"Escorts Limited Q2 FY16 Earnings Conference Call"

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MANAGEMENT: **MR. S. SRIDHAR – CHIEF EXECUTIVE OFFICER, ESCORTS AGRI MACHINERY.**
MR. SUNIL SAKSENA – CHIEF EXECUTIVE OFFICER, ESCORTS CONSTRUCTION EQUIPMENT.
MR. DIPANKAR GHOSH – CHIEF EXECUTIVE OFFICER, ESCORTS AUTO AND RAILWAY PRODUCTS.
MR. BHARAT MADAN – GROUP FINANCIAL CONTROLLER.
MS. JYOTI KHATUKA – HEAD, TREASURY
AND
INVESTOR RELATIONS TEAM, ESCORTS LIMITED

MODERATOR: **MR. RAGHAVENDRA JAIPURIA – PERFECT RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Escorts Limited Q2 FY16 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. If 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. Raghavendra Jaipuria of Perfect Relations. Thank you and over to you, sir.

Raghavendra Jaipuria: Thank you, Aman. Good evening and thank you for joining us on Escorts Limited Q2 FY16 Results Conference Call. For today's call the management would be represented by Mr. S. Sridhar – CEO, Escorts Agri Machinery, Mr. Sunil Saksena – CEO, Escorts Construction Equipment, Mr. Dipankar Ghosh – CEO, Escorts Auto and Railway Products, Mr. Bharat Madan – Group Financial Controller, Ms. Jyoti Khatuka – Head, Treasury and the Investor Relations Team at Escorts Limited.

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

Bharat Madan: Thank you, Raghavendra. Ladies and gentlemen, a very good evening to you all. Thank you for joining us on the second quarter earnings call for financial year 2016. A snapshot of company's quarterly performance is as follows. Turnover at Rs.802 crores against Rs.993 crores last year, down by 19.2%, this is primarily due to drop in both Tractor volumes and Construction Equipment volumes. Tractor volumes went down by 23.8% to 11,438 Tractors as against 15,013 Tractors last year same quarter. Construction Equipment volumes went down by 18.1% to 612 machines against 747 machines last year same quarter.

EBITDA went down by 12% to Rs.29.5 crores against Rs.33.5 crores last year. EBITDA margins now stands at 3.7% versus 3.4% last year. Despite fall in volumes EBITDA margin marginally improve due to lower margin material cost. Material cost went down by 311 basis points to 68% as compared to 71.1% last year.

Finance cost went down by Rs.2.9 crores to Rs.11.1 crores as compared to Rs.14.1 crores in quarter ended September 2014. The total debt outstanding as on September 2015 is Rs.464 crores which is down from Rs.505 crores in quarter ended in September 2014. PBT before exceptional item went up by 9% to Rs 17.7 crores from Rs. 16.2 crores last year.

The company reported a PAT of Rs.16.2 crores versus loss of Rs.7.9 crores last year. PAT margins now stands at 2% versus negative 0.8% last year in quarter ended September 2014. EPS is reported at Rs.1.36 for the quarter ended September 2015.

Now, moving on to segmental business performance. Starting with the Agri Machinery business, Domestic Tractor industry volumes went down by 25% to 1.06 lakhs Tractors as compared to 1.41 lakhs Tractors last year in same quarter.

For the first half of the year, the Tractor Industry registered a declined 20.3% as compared to last year. The Agriculture sector is struggling with second consecutive year of less than normal rainfall across all the four regions of India. Last year it was 12% below normal of long term period average and this year it was even worst 20% below normal rainfall. Continuous deficient rainfall has resulted in worsening of water reservoir situation much lower than last 10 years average level. Also wholesale price in segment is declining continuously for last 15 months at in the negative zone since last 10 months. Deficient monsoon worsening water reservoir, lower wholesale prices has resulted in lower disposable income in rural areas impacting rural demand negatively. While the domestic industry went down by 25% our domestic volumes went down by 20%. Therefore our domestic market share grew from 10% to 10.6% in the quarter ended September 2015. In this quarter our export volumes stood at 145 Tractors.

Continuing with our strategy to offer innovative products, we have launched two new models Euro 45 and Euro 50 under Powertrac brand in 40 HP to 50 HP category. The Euro series of Tractors combine stunning looks along with enhanced engine power fuel efficiency and reliability. The market response to all the newly introduced models has been very positive. The new models are creating product full base market demand amongst the perspective buyers. Going forward in the current fiscal we shall continue to bring new products.

EBIT margins in EAM marginally went down to 6.7%, against 7.1% last year, primarily due to fall in volumes. We are on track in our project and reducing material cost and better margins are expected once the industry turns the corner.

Now coming to the construction equipment business, the construction equipment industry a witnessed growth of 12% on the back on growth in certain products segments which includes excavation, road compaction material processing and concreting equipment. However our served industry volume went down by approximately 4%. The Pick n Carry crane and Backhoe Loaders industry went on 10% and 7% respectively. Our total volumes manufactured and traded products went down by 18% to 612 machines against 747 machines in last year same quarter. Our volumes moved in line with the industry in the Pick n carry and compactor segment, however, we have lost market share in the Backhoe loader segment from 4.2% to 2.3% because of increase competitive intensity and the price discounts. We have not participated in any price discounts in this market.

