. So, generally the opinion from the banks and NBFCs is that they will not slowdown rather they will go quite aggressive as the collections have not hampered to the extent that the demand has hampered and once the situation improves, they are also very hopeful that collections will also come down. Now, unlike last year this time the government has not announced any measures either on moratoriums of loans or on revising the provisioning norms for banks and NBFCs on such loans and of course the financing industry is looking forward to some stiff like that but still it does not happen, they are not concerned about acquiring new businesses. So, from that point of view, the new demand should not get affected because of availability of retail finance although the balance sheet is still a concern in the minds the bank. I think your other question was on an inventory, so inventory right now is at a healthy level. I think at an industry level the inventory is not either too high or not either too low, so there is sufficient inventory, so last time we had a problem when even customers started coming back after the lockdowns, most of the companies struggled with inventory issues but this time we do not think that is going to be the problem, so whenever the customer is ready to buy, customers can move around, I think manufacturer would be ready to deliver.

Gunjan Prithyani: Is there any risk of being higher because we must have stocked for the season but clearly at least the showrooms are shut or there are very limited walk-ins, so is there any risk if you were to look at February, March number if you can give some idea whether it is 5-week, 6 weeks in what levels it would be relative to February, March offtake?

Shenu Agarwal: Yes, I would not be able to comment on the industry stocks but generally I can tell you that because Q4 was a bumper Q4 as we have seen from the data, our data and industry data, so the stock situation is not, I mean we do not have too much stock at the industry level also as of end of March. Now, of course because of the slowdown in demand and lesser problems in the supply chain most of the companies are continuing to produce in the hope that when the things turn better, then they should have enough stocks, so as far as dealer inventory is concerned, I do not think we are at abnormal levels and as far as the course inventory or company inventory is concerned of course that inventory everybody is now increasing because the production is going at a certain level, which is higher than the demand that we are getting in the market but that is not of a concern because this is the time to actually have that inventory just in case we will get some good demand in the following few months.

Gunjan Prithyani: The second question from my is on the margins if you can talk about what has been the cumulative commodity inflation that we have seen so far and again said what kind of price increases you did mention two price increases in somewhere around taken around 3% so, what is the unabsorbed cost headwind that is there in the business if you can give some sense on that?

Shenu Agarwal: The inflation is also extremely dynamic right now and it is beyond our expectation of course and it is beyond the expectation of the industry. We hope that next quarter if they will stabilize but it has not done so since it has started and like in late Q3 of last year, so we are just watching the situation on the ground as to how much it will impact us in the following few quarters but roughly it seems like that the inflation would be in the range of like 8% to 10% or so of the current material cost, so 8% to 10% of the material cost is more than that, it is not like selling price, and on the price increase is concerned, we have taken two price increases one in mid November as soon as the inflation started happening and as soon as it was clear that inflation would be more than what we can possibly manage well and therefore we took early price increase while the industry rest of the players normally generally to price increase in early January or late December, we decided to take it in kind of mid November, so that was one and then we took another one in early April so in combination the price increase roughly is in the range of both combined is in the range of 5% of its selling price.

Gunjan Prithyani: Thank you. I will fall back in the queue.

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

Mitul Shah: Good evening. Thank you for taking my question. I have question on EBITDA margin for both the segment, tractor, and construction equipment wherein we reported all time high volumes for the quarter? What would be the sustainable margins for tractor segment as well as for the construction equipment?

Bharat Madan: Gradually interpreted in our last call also so you have indicated 17% to 18% will be the new normal for the agri business would obviously under some measures in normal circumstances, so if you look at this situation today with the rising inflation obviously there is a difficulty in passing in on 100% to the customer right now with more demands scenario in the market, so that is going to be the challenge and that is what we have seen in the last quarter also, if the margin got affected direct by 150 to 300 basis points and because of last affect for the inflation, so on an full year basis, we are hoping we will be hoping we will be able to neutralize our entire thing but obviously it will happen with a lag as this has an impact on the margin too. Even if you are able to pass on 100% of the inflation to the market that still inflate the volume by almost 100 to 150 basis points a year, so yes, I mean in the normal scenario if you are talking about 17% to 18% of the margin of the inflation issue maybe this time have an impact of about 150 to 200 basis points with a lag effect coming in.

