

"Escorts Limited Q2 FY2018 Earnings Conference Call"

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Moderator:

Ladies and gentlemen good day and welcome to Escorts Limited Q2 of FY2018 earnings conference call hosted by Emkay Global Financial Services Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

Please note that some of the statements in today's discussion will be forward-looking in nature. I now like to hand the conference over to Mr. Raghunandhan of Emkay Global Financial Services Limited. Thank you and over to you Sir!

Raghunandhan:

Thank you Melissa. Good evening everyone and on behalf of Emkay Global Financial Services, I welcome you all for Q2 FY2018 earnings call of Escorts Limited. I also take this opportunity to welcome the management team. Today we have with us Mr. Bharat Madan – Group Chief Financial Officer, Mr. Shenu Agarwal- Chief Sales and Marketing officer-Escorts Agri Machinery, Mr. Ajay Mandahr – CEO, Escorts Construction Equipment, and Mr. Dipankar Ghosh – CEO Railway Equipment Division, and other management along with investor relation team. We would start the call with brief opening remarks from the management followed by an interactive Q&A session. At this point, I would request Mr. Madan to make his opening remarks. Over to you Sir!

Bharat Madan:

Thank you Raghu. Ladies and gentlemen a very good evening to you all. Thank you all for joining us on the Q2 earning call for the financial year 2018. A snapshot of company's quarterly performance is as follows:

Turnover up by 23.3% at Rs.1211.7 Crores against Rs.982.7 Crores last year led by volume growth in both tractor and construction equipment business. Tractor volumes were up by 31.5% to 20358 tractors as against 15482 tractors last year same quarter. Construction equipment volumes were up by 34.3% to 972 machines against 724 machines last year same quarter.

EBITDA at Rs.140.9 Crores against Rs.67.8 Crores last year is up by 107.7%. EBITDA margin now stands at 11.6% versus 6.9% last year same quarter ended September 2016. This quarter we absorbed Rs.26 Crores approximately one-time EBIT of GST on the stocks held by the company and the dealers as on the transition date. PBT before exceptional items stands at Rs.122.7 Crores up by 132.5% against Rs.52.8 Crores last year same quarter. There is an exceptional item of approximately Rs.6.9 Crores in the quarter on account of VRS of about 37 employees.

The company reported PAT of Rs.77.6 Crores versus Rs.31.3 Crores last year up by 147.9%. PAT margin now stands at 6.4% versus 3.1% last year in quarter ended September 2016. EPS is reported at Rs.6.49 against Rs.2.62 last year same quarter.



Moving on to segmental business performance starting with the agri machinery business domestic tractor industry volumes grew by 36.7% to 1.8 lakhs tractors as compared to 1.35 tractors last year same quarter. Our domestic volumes went up by 30% at 19817 against last year's 15284 tractors in quarter ended September. Industry now strong market south and central grew by about 35% whereas industry grew by 40% in the opportunity markets of south and west.

Our domestic market stands at 10.7% in quarter ended September 2017 against 9.7% in Q1 of this year. EBIT margins in EAM stands at 13.7% up by 438 basis points against 9.4% last year primarily due to the operating leverage rates and cost reduction initiatives. The market response for the higher HP models introduced under Power Track and Farm Track brands has been positive and encouraging. Our market share increased from 6.7% to 8.3% in 50 HP plus category in first half of this fiscal. We unveiled India's first electric tractor concept and global tractor's NETS (New Escort Tractor Series) from 70-90 HP, the point of global portfolio of tractors for the export market with CRDi engines and compact tractors in 22 to 30 HP category for orchards and vineyards. We expect domestic tractor industry to grow by 12% to 14% in the current fiscal year.

Coming to the construction equipment business our served industry grew by 27.1% in Q2 FY2018 with respect to Q2 FY2017. Major segments like earth moving material handling have seen a positive movement whereas road compaction declined in Q2. Cranes have been the biggest gainers in Q2 with growth of more than 70% followed by backhoe loaders, which grew by 23% in Q2 and compactors, which degree by 11%.

Our total volumes manufactured as well as traded products went up by 34.3% to 972 machines in quarter ended September 2017 against 724 machines in last year same quarter. EBIT margins for Q2 ended September 2017 at 0.5% is up by 505 basis points as against negative margin of 4.6% in same quarter previous fiscal.

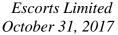
Going forward we expect that our construction equipment industry will continue to grow at 13% to 15% for the full fiscal FY2018.

Coming to the railway division, revenues are up by 73.3 Crores in quarter ended September 2017 is up by 22.1% against 60.1 Crores last year same quarter. The EBIT margins are up by 340 basis points at 16.2% as against 12.8% last year same quarter. Order book for this division stood at approximately Rs.175 Crores as of end of September 2017, which will get executed in the next seven to eight months.

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

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Niket Shah from Motilal Oswal Securities Limited. Please go ahead.



Niket Shah:

Thanks for the opportunity. Congratulations on a good set of numbers. Couple of questions from my end; first wanted to understand the other expenditure as a percentage of sales has been on the lower side. So any specific line item within other expenditure which has contributed favorably for us?