Revenue however has gone up by 2.5% from Rs.121 crores to Rs.124 crores, due to superior product mix, higher spare sales and some specialized equipment sale. EBIT losses also have reduced from Rs.10.8 crores to Rs.4.9 crores due, to sales of high contributing products and lower material cost.

Some sectors of the infrastructure industry like Roads and Mining are looking up resulting in increase in demand Excavators and Compactors. The Backhoe Loader industry is yet to show signs of revival. The Crane market in the second half should be better than first half of this year, also historically H2 has been better than H1 which should help bolster the demand. In the short term however industry sentiments look better in especially in light up number of road projects having been awarded in the rate cut by RBI, however any structure revival in the industry expected to take time and we will push to next year.

Coming to the railway division, revenues are up at Rs.53.55 crores as against Rs.47.3 crores last year. The EBIT margins are also up by 533bps at 14.9% against 9.6% last year. This is primarily due to favorable product mix and reduction in fixed cost. Order book for this division stood at approximately Rs.65 crores which will get executed in the next three months to four months. Given the Government's focus on revitalizing the Indian Railways we are very excited on the future outlook of this business. To capture the opportunity our endeavor is to expand our product range either through in-house development or through technology partnerships. In terms of new products we got the development order for Axel Mounted Disc Brakes in the second quarter which will partly be executed and balance will be executed in the second half of the year.

Lastly, coming to the auto division it achieved the turnover of Rs.24.3 crores against Rs.26.8 crores, down by 10% Y-o-Y mainly due to lower exports. EBIT losses however have gone down by 2.33 crore from Rs.7 crore to Rs.4.7 crores correspondingly. This is achieved mainly due to cost savings in VRS, margin expansion due to sales portfolio rationalization and improvement in operations in EAP. Going forward, our focus will be to increase the sales in high margin segment which is exports and replacement market. Now I request the moderator to open the house for Q&A session.

Moderator: The first question is from the line of Mahesh Bendre from Way 2 Wealth.

Mahesh Bendre: In the first half of this financial year tractor volumes are down by 20%, so what is the outlook for rest of the year and for FY17?

S. Sridhar: Hello, Mahesh, Sridhar here. This Tractor industry to be very briefly about from last November to March industry was de-growing at the rate of 30%, from April to June the first quarter it was de-grown by 17% and from July to September the de-growth is almost 25%. This 25% was a little surprise for us it's more because of monsoon what should have otherwise been 17% given an adjustment of seasonality getting pushed into October. So it is almost 8% or 9% and much more than what we have expected because of monsoon related troubles. I think we should expect something like in quarter3 also to be +/-5% maybe more towards -3% to -5% in industry. So possibly the whole year at this rate may end anywhere around 9% to 10% average.

Mahesh Bendra: Okay. And sir, FY17 do you think the lower base will benefit us in terms of growth?

S. Sridhar: No, because of the lower base we did expect the growth rate to be something like 7%. This is how we were planning till June or July, but after this monsoon effect where we have lots of details already shared, with reservoir are also on all time low kind of capacity I think it will be something like -2% or -5% max kind of an area is what we are looking for quarter three.

Moderator: Thank you. Our next question is from the line of from Rakesh Jhunjhunwala from Rare Enterprises.

Rakesh Jhunjhunwala: Volumes for October were down and as against 8,000 you have done around 6,000 tractors. Last year in the third quarter you did about 16,000 tractor sale. So you feel this quarter you should be down only by 10%? That means, this quarter you will be able to do 14,500, so in November - December you should be able to do about 9,000 Tractor sale?

S. Sridhar: See unfortunately, I think my guys are sayings don't forecast. What you are hearing is what will be around. But here are couple of things, around 7% growth is what we were looking for the quarter but now this may be around -5% to the extent of 10% to 12% swing. If case of this kind of swing, we will correct some of our stock in-line with our expectations. So this has a certain releases correction even though the retail may be a little more the release as correction we do. But having said that I think more or less what you hear is the kind of planning what you should be doing actually.

Rakesh Jhunjhunwala: Despite the bad October, your selling in this quarter should be 10% lower than what you did last year in the corresponding quarter?

S. Sridhar: Last year we had Dhanteras and Deepawali in October, whereas this year we have it in November. Thus the November cannot be exactly comparable on Y-o-Y basis, this November will be more on positive front. But we cannot say upto which extent it will be better for example the South and West where the reservoirs were down, where the monsoon is really active on some of the coastal area I think demand seems to be revised in Southern and Western in last ten days. If this is going to be true in another two-three days, than possibly in other strong market things will also revive. But general guidelines is I think last year November versus this year November has to be much better, because of Dhanteras and Deepawali.