Mitul Shah: Product mix was also quite favorable this time, so if that situation normalizes still do you expect margins to sustain?

Bharath Madan: Yes, if it is a normal situation like we have indicated last time, then definitely we think the margins should sustain.

Mitul Shah: Second question is on the construction equipment side, as you has guided for single digit growth, so despite such a low base and as people are expecting strong uptick in construction activities in FY2022, still do you expect single digit growth on volume?

Ajay Mandahr: As Shenu has said there is an impact on the industry and the channels because of this second wave of COVID and I think in the quarter, first quarter we would have impact and progressively the market will bounce back, and there is expectations is that it will return back because we can see like demand is there, the projects are there, the allocation and the economy mobilisation over economy, is happening so I think this is taken care of the 100% back on the construction and we do not see, if we see around 5 to 6 years construction with the way we go forward.

Mitul Shah: Lastly, Sir just to reconfirm, we are saying single-digit growth for tractor side also and as you have pointed out rightly last year there was an inventory related restocking probably around 8% to 10% growth is because of the restocking which is not the case this time in FY2022 as right now already inventory is quite healthy probably around 90 days+ in the system, so still do you think in this situation single digit growth is possible? Sorry 90,000+ inventory in the system?

Shenu Agarwal: Mitul, I do not think inventory really has lot to do with it because right now we are at normal levels. I mean if you just ignore last few weeks where some stocks have buildup but that is only hoping that from pent up demand will come and therefore people are getting ready but if you look at the inventory levels on April 1 versus last year April 1 I mean it is not a big significant this time, so I do not think that will play a big part this year, so we are still very hopeful that industry should at least touch last year level or it should grow slightly marginally in lower single digits or mid-single digits because we are basically relying on the structural situation of the market rather than the ongoing COVID related situation because see we think the momentum is there, we do understand that tractor is a cyclical market and therefore there I mean lot of people have spoken to us whether this is the year when we will see a downward trend but we do not think that this is the year I mean monsoon prediction is also very good so I think this year should be a good year.

Mitul Shah: Yes Sir. Thank you.

Moderator: Thank you. The next question is from the line of Avinash Singh from Mashreq Capital. Please go ahead.

Avinash Singh: Thank you for the opportunity. I just wanted to know this is just bookkeeping question on the balance sheet I could see that there is increase in investments accounted for using equity method so the increase for last year 144.6 Crores to 259.8 Crores, so could you please tell me the reason where this investment has been made?

Bharat Madan: One is the investment what the company had done during the year in acquiring the stake in the Kubota sales JV which shows about 90 Crores, is that you are referring to that is the only increase which has happened in this year in the investment side?

Avinash Singh: I could see there is increase almost 115 Crores on the balance sheet?

Bharat Madan: Yes, there are two JV, so one is the investment we did in the Tadano JV during the year and then 90 Crores was the investment which we did in acquiring 40% stake in this JV with Kubota, so these two investments happened 26 Crores the investment in Tadano and 90 Crores in the Kubota JV. So, these two investments we have happened during the year.

Avinash Singh: Thank you for the clarification and just wanted to ask you in addition you have a healthy balance sheet right now, so how are you planning to utilize the cash, which is there in your balance sheet, is there any plants, companies has influence to utilize?

Bharat Madan: Yes, definitely, so the company is in discussion with board now, so we are all in discussion in coming out of the midterm business plan and we had also told the analysts and investors that we will likely be announcing it after the results are done, so just wait for a month, so we expect that we may end of May in the middle of June we should be announcing that also to the investors community. It is a work-in-process right now with the board members.

Avinash Singh: Thank you Sir.