Bharat Madan:

We had two reasons for the other expenses to be down. One obviously is the impact of GST. So if you recall earlier on tractor business we are not allowed to take any input credits because tractors are exempted from excise. So all those taxes were actually embedded in the costs, which was part of the cost structure, which were getting reported in the financials. So from this quarter after the GST has come into impact, now we are allowed to take rate against those taxes which were part of the overheads earlier, so that is one reason because the 18% is normal tax credit on the services which are utilised by us so that is a big event which actually got a relief for most of the companies doing under the tractor industry. So that is one. Second is obviously the cost initiatives where the company has undertaken with the consulting firm, so that has also started paying some dividend now. So that is one of another reason for the costs to be under control. So these two combined reasons are likely the reason actually why the cost has been under control now in this quarter.

Niket Shah:

What would be the amount for this input tax credit, which you would have saved in this quarter?

Bharat Madan:

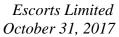
If you compare with the earlier quarters, so earlier service rates used to be about 15%. So if you compare like-by-like for any quarter numbers, so roughly 15% in the overhead cost will get saved and obviously it would not be on all the costs, but obviously major of the costs which are rendered under service category the tax credit was in that range of 15%. So that is the straight benefit, which has come to the company.

Niket Shah:

How much have we negated from the sales because our sales number that we report this quarter net of GST versus last year which is gross, so how much has got netted from the sales number?

Bharat Madan:

There are three reasons for the sales to be lower. I think it is most of the people will have the same questions. One is on the tractor earlier was subject to tax category of only 5% which was basically VAT, so there was no excise duty applicable on the tractors. This was one reason. Now after the GST has come into effect, we are maintaining the same prices in the market so the entire benefits have been passed on to the market, so which means the topline has actually gone down from the earlier level by 7% roughly on an average. So against 5% rate now the tax rate is 12%, but the same benefit has also come in various other lines including material costs and the overheads, which we started getting the input tax credit. So that is really the impact of almost 100-odd Crores, which really come in the phase line. The second reason is we have also taken a one-time hit of about 26 Crores in this quarter on account of the compensation and the stocks which we were holding as on the transition date. So this is a nonrecurring item, but one of item where the impact has come into this quarter which has also reduced the revenue part for this particular quarter. The third reason is if you look at the earlier sales line it used to be reported gross of excise duty so though



tractors were exempt from excise, but all other base rate including spare parts, engines, construction equipment and railways were subjected to excise duty. So their numbers which were reported were gross of excise, but now post GST the excise element has been done away with, so it should read the results also the explanation given by a way of a note, here we have given the impact which is without excise duty how much impact will come, so I think these three reasons have contributed to the lower revenue topline though in terms of volume growth the growth has been higher, but these three reasons have led to lower value growth in the revenue side.

Niket Shah:

Final question on the new product launches that you would have done and we have seen a lot of new product launches being aggressively rolled out for domestic as well as for exports at least in the last one year or may be one and a half years how much would be the revenues coming from these new product launches as a percent of your total revenue and what would be the margin profile in some of these new product categories?

Bharat Madan:

Roughly 20% volume is coming from the new product category in this year and margins are slightly better than the earlier portfolio which we had, so overall if you look at the tractor portfolio so the new products are contributing almost 10% to 15% higher margins than the earlier existing old portfolio.

Niket Shah:

This EBIT margin increase of 9.4% to 13.7% can you tell broadly which line item would have contributed, is it largely on account of GST saving on account of input tax credit or it is also any other line item like gross margin expansion within tractors as a segment or product mix benefit, what would have really helped to kind of move this number and is this sustainable?

Bharat Madan:

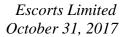
I think the major reason is the operating leverage because the volume which we have received in this quarter it is almost 20000 plus tractor, which gives you a run rate of almost 80000 annually, so never it has never been done in the history of the company. So this is the first time we have achieved these volumes, so that is one of the key reasons actually where the margins are up because of the contribution level after variable costs the contribution was pretty decent to the company because gross contribution is almost 33% in tractors, so that is one of the key reasons and second obviously is the cost part. So like you said, both on the cost initiative front what the company is has undertaken, both on the manpower as well as on the variable fixed costs so we have been able to keep lot of costs under check. So those savings have also started flowing.

Niket Shah:

So even gross margins would have expanded within tractors on a YOY basis?

Bharat Madan:

Yes because we were also undertaking the same cost projects on the material cost side with the same consulting firm which is containing on that so that is another thing which has likely helped us in improving our contribution per tractor in the tractor business.



Niket Shah: You are continuing with Accenture at this point in time or has that contract got ended in some one else,

some other consultant is kind of helping you to take turnaround forward?

Bharat Madan: So we have rolled out a project called LEAP with this consulting firm, which is handling all the verticals

including the front end as well as the back end part. So Accenture is obviously out, but they were till last

year but this year Accenture is no longer there.

Niket Shah: So, this is being done by some other consulting firm?

Bharat Madan: That is right.

Niket Shah: When do we start seeing market share gain? We have been stuck in the range of 10% to 11% for quite some

time now. Any thoughts whether some of these product launches would finally kind of help you to take help you to take either to close to 12% or 12.5% or do you think given the intensity with what the industry is now coming up with like giving a long-term warranty for a tractor or something like that that will kind of

take some time for you to cross above 11% or 12% kind of market share?