Rakesh Jhunjhunwala: So there is a good chance that despite fall of sales in October you expect only a 10% dip in a current quarter?

S. Sridhar: That is right.

Rakesh Jhunjhunwala: As the margins have improved and so how much would you give to lower commodity prices and how much you will give to lower consumption?

Bharat Madan: Material cost improved by 3% over last year out of which roughly 70% is coming from the cost initiative what we have taken internally and 30% is coming from the deflation of commodity prices.

Rakesh Jhunjhunwala: So that means, 2% is our efficiencies?

Management: Yes roughly 2% plus is from internal initiatives.

Rakesh Jhunjhunwala: About Railway divisions which is doing well, but do you think this division has potential and the capacity. What would be its peak capacity?

Dipankar Ghosh: We are still not at a peak capacity, since it is a tender based business depending upon the tenders we win we would be able to deliver.

Rakesh Jhunjhunwala: I would like to know what your capacity is, suppose you get an order of Rs.400 crores will you be able to execute it?

Dipankar Ghosh: Yes, we can execute that because now we are running only for one and half shift and we have another shift left with us.

Bharat Madan: Last quarter we did 86% capacity utilization in Railway business.

Rakesh Jhunjhunwala: In the last quarter?

Dipankar Ghosh: Railway business consists of so many components it is difficult to say on the uniform brush that it is 86% for everything. Different products have different capacity utilizations.

Rakesh Jhunjhunwala: I anticipate the orders in Railway will be far higher than any what any of us are envisaging. So tomorrow if we get an order of Rs. 400 crores a year are we prepare to execute that?

Dipankar Ghosh: Yes, we are prepared to execute that.

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

Mitul Shah: Tax rate is quite fluctuating and very low since last two quarters, what will be for H2 and FY17?

Bharat Madan: We get a weighted reduction on R&D spends in this business and our R&D spends annually are in the range of Rs.50 crores to Rs.60 crores, which is reflected in the balance sheet, upto a level of Rs.80 crores to Rs.90 crores of PBT there is mostly zero tax. So if you have to look at effective Tax rate it depends on how much PBT you want to earn, so if you want to be at that level it will be zero tax for the company. But if we cross that level then tax starts setting in a normal rate. In this quarter particularly the overall PBT was low, the tax effective rate has come down significantly, but otherwise on the full years basis this Rs.80 crores – Rs.90 crores of offset is the normal tax for us.

Mitul Shah: And same is applicable for FY17 sir?

Bharat Madan: Yes, it would be something similar because of the same R&D deduction unless there will be a change in the tax law.

Mitul Shah: And second question I have on the Construction Equipment business, this time we have done almost around 600 units and we are near to break-even as compared to our earlier indication of around 75 units to 800 units. I want to understand whether it is because of the product mix or any significant cost initiative which has brought down our breakeven point from earlier 750 level - 800 level to current 600 level.

Sunil Saksena: The breakeven remains at about 750 a quarter, we are still about 150 odd machines away. The most important is there are initiatives, there are three reasons I would say one is realizing better price compared to previous quarter in previous year, second is related to going to higher contributing model and third one is related to the cost reduction initiative that we have taken. So all the three are resulting into this kind of situation.

Mitul Shah: So basically this quarter is like an exceptional quarter?

Sunil Saksena: No, this will continue, because this is not one time.

Mitul Shah: Yes, but this type of product mix etc. may not be like a normal event right?

Sunil Saksena: No, we have just tried to do that within the constraint that we have. We have continuously tried in this year to go to higher contributing models so that we get a better profitability ratio.

Mitul Shah: When can we expect breakeven by Q4 or in FY17?

Sunil Saksena: It is still in the severed market, severed market means out of the product range that we operate, if you look at H2 per se it's still a negative growth area. We anticipate certain growth area, but they will all be sectoral, in the sense you will find compactor market which connected to Road Building, Excavators are growing. But more or less, the markets that we play in barring Compactors other things are on a decline. We expect the breakeven in second half which is usually better than the first half and we should be in smooth path possibly in next financial year.

Mitul Shah: VRS plans for next one to two year and then its financial implications?

Bharat Madan: This year too there is a VRS which we are planning and contemplating, the timing is not yet announced we are still on discussion maybe end of this quarter or next quarter something will come on this. It may not be the similar quantum which was there last time but it will be there.

Moderator: Thank you. The next question is from the line of from Arjun Khanna from Principal Mutual.

Arjun Khanna: Understanding on our exports, the same quarter previous year we did roughly 896 units and this quarter it is 145 units, why such a strong differentiation sir?

S. Sridhar: Last year we had one institutional order which was a bulk order we got it from an African continents. This year we did not have. In this year we are having orders but nothing comparable to that kind of a scale. Something is there on pipeline but not like last year.

Arjun Khanna: So a run rate will be on 50 to 100 range per month? Without an institutional order?