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

Raghunandan NL: Thank you Sir for the opportunity. To Shenu Sir, trying to understand the demand driver for tractors can you throw some color on what are your expectation for government subsidy and demand from non-agri segment for FY2022?

Shenu Agarwal: Thank you for the question. We are not really harping too much on the government side this year because we think that the government's focus is more beyond COVID as it was last year. Even last year there were no new major programs on subsidies, there were some ongoing things that will continue to happen even this year, but we do not think there will be a significant portion of industry that will be catered to government led subsidy business. On the commercial side, non-agri side of course right now the demand is very, very low both in agri and non-agri but we do see that once we open up fully as and when we open up fully all these projects will again start and therefore, we do expect a bumper increase. Actually this year on the non-agri side as compared to last year, we think it will be much better. Last year the non-agri side was still kind of very, very slow except in the last three months or four months of the year but this year we think that some of the growth that we are saying will come, will actually come among the non-agri side.

Raghunandan NL: Thank you Sir. Just a follow up there, would you be able to quantify how much was the subsidy sales in FY2021 and broadly what percentage was non-agri sales?

Shenu Agarwal: Yes, we have been trying to answer that question in the past as well but the situation on subsidy sales is actually kind of taking a different turn, so most of the states now, the way they are making out their subsidy policies is that they are giving subsidies directly to the customers and they are giving it not just at the time of purchase but they are even giving subsidies after the purchase and therefore it is becoming very, very difficult to actually put the right number as to what percentage of customers or what percentage of industry is getting the subsidy sales. We do get like overall numbers because we know when some scheme is launched for example let us say a scheme is launched in Gujarat, we know what is the outlay on that scheme but we no longer can really tell you specifically that at the time of sale of the tractor whether there was subsidy involved or not, right so most of the states are going to a lottery system which is actually much better system because it is much more transparent and the subsidy goes directly to the customers rather than to the manufacturer or to intermediary. But I think having said that we do not think last year the subsidy sales were in excess of 50,000 units and this is ballpark estimates.

Raghunandan NL: Thank you Sir. Non-agri how do you see the share in FY2021 and what could it be in FY2022?

Shenu Agarwal: Normally the non-agri share, again I have to give you ballpark figure, because it is very difficult to quantify specifically how much is it. But I think normally the non-agri component has reached roughly about 32%-35%, but I think last year it was not that much, I think this year it would get back to the same levels, because again like I have explained last year the first eight or nine months the non-agri sale was quite slow and agri sales had grown quite a bit. But this year that equation might change back to a situation where non-agri sales actually may grow higher than agri sales.

Raghunandan NL: Thank you Sir. That was helpful. On the HP mix over 60% of volumes came from above 40HP segment for Escorts do you expect mix to remain skewed towards higher HP products or do you think there can be some reversal this year?

Shenu Agarwal: Raghu there would be some reversal. As we had explained in our earlier calls also that one of the main reasons not just for Escorts but also for the industry although Escorts did better than industry in higher HP sales, but there was a momentum towards higher HP sales, lot of momentum in higher HP sales last year at the industry level and one of the reasons for that was that as I explained the growth in agri sales was much higher than the growth in non-agri sales and normally in agri sales customers have more and more tendency now to go get higher HP and non-agri sales is also finding applications in higher HP but largely it is a phenomenon which is driven by lower HP. But this year non-agri sales, is going to show us higher growth that would also mean that the sales of high HP tractors in relation to the lower HP tractors may be lesser than last year. So, I think we knew this all along that why the higher HP sales has become so sharper in the last year and therefore some traction will happen there.

Raghunandan NL: Thank you Sir. This was very helpful.

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

Jinesh Gandhi: Sir, just first clarification on the cost inflation on the commodity side, you indicated, so far you have seen about 8% to 10% on the material cost in second half FY2021 so far, is that right understanding?