Shenu Agarwal: As far as market share is concerned, you are aware that for the last one and a half years, we have grown our

market share. Like last year we grew by 0.5%, the year before that we grew slightly. The first six months of

this year we have not grown. Our market share is marginally less than the first half of the previous year and

see now lot of things have happened this year, I mean there are lot of stock build up that has happened in the first six months because of the preponement of the festive season and the real picture on the market share

will emerge may be after end of Q3 by which time all the stocking etc., would be normalised. So I think we are on our path to increase our market share. I mean it is a longer journey. It is a three to four year journey

to get to where we want to and I think we are very steadfast on our initiatives on market share gain.

Niket Shah: Should be assumed given the Q2 being so stronger because of preponement of festive season, Q3 will be

more like a slightly subdued or I would be more like a normalised kind of a base in that sense?

Shenu Agarwal: H1 has seen a growth of about 21% in the industry and the overall growth we are expecting in the entire

year is around 13% to 14%. So the growth in H2 would definitely be much smaller than what we have seen

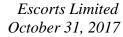
so far in H1 and the primary reason is preponement of festive season.

Niket Shah: Perfect. I will come back in queue. Thank you so much. Best of luck.

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

Hitesh Goel: Thanks for taking my question. My first question is in your unallocated expenses which comes in EBIT

there is a huge variability last quarter it was Rs.4.5 Crores, this quarter it is Rs.15 Crores, can you explain





that that is my first question? Second I was also looking on your tractor ASPs and if I see the trend from first quarter to second quarter, there is a big decline. This has been seen in second quarter of FY2016 and also second quarter of FY2017. I understand this quarter is impacted by GST but why is this so much variability in your ASPs on tractor side? These are my two questions.

Bharat Madan:

If we look at in the last quarter unallocable expenses specifically, if you look at the last quarter number is a very huge other income, which is almost Rs.20 Crores in the financials so that included some income, which was the one of income which was from the sale of estate so we had helicopter, which was sold off in the last quarter. So that income was netted off in the unallocable expenses in last quarter, which is not there in this quarter so that is the gap, which is clearly visible in the numbers. What is your second question it is?

Hitesh Goel: Beyond this unallocable so what is this pertaining to?

Bharat Madan: In the first quarter we had sale of asset following the income had come.

Hitesh Goel: I am asking what is unallocable expenses?

Bharat Madan: Unallocable is the expenses which are really for the head of the expenses which are not directly related to

the single business.

Hitesh Goel: This is R&D cost is it, R&D employee cost in all that?

Bharat Madan: The corporate of expenses.

Hitesh Goel: Okay, mostly employee cost on that office?

Bharat Madan: Yes employee and all admin cost basically.

Hitesh Goel: Okay and my second question was the variability in the tractor ASPs if I look at the trend is a huge

variability and tractor ASPs like first quarter to second quarter there is a big decline in ASP and the again in third quarter increases, so I am just dividing tractor segmental revenue to the tractor volumes to get these

ASPs?

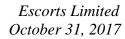
Bharat Madan: Just to move on to the first question from this guy, basically this is on account of GST impact. If you recall

there is a 7% GST implication, which is on the tractor earlier, it was 5% and now is 12%.

Hitesh Goel: I understand, I was looking a more longer-term trend like I mentioned in second quarter FY2016 and same

in second quarter FY2017. There is a huge decline from first quarter to second quarter, so are you booking

any additional revenue in first quarter apart from the tractor sales in the tractor income?





Bharat Madan: There is no additional income on the tractor side. Let us say from first quarter to second quarter the only gap

was the GST.

Hitesh Goel: No problem, No issues. Thank you.

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

Dhaval Doshi: Congratulations on the good set of numbers. Sir first on the margin front, if I would have adjust for Rs.26

Crores of one-off almost 16% margin to a great extent yes as you mentioned operating leverage has helped, but does this reset the overall margin expectation is going ahead or do you see commodity price headwinds

coming and impacting in the second half?

Bharat Madan: The other reason for margin, is the price increase is also that we have taken price increase in Q2 so which

also helped to the Q1 inflation actually at least got passed on in Q2, so there is another reason for the margin

improvement happening in this quarter and also led to this. So going forward yes there has been inflation,

which is there, so to the first half likely had in the much larger share of inflation and we are again seeing the price of steel likely are firming up. So obviously there will be some impact which will come, so let us see

we will wait and watch and see how the industry acts before we actually pass on the price increase.

Dhaval Doshi: How much was the price increase and when did we take it in Q2?

Shenu Agarwal: The price increase was roughly about Rs.7000 per tractor on a weighted average basis and we took it around

mid of July.

Dhaval Doshi: Okay, so almost the entire quarter was there.

Shenu Agarwal: Yes.

Dhaval Doshi: Just continuing with one of the previous questions on the realizations. The QoQ fall is entirely GST and

nothing to do with anything else right?

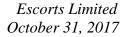
Bharat Madan: Three reason I said one is the GST if you look at only tractor.

Dhaval Doshi: GST Rs.26 Crores.

Bharat Madan: And then 7% embedded.

Dhaval Doshi: That is right nothing else. Some thoughts on the margins for the railways business, so from what I

understand this year was supposed to be high import content quarter as far as the new products were





concerned. So the margin jump, which has happened in railways, is also bit surprising. So do we see this continuing going ahead?