S. Sridhar: Yes, but getting an institutional order is distinct possibility at any point of time you may have seven to eight orders in pipeline but the timing cannot be predictable. The institutional order can also be continues phenomena. Sometimes you get the order in bulk, this quarter also we should expect something being executed as orders have already been received.

Arjun Khanna: So what would an order backlog be?

S. Sridhar: We generally do not disclose this here but say for example the whole of last year we had something like 1200 worth institutional order. That kind of a thing is a possibility and thousand kind of odd number has a possibility in annualize basis.

Arjun Khanna: Our current exports are sold to which markets roughly?

S. Sridhar: Some of the bulk sales comes from African continent, the rest goes from South East Asia and overall there are around 100 distributors between 20 countries to 30 countries.

Arjun Khanna: On the same way we have the assembly facility in Poland, does that also accounts for the exports from India or how do you account for that?

Bharat Madan: This is a separate subsidiary, but there are some Tractors which also go from India but not to a large extent I think we are still manufacturing it over there locally. India fairly sends about 20% numbers to them overall.

Arjun Khanna: And we had launched a new series of Tractors there, how has been the demand of the same?

S. Sridhar: You are talking about the Indian Tractor?

Arjun Khanna: No, we had planned to launch some Tractors in Europe Sir?

S. Sridhar: Yes, Heritage series has already launched almost three - four months now. That is 75 horsepower tractor it is always buying aggregate, this will also have larger components from India that is homologation, and it also helps in terms of improving the profit in addition to placing it attractively. Received well I think the next season will tell us the full story actually but November- December may not be the good time I think from March onwards the season starts.

Arjun Khanna: So incrementally how many units do we think we can do from the European business?

S. Sridhar: European on an average we do something like 600 to 800 numbers per annum. That kind of volume they do, but it has some inherent potentials to go up to 2,000 numbers, but the current range will be around like 600 to 800 depending on the season.

Arjun Khanna: Secondly sir, we have worked on a number of rationalization of expenses, how far are we in that? We talked about the raw material cost actually coming in which we have done this quarter how far we would be towards our optimal level?

Bharat Madan: If you look at the project I think we are almost 60% to 70% done the balance 30 odd percent will happen in the balance six months to nine months, so we are still in work in process.

Arjun Khanna: So in terms of getting double digit margin what we require is that volumes actually come back up in terms of operating leverage.

Bharat Madan: Yes that is right. So our initial thought was when we exited FY14 we have taken that as a base volume going forward for working on a double digit initiative and the material cost project reduction is very much on track, but since volume are going down and the industry declining that is something which is not getting visible on the P&L side. Once volume come back to the similar level, at a flat volume will we would assume it will go to double digit margin. So when the industry starts looking for a better numbers you will see an impact on P&L.

Arjun Khanna: On the auto ancillary business, you indicated that you are trying for new clients. Is this now a change in strategy that we really want to keep this business for the long terms?

Dipankar Ghosh: As of now we are focusing on stopping the bleeding out there and we have done a series of portfolio rationalization. We have also walked on the fixed cost and Q1-Q2, H1 we have reduced losses drastically. But in Q2 there has been a dip in export market particularly Brazil which is one of the main markets. We hope to get back to black by Q4 and we maintain that, once we get back to black parallely we will see how we take it forward and we are also actively looking for any strategic investors.

Moderator: Thank you. The next question is from the line of from Dhaval Joshi from Phillip Capital.

Dhaval Joshi: Just question on the inventory, recent channel checks suggest there has been a good amount of tractor repossession which has happened and the inventory is a bit bulky number. So would there be any estimate in terms of what could be the overall repossessed stock nationwide and how could it impact the next year growth target that we are building in?

S. Sridhar: The repossess stocks we will not have an understanding because it will be more with the banker and NBFC it won't be lying in the dealerships. So as far as the dealerships are concerned, sales return and those kind of areas there is no such disturbing alarms. When it comes to inventory I think the industry may have marginally around 5% to 10% of inventory otherwise I do not think it's on the alarming level. It is not only us I think everybody is correcting there stocks.

Dhaval Joshi: So in this industry you would not consider the repossessed stock with the bankers, right? Correct me if I am wrong.

S. Sridhar: No we don't even get to know actually this all is done by NBFC directly.

Dhaval Joshi: Because our checks recently do suggest that there is a good amount of inventory of the repossess stock and it could delay the kind of revival which is being anticipated in the Tractor industry?

S. Sridhar: I think I have no comments to offer on this actually.

Moderator: Thank you. The next question is from the line of from Amit Goela from Rare Enterprises.

Amit Goela: Your ASP in Construction division seems too gone up very dramatically, I guess it is almost about 20 lakhs. So what would lead to this kind of an increase?

Sunil Saksena: The average realization is a function of what kind of models constitutions is there in the sale. If we have a larger value models then the realization would be better that is one part and second part is consistent effect of the price increase that we have done.

Amit Goela: If you look at it Y-o-Y this is almost a 25% increase, from Rs. 16 lakhs to almost Rs. 20 lakhs, so what kind of models are there now and what you weeded out?