Shenu Agarwal: Yes, that is up to end of March, right now, as I claim that this situation is very dynamic every day, we are seeing requests from our suppliers to give them a hike largely led by steel and rubber and some other components. So, I cannot give you a number right now we are still kind of in negotiating with the suppliers as to what would be the impact of Q1 in this year. Now, the number that I gave you 8% to 10% is up to March 31, 2021.

Jinesh Gandhi: Understood, but clearly there will be furthermore headwinds in first half FY2022 given where key commodity prices are, would that be a fair assessment?

Shenu Agarwal: Yes, for Q1 for sure there would be a substantial inflation that we will face in Q1. As I said I cannot give numbers again because we are still negotiating as to what would be the timing of that and what would be quantum of that. So, in some cases we have to go with tractor activity also which means, we have to get some types on April 1 also, so that situation will get clearer in next few days and there is some chance that this will continue to July and August also. That is what we can indicate right now.

Jinesh Gandhi: Second question pertains to the sales to Kubota network, so can you throw some light on what has been run rate since we started it, which all markets are we addressing so far and what should we expect there and secondly on the Kubota JV the plant which have started any update on that with respect to how it is doing and from when we can expect supplies to us coming through?

Shenu Agarwal: As far as our exports to Kubota channel is concerned, we just started in the last quarter of the previous year and there was very insignificant small volume that we started with. We have opened up about four markets with Kubota channel so far and some initial shipments have started going in, in all these four markets. So, we are waiting for the market response and once we see the market response then we will ramp up our volumes to these markets. In the current year also, we are going to open up more markets with Kubota channel, of course progressively and therefore this year we will see some good volume from Kubota channel. What I think the real build up will start happening from next year onwards in terms of volumes. So, this year just scaling up in the existing markets that we have already opened up and opening up new markets with more markets for test marketing and then next year I think we should see some good ramp up.

Jinesh Gandhi: Sure, and in this we would selling e-Kubota brand?

Shenu Agarwal: Yes, all the exports that we are making to Kubota channel are in e-Kubota brand. As far as our JV production facility is concerned it is running very smoothly, and we are increasing production every month there. As you would imagine it takes some time to ramp up production. So, in last fiscal year I think we produced more than 5000, close to 5400 tractors in that factory and every month the production will now keep on increasing as Kubota brand demand goes up in the country as well as this year, we will also start producing some of the Escorts tractors in that JV plant.

Jinesh Gandhi: Right, and lastly, guidance from capex for FY2022?

Shenu Agarwal: I am sorry, can you repeat that?

Jinesh Gandhi: Capex for FY2022?

Bharat Madan: Yes, this is going to be close to somewhere around Rs.300 Crores to Rs.325 Crores for this year. But there is lot of spill over from last year with this COVID situation so spends did not happen.

So, we will spill over on the capacity also which is coming in this year now. So, cash flow wise you can take it little be somewhere around Rs. 300 Crores to Rs. 325 Crores.

Jinesh Gandhi: Right, and this would add what kind of capacity and which area the capacity we are investing in?

Bharat Madan: So, capacity which is announced capacity we are intending to increase from 120000 to 150000 and then 30000 units capacity will come from the Kubota JV users, so about 180000 – 190000 sorts of capacity should come in place in by September.

Jinesh Gandhi: Okay, got it. Great, thank you.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir, you mentioned that the non-agri component is usually 30% to 35% but last year it was lower, can you quantify in what range it would be in FY2021?

Shenu Agarwal: Yes, Kapil I can only give you like ballpark number again, so let us say normal is 30% to 35% I think in FY2021 it would have been close to 25% to 30%.

Kapil Singh: Okay, and how do you track this Sir?

Shenu Agarwal: That is why we give a ballpark number because at the time of the customer buying the tractor, we do qualify the customer as to kind of what applications they will use. But that does not really mean that the customer is going to use it for that application only, so what we really figure out is the decision criteria of the customer, whether the customer is buying a tractor predominantly for agri use or for non-agri use and based on that information we can kind of quantify a ballpark number. But you know that mixed use in India is going higher and higher a lot of customers when they have no use of tractors, they do use it for non-agri purposes, and therefore fine numbers is difficult to track but yes, we know like the primary reason why a customer is buying the tractor in the first place.