Bharat Madan: The new products volume is still to happen, so we had plan for those volumes to happen, probably you will

see that impact coming in H2 this time, product mix. In this quarter was much better, so we did not have much of the sales from the new products, which were there. So next quarter and in H2 we will see that

impact coming in, so there is some margin impact will be there.

Dhaval Doshi: Lastly on the commodity prices once again what is the kind of impact do you see going ahead in terms of

the overall cost increase?

Bharat Madan: Our expectation is may be about 1.5% to 2% further increases can happen on the material side so in the first

half we have seen in EBIT of almost 2% on the raw material prices and we expect only similar 1.5% that

can further come in the balance of the six months.

Dhaval Doshi: Okay, are we planning a price hike anytime?

Bharat Madan: It will depend, we will wait and watch and let us see how the industry reacts with most of the players for the

waiting for the ceiling to be over and that time most of the players are going to evaluate and take the call

and will probably for the industry.

Dhaval Doshi: I have more questions I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Kapil Singh from Nomura Securities. Please go

ahead.

Kapil Singh: From my side firstly on the demand how has been the festive season growth if you compare like-to-like

basis?

Shenu Agarwal: Having said the festive season got preponement this year. Last year we had Navratna in October this time

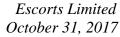
we had in September. So September saw the mammoth growth in the industry about 50% and Q2 also was about 30% growth in the domestic industry because of the preponement, but like to like I mean following

the moon calendar, the industry I think would average out to about 13% to 14% growth over last year.

Kapil Singh: You think that kind of growth should continue in the second half as well?

Shenu Agarwal: For the whole year we are projecting industry growth of 13% to 14%, so far we had 21% while in the

balance part of the year the growth would be in the range of 5% to 6%.





Kapil Singh: Secondly wanted to check on the competitive intensity, is there any change in terms of increase in

competitive intensity given that we are seeing better-input credits and cost savings for the industry?

Shenu Agarwal: Not much because of that but the intensity has always been like this, we are not seeing any major change

except for one or two players who are getting more aggressive in the market right now with discounting etc., but I think we are at the peak of the industry now this is the year where the industry has crossed with ever

highest which was last in 2013-2014, so there is no reason for players to aggressive right now really because

there is a lot of room for everyone to gain volumes.

Kapil Singh: What would be the major driver for demand if you look at next one to two years?

Shenu Agarwal: Major driver would be two things one is agricultural GDP which is mainly driven by the sowing area and

also crop prices and the sown area is almost constant, but crop prices have been quite favorable right now. The other major driver is the rainfall, monsoon. In the monsoon overall has been okay this year and this has not been too bad except in some areas. So the macro factors are positive and there is a lot of push from the

government also in the agricultural sectors. So some macro factors are positive and that is why we are

seeing never highest industry this year and tractor market.

Kapil Singh: The infrastructure sector we also supporting this demand?

Shenu Agarwal: Infrastructure has not supported so far in the year, but seeing largely the growth this year has some more

from agri than from infra but going forward seeing the push on infra we see that should help going forward.

Kapil Singh: Lastly I wanted to check how much headroom do we have for cost reduction what is the potential that you

guys are looking at with the LEAP program?

Bharat Madan: We are aiming at neutralizing the inflation what we have early said in the balance of the period. So let us

see there is target internally.

Kapil Singh: Sorry, I did not catch that there would be some potential you would look at right that.

Bharat Madan: Our target is to neutralize the inflation which we see on the commodity price going forward from the cost

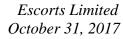
initiatives.

Kapil Singh: So you do not really think that the cost initiatives would lead to any margin expansion?

Bharat Madan: It depends on the industry. The other players in the industry pass on the commodity price increase to the

market and we will also follow then definitely that will lead to the margin improvement for us, but if the

competition behaves the other way and they do not pass on the price increases then also it has to absorb, so





our target is really to neutralize whatever impact is there to as a contingency plan to be really ready with our own initiatives so that we are able to neutralize those cost increases and take care of the margins.

Kapil Singh: But what I am trying to understand is if commodity prices has to remain stable then what is the potential out

here that is possible?

Bharat Madan: If the prices remain stable then obviously there will be margin improvement.

Kapil Singh: Would you like to quantify like what is the target here?

Bharat Madan: I had mentioned the commodity price we are looking at about 1% to 1.5% increase in the balance H2 with a

long-term target obviously is to improve on the profitability in the margin for the tractor business to be in

the 13% to 15% range. So that target remains intact. So we are working on that direction only.

Kapil Singh: Sir this 26 Crores that we have on cost on account of GST this was taken out of topline?

Bharat Madan: That is right.

Kapil Singh: That is helpful. Thanks and all the best.

Moderator: Thank you. We have the next question from the line of Mitul Shah from Quant Capital. Please go ahead.

Mitul Shah: Congratulations Sir for the good set of numbers. I have a question on the VRS Sir. What is the planning for

coming year and how much it will have benefit on the employee cost going forward for FY2019-2020?