Sunil Saksena: We did not weed out. There are two components to it, if you compare on Y-o-Y basis the price increase effect have now taken place and they are fully visible that is part one and the part two is related to within those models try and get the higher value models. So within crane we have Safe Cranes which have larger value so we move there.

Amit Goela: Would this increase in ASP, will it lead to a reduction in your breakeven units?

Sunil Saksena: We are trying to do that but I don't think it will result in reduction as such. It has to have that base volume of about 750 a quarter.

Amit Goela: And you hope to hit this year?

Sunil Saksena: We hope to hit it in quarter three or quarter four, but still skeptical in terms of the product mix in terms of growth areas, the third market is not still growing.

Moderator: Thank you. The next question is from the line of from Chintan Modi from MOSL.

Chintan Modi: If you can throw some light on the new products that you have launched, in terms of USP that enjoys and the pricing versus the competition?

S. Sridhar: I think almost in the last one year 75% of our portfolio now we have changed. So this things have become a new product, that is a very significant shift in both the Powertrac as well as Farmtrac both the brands have undergone a significant change in terms of new products and within the Powertrac we have brought in certain specialized products ALT what we call as haulage products and then the different products. So this is one of the reasons where we said that now onwards we should start looking for a market share jump, we are moving on those kind of direction actually. Now irrespective of how the overall market moves what we call it as our strong market which is something like 50% to 60% of an Indian domestic industries we should look for a significant market share increase. Thanks to all these new products and that is the direction we are moving in to now.

Chintan Modi: Okay. In terms of pricing how it is different from competition?

S. Sridhar: I think previously our products to give a rough idea it was something like to 5% to 7% we used to be costlier as compared to the leadership products. Now due lot of our initiative now we are holding it. Previously we have been passing it up. Along with the new product, new features and now we have also put in lot of cost control structure, this will also enable us in terms of growth, thus as and when the market revives you will start seeing companies spinning up very good volume and market share growth.

Chintan Modi: In terms of employee counts what was the reduction this quarter?

S. Sridhar: The Tractor which is the largest division we have already seen something like 950 types so we are holding on, there is no change brought on this quarter. There are further discussions on because you should also appreciate something like 1,550 we brought it down to 950 over a period of four years. There are further possibilities but the possibilities will not happen in a very simplistic way unless we do this structure and correction. Some discussion is happening it is too early to discuss maybe when we are ready we will disclose after six months.

Chintan Modi: If you can also throw some light on discounting strategy that was adopted by industry players in the Tractor markets?

S. Sridhar: I think discount is if I am to tell you it is no longer annoying because this is not a new phenomenon now at least two years this industry is going through a (-17%) / (-10%). This discounting over a period of time becomes a product positioning itself. Somehow this player will start selling at that price and gets stick to it, so I don’t think that is an issue and it is also a good opportunity for us to reposition ourselves. It is nothing new in the industry now so that is neither the inventory nor the discounts things are fairly stable.

Chintan Modi: How do you intend to ramp up the exports in the Tractor category?

S. Sridhar: In tractor category there are two-three critical thing – first thing what we should be doing is about certain product readiness, so when you say international business the significant business happens around 75 horsepower and 90 horsepower. Within that 75 horsepower we have already launched under the brand Heritage series this is where we have launched out 75 horsepower which is almost like 9 months now. Every market we started launching. The higher horsepower ones are under development so while products are getting developed there are markets which are parallelly developing thanks to that 75 horsepower. Thanks to this the overall idea it was last year we did something like 2200 which we wanted to multiply it at the rate of 25% to 50% every year. So the planning is on and let us see as of now our volumes are insignificant maybe in couple of year the exports volume will become significant. It will cost 5,000 - 6,000 or 7000 kind of volume.

Moderator Thank you. The next question is from the line of Viraj Kajaria from Securities Investment Management.

Viraj Kajaria: The sub-30 HP performance, how is the ramp-up being for the Steeltrac brand?

S. Sridhar: No, it is a 15 horsepower it is even less than 20. As of now we will be doing on an average of something like a 50 to 60, ramp up possibilities are there. Steeltrac as a brand is preferred more for orchard and a different kind of a segment, as of now this neither adds to market share nor to our bottom-line. This is more of a strategic investment in terms of preparing products for future product lines. Maybe one more year you may have to give it to us to launch a very significant product under those kind of a brands. We will have very-very attractive four wheel drives at a small horsepower, we will start launching for Horticulture industries.

Viraj Kajaria: So this will be play in the sub-30 HP segment, right?

S. Sridhar: That is right.

Viraj Kajaria: Right from 2015 and we can probably looking on introducing more products only 20 to 30HP?

S. Sridhar: Yes.

Viraj Kajaria: And we also talked about new production in the small farm mechanization space, anything on that front?

S. Sridhar: No we have no such idea. We are not going to do as we are already into equipment manufacturing. There is also some of our idea called the Crop Solutions which is a product of a crop centric activity but the timing is not right. So we will not discuss as that is nothing to do with an Equipment manufacturing or selling. We do not have any idea of entering into those kind of businesses directly. We do sale some Rotavator and other things which is fairly small. It is not very significant.