Kapil Singh: Okay, this quite helpful and can you also talk about current situation on the ground in terms of what percentage of dealerships are opened and currently compared to your normal level where are the retail trends, I know cannot extrapolate this but just to understand where are we today?

Shenu Agarwal: So, as far as number of dealerships are concerned, I answered that, so roughly about two-thirds of our dealerships are either closed or are open for limited hours, so sometimes they would be allowed to open like in the morning 08:00 AM to 12:00 Noon or 08:00 AM to 01:00 PM and sometimes they would be allowed to be open like in the afternoons. So, it is different in different cities, it is different districts, it is very dynamic situation although, we are monitoring it on daily basis it is very dynamic. So, what I am telling you today might not be true three days later, so just please keep that in mind. Now, as far as the retail take off is concerned that situation is also very dynamic and therefore, I would avoid giving you a number there because some days are good days, and some days are bad days, and some days are real bad days. So, please trust me that the reason I am not giving you a number is because the situation is very dynamic. But as we said, as the ground situation improves, we might see lot of customers coming back, lot of dealerships getting opened, and lot of dealerships staff start visiting the villages again. So, let us just hope for the best and I am very clear that this will turnaround very quickly the only thing that I cannot tell you right now with confidence is when will that happen.

Kapil Singh: Sure Sir, and if you can give some on ground situation comments for construction equipment business as well, is the demand significantly impacted there also, because I think construction activity is esteemed to be going on at least from the government side there is good support from most of the states. So, how is the demand there and if it is impacted why is it, is it because the customers are afraid to transact at this point or is it that dealerships there are also closed?

Ajay Mandahr: The second wave definitely has impacted one way or the other, middle people in the sector and the dealer network okay, two-third of the dealer network or will it be more it is down because of some impact on their employees or their families due to the second wave. Most of the customers are postponing the decisions basically I think it is a fear factor that has come in place as we go along the things would definitely start to improve. The vaccination probably will start to happen government is doing now. So, the industry definitely on the demand side is there, demand side is stronger, the postponement is happening that is it. So, last year majority first half if you see the entire construction equipment about 25% down and in second half about 25% up and the construction rates of national highways was pretty high. So, I think once this second wave impact is put under control things will start to improve and I think there could be a lot of pent-up demand that will come up across.

Kapil Singh: Thank you.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good evening and thank you for the opportunity. Firstly, on the exports again, I remember last quarter you were mentioning that the order book was really strong, but production was the issue because domestic obviously doing very well. This time around in the commentary it is not as strong an export, so is there any kind of a delay in some of those orders that we had on exports?

Shenu Agarwal: Mukesh Ji, thank you for your question. On the exports front we have been carrying a backlog although we did much better numbers in FY2021 as compared to FY2020, but we are carrying kind of a backlog in some fulfilling the orders. Now, that backlog although has reduced a little bit in Q4 and in April but we are still carrying our backlog. Now, if the domestic situation remains dull for another few weeks, I think we will focus on fulfilling those export orders and we should be able to eliminate all that back log hopefully by end of June, right so we will just continue to see and balance depending on the demand from exports and domestic.

Mukesh Saraf: Right, understood and just one more question on the financial decisions there is a loss from associates this time around last quarter it was at Rs.6 Crore profit so, any kind of a sense on that to why it has gone into a loss this quarter?

Bharat Madan: This is actually the major loss coming from this JV manufacturing at Kubota and like I said this quarter was because of the high inflation at the commodity price movement, so which has to be enabled to pass on so that is led to the decline and in the same situation that we have across the industry including in Escorts we have seen and so that is what is reflecting in these numbers. But overall, on the full year basis still within both the JV's, Kubota is manufacturing and the sale JV and more like as breakeven sort of operations combined.