Bharat Madan: See the VRS scheme was launched in this quarter, but the numbers obviously have not come as we had

but the acceptability has been very poor for the scheme and we will be able to get only about 37 employees in this quarter. So going forward this scheme stands closed now. So we are not opening this scheme as of now. In the next one to one and a half year we do not have any plan to offer further VRS looking at the

expected, so our expectation was that we will be able to exit 100 to 250-odd workers in this quarter itself,

acceptability of the scheme we do not think this is really going to work at the kind of amount which we had offered them. So as of now it stands close to there should not be any further exceptional item on this account

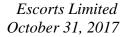
for the next one to one and a half years.

Mitul Shah: Second question is on the tax rate, on a full year basis and for the next year, what is our guidance Sir?

Bharat Madan: Tax rate if you look at this quarter obviously because of improved profitability the effected tax rate has gone

up significantly. It is almost at 33% level in this quarter, but for full year we expect it would be somewhere

around 31% to 32% level.





Mitul Shah: Sir last question on we are expecting around 12% to 14% for tractors, similarly any growth expectation for

construction equipment?

Bharat Madan: Construction we had mentioned in the long run and best of time we are operating, surely, we can hit an

EBIT margin of about 7% to 8%. So that obviously a lot of it will come from the operating leverage from that perspective. As of now, we have obviously had a breakeven state. In the last quarter though we have been able to prepone the breakeven for construction which earlier was planned for H2 we have been able to

deliver it in this quarter itself, and we expect that the thing will fairly become better going forward.

Mitul Shah: On the industry?

Bharat Madan: On a full year we expect the construction industry should do about 12% to 15% growth this year.

Mitul Shah: Sir, any major surprising coming or any major positive happening on the government side for the next year

point of view?

Shenu Agarwal: You are asking about construction?

Mitul Shah: Yes Sir construction equipment.

Ajay Madahr: There is lot of investments that is happening on the infrastructure side. So I think next year would be

probably the year of execution for the government and we expect these markets to be remaining at this kind

of growth 12% to 15% plus.

Mitul Shah: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity. A question on industry outlook; why is such conservatism in the outlook for H2

because last year at the same time, we also had a favorable base because of demonetisation and various other actions that were taken place, so why is this conservatism which indicates the mid single growth in

H2?

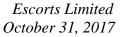
Bharat Madan: One of the reason like we mentioned is that this time we have seen the advancement of the festive season

and it started from September itself. So the season got divided between two quarters. So H1 has seen a very

strong growth of almost 21% odd and H2 we do not expect that growth momentum to continue because the season is already getting divided now. So if you look at the last year also the demonetisation impact started

coming in from November while the main retail sales was already over. So October has seen a very peaked

demand at that time and this time we expect probably the industry in October may not be coming at all. It





may be flat or it may be slightly degrowth in the industry. Now November and December probably will make up for degrowth. So on an average on this Q3 may be a flat growth, flat industry this time or may be anywhere between plus minus 5%. But Q4 we expect the growth to be back into the industry and probably we can again expect 14% to 15% sort of growth so on an average the H2 will give you about 7% to 8% sort of growth number on full year basis the industry can deliver anywhere between 13% to 14%.

Chirag Shah:

Fair point. This was helpful. Sir, on the market share front it seems the industry most of the players are in an active launch mode. We are coming across a lot of launches by most of the players trying to identify their own positioning or niche in terms of features. In such a scenario how do you see discounting playing out on the existing models, on the older models? Do we expect that to discounting activity to go up in the system at least for the older models because the newer models seem to be reasonably ahead on various aspects versus the older models?

Shenu Agarwal:

See, one thing, I want to clarify is that most of the launches that have happened in the last few months or even few quarters have only been made in the niche segments, right there is no big launch that has been made in the mass segment. For example, like few launches have been made in orchard segment where these players were not present in the past. I do not think that will lead to a major discounting practice, but as a strategy as I mentioned earlier, there are one or two players in the market who are adopting discounting as a tool to gain some market share and that really depends on the strategy of those players that they will continue or not, but I do not think because of the new product launches will trigger any discounting in the market.

Chirag Shah:

Any update on the export side that you would like to share?

Shenu Agarwal:

I think exports have been pretty good. I mean you have seen the numbers on exports and as we have been saying in the past concalls also that company has got a renewed focus on exports now. Last year to one and a half years we had put a lot of effort on getting new products out for export markets and therefore this kind of a momentum we should see going forward also.

Chirag Shah:

Thank you Sir. All the best.

Moderator:

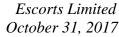
Thank you. We have the next question from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani:

Thank you. How is the farmtrac and powertrac mix this quarter? Did it help in the quarter or was it adverse?

Shenu Agarwal:

Actually for this quarter the farmtrac, which is a higher contributing brand in terms of margins was better than in Q1 and this is more or less I would say an industry or market phenomenon because we have our own strengths in different areas of the country with both the brands and whenever the farmtrac strong markets





they do better than the rest of the country we see that margin enhancement happen, but as a percentage I think farmtrac was close to about 42% and powertrac was about 58% which is normally the case as well for the last few months.

Ajit Motwani: Sir, would you have the Q1 as well as the same quarter last year number for the two brands?

Shenu Agarwal: Not right now. I do not remember, but maybe you write to our investor relation team.