Viraj Kajaria: From a channel side which we understood that there are certain dealers which are offering tractors on credit basis and last time this was done was in 2002-2003 and it led to a very bad working capital scenario for the industry. Are you seeing there is money in certain pockets or you are seeing that as a wide spread trend for the industry?

S. Sridhar: Historically this has happened but currently nobody is venturing into those kind of area. If at all it is done on a very marginal basis here and there. I do not think there is an area of a worry as of now.

Moderator: The next question is from the line of Lakshmi Narayanan from Catamaran.

Lakshmi Narayanan: As mentioned, 75% of products are actually new and in the presentation it is mentioned there is an XP series and the Anti-Lift series that are actually there. If you can help me understand out of the tractors that we have sold broadly what is the split between the XP series and the Anti-Lift series?

S. Sridhar: These are from a very different brands, we have two brands called Farmtrac and Powertrac and under Powertrac, we use to have one generic product. This is for a one general purpose, tractor used to be used for all kind of purposes whereas in our analysis we have studied the tractor which has a better hold on haulage is in a position to go through this kind of ups and downs of monsoon. Because of this insight, we created a product which is haulage specialist product being branded as Anti-Lift Tractor (ALT). All haulage tractors are highly vulnerable for lifting, so we developed that technology. ALT does on an average of 400 to 500 numbers per month. Whereas the XP series is a part of Farmtrac. Historically, the Farmtrac markets wherever we sale, we used to sale a very good number between 45 horsepower to 50 horsepower and above. We had a very poor presence in 35 horsepower to 40 horsepower. So XP series was brought in to cater to those kind of entry level requirement of Farmtrac markets like Punjab, Haryana and Rajasthan. These are all different offerings for different market.

Viraj Kajaria: So the bulk of your market is above 45 HP?

S. Sridhar: No, not true. For example, if you take a Powertrac and Farmtrac are two different brands which almost contribute 50-50 and within that if you look at Powertrac, the entire volume will be coming only up to 40 horsepower, so up to 30 to 40 horsepower is the significant volume beyond that we used to have insignificant volume. It all depends on which brand we are talking about. FT used to be significant, PT used to be at 30 to 40HP. Now when we are talking about Euro, the new products we launched Euro 45, Euro 50, this will help expanding the portfolio of Powertrac market into 45 horsepower and 50 horsepower. Because for example, in place like Uttar Pradesh, Central and Eastern Uttar Pradesh where Powertrac is strong, we used to be weak in 45 horsepower and 50 horsepower category, but these products will help us in achieving better sales in those markets of 45 horsepower and 50 horsepower category, this is the idea.

Viraj Kajaria: In the previous question you mentioned about your less than 30 horsepower i.e. 15 horsepower, right? And you mentioned you do around 50 units per month, is that a right number?

S. Sridhar: That is right.

Viraj Kajaria: I believe that for all both Powertrac and Farmtrac we make engines in our own factory?

S. Sridhar: Yes.

Viraj Kajaria: And when you talked about innovation, is innovation across transmission, across breaking systems and engine? So if the entire scheme of things went through a complete change to when you mentioned 75% new?

S. Sridhar: The idea is not about technology, technology comes second. What is most important is insight, where there is a growth of segment, what exactly is the customer problem, where exactly the competition is weak, for example tractor lifting is a biggest headache for any haulage customer, identifying this as a problem and also as and opportunity, developing technology around solving that problem. For example, we moved almost center of gravity by 10 centimeters inside, these an areas are called as our Inside Driven Technology and that tractor being made as yellow color, industrial paint and resistant proofing. There are lot of technologies brought in to support the customer insight. If at all we have to make a climb then first to climb on the Inside Driven Technologies and then speed.

Viraj Kajaria: Broadly which are the markets where Escorts has a lot of scope to catch up for Farmtrac, which States you think you can scale up more than what it is now?

S. Sridhar: The Farmtrac markets are Punjab, Haryana, Rajasthan and a bit of Western UP and the Western portion of Madhya Pradesh, these are all Farmtrac markets. In this Farmtrac market, generally in the 45 horsepower and 50 tractor segment, our market share will be something like a 22% to 23%, it will be very high. But where we will have a weakness is between 35 horsepower to 40 horsepower, there will be a big vacuum... So this is a huge catch up area. This is where XP series should help us in expanding our portfolio in those kind of a markets. Similarly, on Powertrac which is another half, has an opportunity in 45 horsepower to 50 horsepower and that is where the new product like Euro 45 and Euro 50 will help us in expanding the portfolio. The 60% of our strong markets where we are there, there is a potential to increase the market share by 2% to 3%. This is what we are working on priorities.

Viraj Kajaria: And Powertrac also is in the similar markets like Punjab, Haryana, and UP?