Mukesh Saraf: Sir this loss is because of the manufacturing operations kind of ramping up and initial cost there or even the marketing JV has had a loss and the marketing part of the JV?

Bharat Madan: As far as manufacturing JV the transfer pricing, which is associated now, so this change of price happens with a lag, so those to happen right now, how much again will the payment kindly be passed to the markets, so based on that the initial collection was lagged.

Mukesh Saraf: Sure, Right. Thank you for that. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vikram from Maybank. Please go ahead.

Vikram: Actually, most of my questions are answered, but I would like to ask one, still this year's working capital management has been excellent in fact I would go on to say it was one of the best. So, anything that worked in our favour and the additional question to that is do we expect it to remain the same or is it sustainable going forward?

Bharat Madan: So, two key reasons for that, one obviously if you have seen the whole cash flow last year has been quite good and strong, obviously that led to the lower dependence on credit even from the channel partner side and the finance availability also has been quite good on the retail side, so that led to a good turnaround with capital. Secondly, in the commercial policy wise because of the season, I think we were shifting more to the cash and carry than allowing more credit to the dealers. So, having probably start this responsible for a better management of working capital in this year and whether this will sustain in future again, I think it depends on the demand scenario, last time it was very unprecedented demand which we saw after the lockdown opened and the requirement from government were expensive and the cash really was very good. So, this year the sentiment wise it looks positive even now the crop transport is good, procurement is also going to be very good from the government side, so however, we have seen. So, cash availability will be there so definitely we expect the same momentum that should continue even in this year.

Vikram: Thank you.

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

Aditya Makharia: Sir, just had a more medium-term question, you have said that you expect longer term tractor sales to be in the 1.2 million to 1.5 million range maybe by 2030. So, where do you see us in terms of penetration levels and if you could just give some thoughts as to how you will see the industry evolve?

Shenu Agarwal: Aditya, thank you for the question. So, you are right the general consensus in the tractor industry is that the market should reach that level what you described by about year 2030 or a few years or a year later. So, right now last year we touched 900000 and even if you look at CAGR over next nine years I think even taking a conservative CAGR we should reach those levels. Now, there are additional factors. Of course that makes us believe that industry would be in that range is because with the lesser availability of farm labours there would be a need of more and more power in the farms and more and more mechanization in the forms. So, I think that will kind of the basic structural factor that will drive more penetration of tractors. The other thing also the tractors are being used in many-many different applications which are non-farm kind of application. So, not only the tractor uses penetrating into other things but also the number of hours that we are putting on the tractors is going up. So, that is both good for the industry because as we put more and more number of hours on the tractor then there is of course a need for replacing it faster. So, for both from the replacement side and from the penetration side to new customers I think it augers well. So, you had another question other than this?

Aditya Makharia: The replacement cycle for tractors would it be more like ten years right now?

Shenu Agarwal: No, it is very, very different in different markets, in some of the more developed markets or saturated markets the replacement cycle is as low as three to four years and in some markets which are not yet saturated, or they do not have enough use of tractor right now because of traditional methods of agriculture the replacement cycle could be kind of 10 to 12 years. So, on an average we would say about 7 to 8 years currently in the country.

Aditya Makharia: Got it, and just a last question in terms of penetration is it fair to say the Southern sides are lesser penetrated because I guess North there is a lot of government focus and impetus as well?

Shenu Agarwal: Yes, that is right, so southern states are towards bottom part of the penetration. So, in the long run we would expect more and more demand coming from the south. But south is not the only one region there are other regions in the country where penetration is slight low as compared to some other regions. So, other than like the two states where we think it is like the replacement demand has already reached 70% - 80%, all other states actually are at well below 30% to 40% in replacement demand.

Aditya Makharia: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, good evening. Sir, my question again pertains to your strategy for southwest market like you eluded that such a way see medium-term growth being pretty strong and our current penetration and market share is pretty low in those markets. So, can you share from a two–three-year perspective where do we see our market share going there and what are we actually planning to achieve that?