Ajit Motwani: So as of now on the commodities you are saying the trend that you are seeing if you do not take the price

hike the RM to sales on the agri side would go up by 200 BPS is that indication that you are giving?

Bharat Madan: Yes Sir, material product prices we are expecting there should be a price increase in the material cost by

about 1% to 1.5% further going forward looking at the trend what we have seen in the steel prices so that is

the projection is.

Ajit Motwani: One last question, you would have the input credit number that you have claimed and deducted from the

other expenses just to understand the benefit.

Bharat Madan: We do not have the exact number, but like said most of the overheads was subjected to about 15% services

tax earlier. So even if you assume say 60% to 70% of the cost would have subjected to that number so you

can safely take roughly 70% of 15% as the number of any previous quarter financials, which could be

roughly the input tax credit which you have availed in this quarter.

Ajit Motwani: Thanks a lot Sir. Best of luck.

Moderator: Thank you. We have the next question from the line of Mr. Raghunandhan. Please go ahead.

Raghunandhan: Thank you Sir for the opportunity. Sir the 26 Crores item which was deducted from the revenues if I add it

to the EBITDA margin, then our EBITDA margin increases by 2% points, so 13.6% margin on a blended basis or even if I take it only for the agri machinery segment, then a 15% plus kind of a margin in this

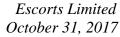
quarter. So do you think this kind of a margin is sustainable ahead?

Bharat Madan: We do not think this is a sustainable margin because this is a margin we are aiming at in the next three

years, so this is one off quarter, so I think on a full year basis the margin will not be to this range. So I think this year we are expecting it will be double-digit, low double-digit may be about 12%, so expected what

about 12% improvement from the last year numbers and this particular year we are looking at 12% to 14%

sort of growth in the tractor industry numbers.





Raghunandhan: Sir, under GST there was this working capital issue where the cash would get blocked till we get a refund,

so has there been any new update or any new expectation as to from the GST counsel whether refund

process can happen faster?

Bharat Madan: That matter got resolved. So that was the issue when we had a tax rate of about 28% on the inputs and our

output tax was only 12% but the government came with a notification that it would clarify and the rate from the inputs also reduced to 18% and that plays in game way back in the end of Aug So now that suggestion is

no longer there, so the industry does not have this working tabulation now.

Raghunandhan: So it is for all input it has come down to 18% now?

Bharat Madan: It is for most of the inputs.

Raghunandhan: Sir, the annual reports alludes to this paddy harvester new product which is likely to come out, how do you

see the potential for this product and especially would it help in your initiatives to gain market in the

southern region?

Shenu Agarwal: Would you find out exactly where you saw that?

Raghunandhan: In the question and answer session with Mr. Nikhil Nanda. I think page number 17 or I can come back to

you later on this.

Bharat Madan: That is a segment which we are planning to enter into so especially on the rice harvester front, so we have

created a new vertical which is living into this aspect now into harvester then implementations, so that is

something which will get started in this year.

Raghunandhan: So this will be a separate division or within the existing business?

Bharat Madan: That will be part of the agri business only. So it will be same division, but within that it will be a separate

vertical. It is like within tractor we got exports separate, spare parts separate, engine business is separate but

they are all part of agri portfolio same division. Same segment will be there.

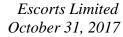
Raghunandhan: Sir, if we take a medium term market share target in the domestic market, how much or what would be you

aiming at? I mean ten years ago we had a few years where we were at 13% to 14% of market share in the

tractor industry can we go back to those historical levels?

Shenu Agarwal: Yes that is the intent. So you all come back and tell back our market share. Exactly we cannot say it is a

complex game, but that is the intent.





Raghunandhan: Sir within the tractors what would be the share of sales to infra segment?

Shenu Agarwal: In tractors it is hard to say, but rough estimates are somewhere between 22% and 25%.

Raghunandhan: Please correct me if my understanding is wrong, generally when the infra picks up that leads to a demand

for second hand tractors so there is always a lag between infra picking up and then it translating into like the

new sales of tractor is helping?

Shenu Agarwal: That is right, yes.

Raghunandhan: Sir, one query I had on the construction equipment division, like within the construction equipment division

what would be the share of traded products?

Bharat Madan: It is very small, miniscule, 1.5% to 2%.

Raghunandhan: Sir in the construction equipment division, for the first half we have done about 1860 units and in terms of

profitability if I take the entire first half, you know it is like marginal, just wanted to understand whether the

breakeven point still remains at 900 units or has it gone higher because of the commodity price increases?

Bharat Madan: So breakeven remains at about 325 units, which is the number which we had earlier, so whatever

commodity price increases have been there in the past, we had some issues, but in the last quarter we were able to pass on some of the increases to the market through price increases so that obviously is helping and

normally if we look at second half should better in the construction equipment industry, and the volumes

will actually pickup going forward, we should be deliver the better numbers on the margins.

Raghunandhan: Sir, we had been working on new products in the construction equipment side, products like JUNGLI where

we had our own engine. Have we been able to like make a mark on the backhoe loader space and what are

our initiatives to improve market share in that segment?

Ajay Mandahr: In fact if you see the growth of this quarter is much higher than the industry itself. We are much faster and

thanks to JUNGLI as a product because it is getting success in the market. As of now close to 15% of our

backhoe sale is coming from JUNGLI. So going forward I think it will become one of the key pillars for us

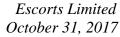
in backhoe.