S. Sridhar: These areas are generally a Farmtrac markets where Powertrac is very, very weak. In the first level when we are trying to make the portfolio complete for both our brands, we are also trying to separate the dealerships in both the places. So the conflict does not happen, but that research to happen it is three years. It will take two to three years for us to realize good benefit.

Viraj Kajaria: And the markets where Powertrac is there, is it different to these states or is it in the similar states?

S. Sridhar: No. Powertrac is a very different market. For example, Farmtrac, I said Punjab, Haryana and then Western UP, Western side of Madhya Pradesh, Rajasthan whereas Powertrac is Central UP, Eastern UP, rest of Madhya Pradesh, Bihar and other portion of India. So these markets are different.

Viraj Kajaria: In terms of consumers who walk-in, how many of them are actually already owning an Escorts or a Farmtrac and was doing a repeat purchase because in this market you should be a repeat purchase the buyer keep buying the same brand of tractors, right?

S. Sridhar: Of course. It will be varying anywhere between 35% to 40% to the extent of 85% to 90% depending on the maturity of the market.

Moderator: The next question is from the line of Sameer Deshpande from Fairdeal Investments.

Sameer Deshpande: Regarding the tractor volumes in the first half we have around 27,000 and as according to your estimate it seems that we will have a similar second half which was expected to be a bit better than the first half as said in your earlier Conference Call. Now you have mentioned that last year we had volumes of around

60,000 so (-10%) comes to 54,000 so this time it is 27,000 in half one so it is expected to be similar in second half?

S. Sridhar: We cannot predict industry that is where we have given a range for the industry. Our volume is also a consequence of the industry. So the way we are planning things should happen.

Sameer Deshpande: And regarding the profitability, segment margins because of lower volumes in this quarter have come down to around 6.7% which were at around (+9%) in June. So at what level of tractor volumes in a quarter can we achieve this 10% margin, segment margin?

Bharat Madan: If we had the same volume as last year, the margin would have been double-digit this time.

Sameer Deshpande: That is at what level of volumes?

Bharat Madan: 15,000 tractors.

Sameer Deshpande: So when you are (+15,000) in a quarter, we can be at around 10%?

Bharat Madan: Yes.

Sameer Deshpande: And railways, how is the outlook and the scalability there, because we are making good margins and also a reasonable rise in turnover but is the business substantially scalable because I had read in a news saying that in about two years we expect a turnover in this railway segment to be around Rs.1,000 crores?

Dipankar Ghosh: No. I do not think we have anything two years Rs.1,000 crores, but yes it is scalable and we are pretty excited that there are a lot of new opportunities in this particular railway segment and we are confident that we would be able to maintain a very healthy EBITDA even in the H2 also.

Sameer Deshpande: Because last year we had some around Rs.200 crores odd turnover for the entire year this year it would be?

Dipankar Ghosh: Rs.83crores to be more precise but it should be around +200 crores this time.

Sameer Deshpande: This year it should be around +200 crores and next year you expect better?

Dipankar Ghosh: Yes.

Sameer Deshpande: Are we getting the new orders also recently?

Dipankar Ghosh: Yes, we have got a significant amount of orders and we have also introduced some new products like bogie mounted brake system and axle-mounted disc brakes, parallely some of our other technology transfer products for metro segments has also kicked in, so we hope to increase in both our top-line and out bottom-line.

Sameer Deshpande: And regarding Construction equipment, are we making profits on Cranes now?

Sunil Saksena: It all depends on the breakeven. What is most important is unless we talk about 750 odd of quarter we will not come to positive results and that's what our attempt is about.

Sameer Deshpande: But now when you are mentioning the 750, does that also includes compactors, backhoes and everything?

Sunil Saksena: Yes. There is a certain ratio but mainly we are market leaders in Crane and that market has to grow because the market still is in a decline.

Sameer Deshpande: Yes, basically it is unutilized capacities are there.

Sunil Saksena: Yes, everywhere across the industry.

Sameer Deshpande: But now with this backhoes are not doing well that much?

Sunil Saksena: As mentioned we are not participating in the discount markets. What really is happening is backhoes as a product range is most in terms of the volume and it is also the area where the decline is most severe and continuous for last almost four years to five years, so everybody has huge surplus capacity and somehow to make both ends meet people are discounting like anybody's business. Even the market leader is discounting to a situation where possibly at the market level its prices are below Escorts price which is very-very unprecedented and what we are doing is as to remain healthy, we are not participating in discounts and therefore it is better to lose some volume rather than make further losses.

Sameer Deshpande: And currently our working capital situation is comfortable?

Bharat Madan: Yes, it is.

Sameer Deshpande: Because normally when the industry is in distress the recovery problems, etc., are the situation but we are holding on well with same because our loans have been reduced.

Bharat Madan: If you look at from cash flow the interest cost is going down so on the cash and working capital side the company has done a good work. The debts have gone down and interest cost is going down, in spite of all the decline in the industry still we have been able to keep overheads bottom comfortably.