Shenu Agarwal: Ashish, thank you for your question and we have made considerable progress as far as our market share is concerned in all the states of the south and that is on account of basically two things, one is that we are making now we have in our fold more and more products that cater to the southern kind of applications and also, we are doing some very, very innovative market penetration into the south. We are constructing some very, very unique different models in the South and trying to scale those up now. So, because of both these factors we are very hopeful that in south our market share will increase going forward as well. Now, another thing is that in south right now we are only one brand company which means that we only sell Powertrac branded tractors at the right time in the future we will also open up our Farmtrac brand which is actually more of application that brand which is more suitable for the south. We are making some investments for that product line also for the southern market and as soon as we have those products ready, we will also launch this brand in the south, so that would add another layer of opportunity for us in the south. So, of course our goal remains that we want to be 10% market share or more in south and I think it will take us a few more years to get there.

Ashish Jain: Sure, Sir. My other question was with the housekeeping question, in terms of margin what is the differential margin between agri, non-agri tractors, if you can quantify that?

Shenu Agarwal: The product line is same, right.

Ashish Jain: Yes, high HP and low HP.

Shenu Agarwal: Again there is lot of misconception in our minds and the minds of everyone that generally a high horsepower tractors would earn better margins, I think philosophically that is okay, to understand it that way but it really also depends on the pricing power, so, you like all tractor companies based on the strength of their product lines do create some solid sub brand within the overall brand for example if you look at our portfolio in Powertrac there is a model called 439 and it is hugely, hugely successful, where it is 39-40 HP tractor. Now, that gives us lot of pricing power for that particular segment or that particular product in some of these markets where it is like highly valued. So, it is not necessary that every time and every state with every company you will have higher margins for higher HP tractors as compared to lower HP, I mean philosophically as I said it seems to be right, but it also depends a lot on pricing power. So, for example like everybody has a mainstay in some of customer segments or application segments and the brands which are more popular in those segments they command a significant pricing power. So, generally answering your question, there is a difference between like when average everything out at the industry level there is a difference between low HP and higher HP tractors in the margins as well, but it is not very-very significant.

Ashish Jain: Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Vivek Gedda from HSBC. Please go ahead.

Vivek Gedda: Sir thanks a lot for taking my question. Firstly, I just wanted to understand the 5% price increase that we have done in November and April together, could you possibly split that between how much was the price hike in April?

Shenu Agarwal: Sorry, can you repeat that question, please?

Vivek Gedda: I just wanted to understand the price hike that we took in April?

Shenu Agarwal: How much was the hike in April?

Vivek Gedda: Yes, that is right.

Shenu Agarwal: Yes, so April was slightly under 3% and the balance was in November.

Vivek Gedda: Got it, and the interim price hike that we are expecting in second quarter would be largely to get to the 17% to 18% margin that in second half of FY2022, is that understanding, correct?

Shenu Agarwal: Sorry, you have to repeat that there was some noise. Can you repeat that, please?

Moderator: The line for the current participant is disconnected. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Thank you for the opportunity. The only question that I had was in relation to the quantum of looking at the key commodities which is steel and rubber. So, could you give us a sense of how much is steel as a percentage of the ASP and how much is tyre or rubber as a percentage of ASP. Just to get the sense of the significance of these key commodities in your P&L?

Shenu Agarwal: Yes, I do not remember it off hand maybe we can answer you separately, Bharat do you have figures right now?

Bharat Madan: No, I would not have those data, but I would like state I think major part of the 1 to 1.5 half ton, weight in the tractor is essentially/mostly tyre and steel. So, I think the major portion will likely come from that only.

Joseph George: In terms of weight would you have a sense of what percent of the weight of the tractor 1.5 tons is tyres and how much is steel, if not as a percentage of revenues?