Raghunandhan: Thank you. Just wanted to understand what would be the initiatives from the construction equipment side

for improvement in market share in terms of the product initiatives going ahead?

Ajay Mandahr: Actually if you see me we have changed the strategy. We are not chasing market share now. We are chasing

contribution and realization, so our products have changed quite a bit, we are selling more of high value





products, products had improved the realization also increasing the awareness in the market size. So the focus will remain to grow profitably. Market share is a reference number which we differently look at and as of now we are gaining the market. All the segments we are there.

Raghunandhan: What would be the size of our dealer network and any targets there going ahead?

Ajay Mandahr: See we already have about 53 dealers with 120 touch points. So we have to see the viability of the dealers and expansion at the dealer end, increasing the network will only happen as we go along seeking viability of the dealer and as more interactions will come probably more dealers would be required. So we are on the

job. We had our interim target of 61 dealers and expansion of 150 touch points, so that we still keep a track.

Raghunandhan: One query I had on the agri machinery product side. If I look at capital employed that is assets minus

liabilities quarter-on-quarter the number seems to have gone up, what has led to that increase Sir?

Bharat Madan: There are two reasons. Like I said there is a preponement of the festive season this time to Q2 so lot of

inventory we had to carry for the Diwali season. So the inventory has actually gone up significantly in the tractor business and second all the receivables because this time the harvesting season has still not started, and the festive season got preponed so the money in the hand of the commodity is not there, so September

saw a lot of trade being extended to the dealers specifically for the season, but you will see the correction happening in Q3 by the end of December. Hopefully both the inventory as well as the debtors in the tractors

will scale it back to normal level.

Raghunandhan: Thank you so much. I will come back in the queue for more questions.

Moderator: Thank you. We have the next question from the line of Sameer Deshpande from Fair Deal Investments.

Please go ahead.

Sameer Deshpande: Congratulations to you all for the excellent numbers. Particularly the margins etc., has been excellent

because as you mentioned the festival sales have helped us and tractors also and construction equipment and railways have also done very well, so this railways we hope to continue in the same way as this quarter in

terms of sales and profitability?

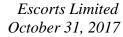
Dipankar Ghosh: We are confident we will continue in the same way for the next two to three quarters.

Sameer Deshpande: Because in this quarter we had 16%-odd margins and 73 Crores of sales. We have an order book of 175

Crores so run rate of 75 Crores per quarter and about 12 to 13 Crores margins is possible?

Bharat Madan: I think we will be in this range only, but we would like to say there is still some lots of sale which will have

to happen from the newport side where the margins will be slightly lower so in this H1 we did not execute





much orders of the new product side, so there will be correction anyway will happen, but otherwise, we still expect it will be somewhere in the range of 14% to 16% band, the margins will get maintained for railway business. But as of now what it stands today, we got a sweet strong order book so we got a further large order for 1500 Crores in post September. So as of September end we had an order book of 175 Crores but today we had engine this month we have an order book of almost 278 Crores in railways. So it will get executed over the next 12 to 13 months, in railway is one area where we are looking at pretty strong growth momentum to continue.

Sameer Deshpande:

Very good, last year we had some 243 Crores of sales so in this year we expect a 20% growth for this year?

Bharat Madan:

So we expect somewhere between 280 and 290 Crores of topline on railways.

Sameer Deshpande:

Margins also are better and secondly regarding this tractor, this quarter we had the highest volumes and so with GST 26 Crores was adjusted the segment margins were pretty high and you mentioned that this is a one-off and it might continue, but in that what is the target in the second half about 12% of segment margins?

Bharat Madan:

Let us see. I mean a lot will depend on the volumes so as of now the indication on the industry like for Q3 it is more or less flat, it maybe plus or minus 5% so the volume leverage may not be there what we saw in Q2 so that definitely has an impact on the margins. Whatever full year guidance will be it will be about 1.5% better than the last year numbers and last year we were somewhere around 10% to 10.8% in top level. So it will be somewhere between 11% and 12% sort of range.

Sameer Deshpande:

Fair enough. Many times we hear that the prices realized by the farmers for the products have been lower because the food inflation has not been high, so does this effect the ability of the farmers to purchase tractors anywhere?

Shenu Agarwal:

Not in the short run. It does not effect too much. Right now you are seeing that we are sitting on a highest ever industry. So basically what it depends on is the total prices, the crop prices, which are actually quite good as compared to the same period last year. Most of the crops except one or two are about touching 5% to 7% better pricing since last year.

Sameer Deshpande:

Late monsoon has been quite good, so it will be good for Kharif crop also going forward?

Bharat Madan:

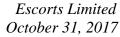
We think the agri economy is going to continue to do well at least for the next couple of quarters.

Sameer Deshpande:

Thank you and all the best to you.

Moderator:

Thank you. We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.



Hitesh Goel:

Sir, do you have a view on when the tractor industry will kind of saturate in the sense, potential will saturate? Currently we are at 5 million tractors population that is my estimate and you can correct me if I am wrong, and what could be the potential given that tractor hiring will also start in a big way and what is your view on tractor hiring actually? Will it be a big business in India?