Sameer Deshpande: And we are not compromising anything on that front?

Bharat Madan: No, not at all.

Moderator: The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities.

Jayesh Gandhi: In railway what product are we selling which is a driving growth?

Dipankar Ghosh: Primarily, we have launched new product like Axle-Mounted Disc Brakes and also we have gone into some new break systems particularly for the Mumbai MRVC (Mumbai Rail Vikas Coaches) which have recently been introduced by both Siemens and Bombardier from ICF. So there we have got a significant amount of volumes and we expect to see similar volumes in the coming quarters also.

Jayesh Gandhi: If I say the breaking system entire category that might be comprising like 80% of the volume of railway?

Dipankar Ghosh: It will be around 65% to 70%. We are primarily a break system's player. We have been working with Indian Railway for brake systems for the last 50 years to 55 years and now we also have a big sizable portion of turnover from the coupling systems. All the different type of coupling system, coach to coach, loco to coach all those coupling systems also we are doing a fair amount of business in that.

Jayesh Gandhi: What can be the margins in this breaking system, the one which you just talked about?

Bharat Madan: Overall if you look at the railway business segment performance, the EBIT margin at this turnover top-line were close to 14% to 15%.

Jayesh Gandhi: Can you share for this specific?

Bharat Madan: No, it is not in the public domain.

Jayesh Gandhi: Can you share the name of person who is taking care of the Railway Region Head in your organization?

Dipankar Ghosh: I am Dipankar Ghosh.

Bharat Madan: Yes Mr. Dipankar Ghosh who is heading the Railway business, he is on the call right now. He has been answering your question.

Moderator: The next question is from the line of Mitul Shah from Karvy Stock Broking.

Mitul Shah: On exceptional item so if you can throw some light on it.

Bharat Madan: Exceptional item this time there were some small number of VRS so some backlog which we carrying about nine people have exited in this quarter. This was carryover from the last VRS which some settlements were pending that is what have been done. About 90 odd lakhs is the amount which has been billed in this quarter for those all nine cases.

Moderator: The next question is from the line of Raghunandan from Quant Capital.

Raghunandan: ALT has received a very good response however when we speak to some of the dealers, they indicate that the pricing is on the higher side and as pricing was more competitive the product could have done much better in terms of sales. Any comments on the pricing strategy and also what would be the timeline for more products in the series to come in?

S. Sridhar: The dealers may be correct because in the haulage segment only few brands operate. Out of three brands, couple of brands are very aggressively priced the brands and hey maybe comparing with those brands. But all the efforts what we are trying to do is create a category of our own and not to compete with them, the company has to create a very profitable growth. So we will not do that way, rather what will happen is contra to whatever you have heard from the dealer the ALT's biggest growth of possibility is not in the ALT 4000 we have seen, the biggest growth possibility is what we call ALT 5000 which is a 50 horsepower Tractor, which is a due for launching in couple of months and that will be much more expensive and that is what the growth potentials are very high, while we hear the concern but growth is happening elsewhere so we are conscious.

Raghunandan: I mean just to extend that point slightly, when we went through in detail about the ALT, it had like 55 features. So one of the dealer highlighted was although the higher price is coupled with several new features, customers may not need so many features in the product. The feedback we got was if some of the features could be cut down, pricing could be more competitive but of course this is just a general feedback which I wanted to share in. My second query was on Escorts 50+ HP tractors which have been gaining market share and again what we heard was there were certain issues relating to hydraulics, just wanted your thoughts on how are we addressing these issues, some color on this would be helpful.

S. Sridhar: When we introduce the classic series into 50 horsepower that is called FT 60, the presentation is so tempting when we have an old format even on 55 horsepower these at an attractive pricing I think lot of customers bought this classic FT 60 model and there is an internal cannibalization but on a positive contribution. This is what happened in the last one quarter but 55 horsepower is due for launching, it is already happening now but before this Dhanteras and Deepawali launches will start. This will happen with an enhanced classic looks and we call it as 60-55 classic, this is due for launch. In a matter of three months to four months it will regain its value. I do not think there is an issue. Quality issue what you here is, it is not true, I do not think so. The same problem what the dealers say maybe true but the explanation is not true, so explanation is something different. But in quarter four I think you will see normalcy being restored.

Raghunandan: Lastly, on the tractor sale side, ecosystem is very important, like financing tie-ups and exchange incentives, schemes during trouble times. So how you seeing or what are your thoughts on these two areas to help bolster volumes in the uncertain time?

S. Sridhar: This is always an ongoing requirement, the trade in, the old Tractor disposal costs for much more money, people will always ask more money on this but there is no end to it. The kind of incentive what we give is an ongoing incentive what we have been giving for years together, nothing unusual. The climb is there but we cannot, there is no end to it. We have to endure the pain when the recession is there, more incentive and more discount is not the basis of getting over the problem actually.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference back to the management for closing comments. Thank you and over to you.

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

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Escorts Limited that concludes this conference call. Thank you all for joining and you may now disconnect your lines.