Shenu Agarwal: Roughly speaking on an average the tractor would weigh around 1800 kilograms, 1800 kilograms to 1900 kilograms and roughly 1300 kilograms to 1400 kilograms of that would be steel and rubber parts. We are of course exploring some of the OEM parts here which will also carry some steel, so actually if we combine all that it would be more than even 1300 kilograms – 1400 kilograms.

Joseph George: Understood, that helps Sir. Thank you.

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

Abhishek Jain: Thanks for taking my question. Sir, how much fall are you predicting sequentially in first quarter for tractor segment? As one of your competitors has also indicated around 20% degrowth in first quarter. Is there any space for the channels?

Shenu Agarwal: Yes, I think the competitor that you are talking about I think that statement was made in context of automotive business and not tractor business, but we may like to double check on that. It is very hard to say, so I think we would reserve our comments on this because we are going through a dynamic situation as I have explained. We are hoping that things will turn around and we are hoping that the sowing season will create a lot of pull, because there is no way the country or the farmer can miss that sowing season and the sowing may get delayed by a few days, but it cannot be delayed beyond that. So, there is going to some pull irrespective of the ground situation that will come from the market but let us hold on to this for a few more days.

Abhishek Jain: Sir my last question is related with the growth in Southern and Western India for FY2021. So, that was the significance, what are the key factors which are driving your growth in these regions for Escorts. Can you throw some light on your dealer expansion in these regions?

Shenu Agarwal: You are asking this in reference to Escorts, growth?

Abhishek Jain: Yes, only for Escorts, because we have seen a significant growth in Southern and Western India in FY2021.

Shenu Agarwal: Yes, I think this is going to continue. It is only because our opportunity is much better there. So, in the markets where we are already at 13% to 15% or 17% market share the headroom for growing further is still limited but in the markets where we are 2%, 3%, 4% or had been 2%, 3%, 4% in the past the opportunity to grow is immense. So, we have been saying for the last two, three years that we will grow in these markets, because there is a higher potential or higher opportunity for us to grow and it will take some time because it is kind of a journey in terms of product development, the right placement of the products and coming up with the right channel. So, that is ongoing thing. What we have seen in the past is actually we are hoping that we will do better than that in terms of the track record or the growth trajectory, because lot of things are now getting into shape. Earlier like we were still had issues here or there, we did not have a complete product line, we did not have a complete channel etc., so that distance we have now covered, I am not saying that we have done everything even now there are lot of things that are in the pipeline. But the growth in south and west that will continue to happen here.

Abhishek Jain: Thanks.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.

Rahul Ranade: Sir, and thanks for the opportunity. Just a question on the agri segment margins where you mentioned that more sustainable level of margins now will be around 17%-18% barring some lead lags for RM. Just wanted to get a sense of what is giving us the confidence of kind of sustainably setting higher level of margins going ahead, from here?

Bharat Madan: There are two reasons; one I would say these margins are dependent on the volumes, so we are assuming the volumes will not go down below last year's numbers that is the key assumption there and second, we said in the normal circumstances these margins will prevail. So, in case of the high inflation scenario that definitely impact your margin negatively, and make sure we are going o pass it on the lag, otherwise the reason why we get this confidence in normal circumstances is the company has been working towards improving the margins and improving of the cost of which improving in the material costs and improving the product mix, I mean, those are the initiatives of the company has been taking from number of years now which has now started to improve. So, if the other assumptions hold good in terms of maintaining these volumes and in the normal conditions not leading to this inflationary scenario, we think these margins which we are talking about are sustainable.

Rahul Ranade: Okay, and these are segment margins that is at EBIT level, right?

Bharat Madan: Yes, that is right. This is segment margin for tractor business.

Rahul Ranade: Yes, alright. Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Bharat Madan: Thank you ladies and gentlemen, for being present on this call. For any feedback kind of queries please feel free to write into us at investorrelation@escorts.co.in. Thank you very much and have a good evening. Please take care and we pray that all of you stay safe and healthy. Thank you.

Moderator: Thank you. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.