Shenu Agarwal:

See there is a lot of demand and one of demand fundamental demand is still there in the tractor industry. As we all know that tractorization, ID mechanization is very low level in India as compared to the rest of the world, and the same is the case with tractorization also. So we do not think the demand will saturate any time soon; however, you know in tractor industry we always have seen that there are one or two odd years out of six or seven years cycle where the industry goes for a dip and may be like 5% to 15% there, and that can happen because of lot of external factors, mainly monsoon and crop prices. So we do not know when that will happen and for long-term at least for 10 to 15 years we do not see any downfall in the fundamental demand of the tractors.

Hitesh Goel:

But you do not have any number, 10 million or 11 million because in view is this number right in again the farm house sales have more than 5 acres have land and that would be the kind of target population for tractor buying?

Bharat Madan:

Correct. To start with your numbers, we can just look at the previous data and if you look at last 10 years CAGR it is close to 6% to 8% and so maybe take a break and see where we land up.

Hitesh Goel:

Thank you.

Moderator:

Thank you. We have the next question from the line of Dhaval Doshi from PhillipCapital. Please go ahead.

Dhaval Doshi:

Thank you so much. My questions have been answered.

Moderator:

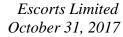
Thank you. Ladies and gentlemen we will take the last question from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

Niket Shah:

Two questions; one is just wanted to understand what is the inventory now at a distributor level versus what we used to have a couple of years back on a sustainable basis? Second is on the export part of the business given the new launches that you have done, what is the run rate that you generally think you can do at least in FY2019. Can it be 10% of your revenues at least in FY2019 or FY2020, if you can comment on that? That will be very helpful.

Bharat Madan:

As far as dealer stocks for domestic tractor is concerned, in the last three years we have lowered the dealer stocks by about 20%. So our dealer stock whoever are sitting at a very high level as compared to the normal industry averages and that correction has been made. So now we are at a very comfortable position starting





this year and we do not intent to lower any stocks further. Actually there might be a small case to increase, slightly the stock because of the high industry that we are sitting on. More or less the stocks will remain the same and the corrections have been made already.

Niket Shah: What I am trying to understand three weeks of stock inventory?

Shenu Agarwal: About four to five weeks would be the physical stock at the dealerships.

Niket Shah: Okay. On exports?

Shenu Agarwal: Exports this year we expect like our target was to double the numbers and we have so far we have seen the

trend continuing. So it is doing better than they were actually in the first half. Probably we should end up somewhere around 2000 odd numbers in this year on exports. So next year we expect that this number will go up to may be around 3000 to 3500 sort of range, but I do not think that will be 10% of the topline by FY2019. I think this is too aggressive a target as of now. We are still sitting at about 3% to 4% sort of topline currently on exports. Long-term target definitely is to take the numbers to anywhere between 8000 and 10000 numbers of tractors. This can actually give 10% to 12% of our topline coming from exports. This

will be long-term within four to five years.

Niket Shah: Okay this is four to five years. Thank you.

Moderator: Thank you. Ladies and gentlemen we will take one more question from the line of Leroy Desouza from

Cogencis. Please go ahead.

Leroy Desouza: Sir, my question is with regards to your construction equipment segment. How many products are you

planning to launch in the upcoming year, the second half of the upcoming year and are you also planning to

expand your approach in any of your metro projects that are coming up?

Ajay Mandahr: As regards to new products, there would be variance, which will come out, because we do come out with

variance depending upon the market needs and the customer specific requirements and it is not a big launch,

I would say, but yes we will have the variance coming in as we go forward. Your second question was?

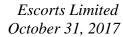
Leroy Desouza: My second question was there are lot of metro projects which has an opportunity for construction equipment

to be handed out. Are you guys looking at opportunities in the different metro projects that have been

coming up in the different parts of the country?

Ajay Mandahr: Yes definitely, our higher end Hydras we see that increased substantially and actually if you go to any of the

projects you will find our machines there, if you go to any town, any city, we are there, so the first priority





as per metro is Escorts Crane, and even the deployment of these cranes are happening extensively. We had

seen the growth happening. Our market share has also increased in that particular segment.

Leroy Desouza: Sir any particular metro project that you are specifically looking at?

Ajay Mandahr: We are looking at all the cities, because we are pan India player, currently we have in Chennai, we have in

Gujarat, Mumbai, lot of projects happening and mostly metro does not buy equipments, metro is only

sourcing the services and to all those service providers we are supplying the equipments.

Leroy Desouza: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question and we will now close the question queue. I

would like to hand the floor back to Mr. Raghunandhan for closing comments. Please go ahead.

Raghunandhan: Thank you Sir. Thank you very much for giving us the opportunity for hosting the conference call. Over to

you Bharat Sir for closing comments!

Bharat Madan: Thank you ladies and gentlemen for being present on this call. For any feedback and queries, please free

feel write in to our investorrelations@escorts.co.in. You can also log on to our website www.escortsgroup.com for our earnings releases as well as other details and this transcript will be available

on our website after some time. You can visit our social media pages for the company updates, development

Moderator: Thank you gentlemen. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes

structure. We will meet again in the next quarter. Thank you very much. Good evening.

this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.