



# “Escorts Limited Q4 FY ‘18 Earnings Conference Call”

**May 17, 2018**



**MANAGEMENT:** **MR. BHARAT MADAN – GROUP CHIEF FINANCIAL OFFICER, ESCORTS LIMITED**  
**MR. SHENU AGARWAL – CHIEF EXECUTIVE, ESCORTS AGRI MACHINERY**  
**MR. AJAY MANDHR – CHIEF EXECUTIVE, ESCORTS CONSTRUCTION EQUIPMENT**  
**MR. DIPANKAR GHOSH – CHIEF EXECUTIVE, RAILWAY EQUIPMENT DIVISION**

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



*Escorts Limited*  
*May 17, 2018*

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Escorts Limited Q4 FY '18 Earnings Conference Call hosted by HSBC Securities and Capital Markets India Private Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Vivek Gedda from HSBC Securities and Capital Markets India Private Limited. Thank you and over to you, Sir.

**Vivek Gedda:** Thank you, Bikram. Good Evening all, on behalf of HSBC Securities, I Welcome you all for Escorts Limited Q4 FY '18 results earnings conference call. I also take this opportunity to Welcome the management team from Escorts Limited. Today, we have with us Mr. Bharat Madan – Group Chief Financial Officer; Mr. Shenu Agarwal – Chief Executive, Escorts Agri Machinery; Mr. Ajay Mandahr – Chief Executive, Escorts Construction Equipment; Mr. Dipankar Ghosh – Chief Executive, Railway Equipment Division and other management along with the Investor Relations team.

We would start the call with a brief opening remarks from the management followed by an interactive Q&A. At this point, I would request Mr. Madan to make his opening remarks. Over to you, Sir.

**Bharat Madan:** Thank you, Vivek. Ladies and Gentlemen, a very Good Evening to you all. Thank you all for joining us on the earnings call for fourth quarter and financial year ended March 31, 2018.

A snapshot of company standalone annual performance is as follows:

Turnover at Rs. 5016 crores is up by 20.4% against Rs. 4167.6 crores in previous fiscal led by volume growth across all segments.

Tractor volume is up by 26.1% to 80,417 tractors as against 63,786 tractors in previous fiscal. Construction equipment volume is up by 35.3% to 4486 machines against 3315 machines in previous fiscal.

EBITDA at Rs. 557.2 crores is up by 72.1% as against Rs. 323.7 crores in previous fiscal, margin up by 334 basis points now stands at 11.1% as against 7.8% in previous fiscal. Finance cost went down by 2.5 crores to Rs. 28.6 crores as against Rs. 31.1 crores in previous fiscal year. The total debt outstanding as of March '18 is Rs. 50 crores, which is down from 263 crores in March '17 because of reduced working capital. Net debt continues to remain negative.

PBT from continuing operations and before exceptional items stands at Rs. 515.5 crores up by 88.9% against Rs. 272.9 crores in previous fiscal. Net profit at Rs. 344.7 crores as against Rs. 160.4 crores in the previous fiscal. The Board of Directors have recommended a dividend of

20% that is Rs. 2 per equity share for the year ended March 31, 2018, against that of 15% in the previous fiscal.

Moving onto company's quarterly performance:

The turnover at Rs. 1436.1 crores is up by 37.6% as against Rs. 1043.9 crores in previous fiscal. Tractor volumes are up by 57.5% to 23,568 tractors as against 14,978 tractors in quarter ended March '17.

The construction volume is up by 48.6 % at 1541 machines as against 1037 machines in quarter ended March '17. EBITDA is up by 133.7% at Rs. 173.8 crores as against Rs. 74.4 crores in quarter ended March '17. Net profit for the quarter at Rs. 112.5 crores is up by 89.2% as against 59.5 crores in previous fiscal same quarter.

Moving on to segmental basis performance:

Starting with the Agri Machinery business – domestic tractor industry volumes is up by 22.2%, at 7.10 lakhs tractors as compared to 5.8 lakh tractors in previous fiscal.

Our domestic volumes went up by 25.1% at 78,446 tractors as against 62,699 tractors in previous fiscal. Industry in our strong market especially in the North and Central India grew by 22% whereas industry grew by 22.5% which is almost similar number in the opportunity market lesser than in Western India.

In line with our vision 2022, we have gained market share across all major states. Our market share in strong market is up by 10 basis points and opportunity market is up by 50 basis points resulting in overall domestic market share at roughly 11.05% as against 10.8% in previous fiscal year. Market share for the quarter ended March '17 at 13.5% is up by 110 basis points as against previous fiscal same quarter of 12.4%.

On export side, the industry is up by 8.4% to 86,000 tractors as compared to 80,000 tractors in previous fiscal. Our export volumes have gone up by 81.3% to 1971 tractors as against 1087 tractors in previous fiscal driven by new product introduction and market penetration.

EBIT margin for year ended March '18 now stands at 13.6% as against 10.3% in the previous fiscal. In Q1 FY '19, domestic tractor industry is expected to grow by 15% to 18%, on full-year basis though domestic tractor industry is expected to go up between 9% to 11% depending upon how well the monsoon fares and how distribution is.

Coming to the Construction Equipment business, Construction Equipment industry grew by 27% in FY '18 with respect to FY '17. All major segments have seen a positive movement. Our served industry especially backhoe loaders, pick and carry, cranes, and compactors went up by 31.3%

in FY '18. Cranes have been the biggest gainer in FY '18 with a growth of 82.1% followed by backhoe loaders that grew by 25.7% and compactors grew by 15.9% in FY '18.

Our total volume manufactured, and traded products went up by 35.3% to 4486 machines as against 3315 machines in the previous fiscal. EBIT margin for the year ended March '18 stands at 1.9% up by 420 basis points as against negative margin of 2.3% in previous fiscal.

Going forward, we expect that our served Construction Equipment industry will continue to grow at 16% to 18% CAGR growth for next two to three years and we will also be launching new innovative products and variants to guiding this growth.

Coming to the Railways division – the revenue at Rs. 286.6 crores is up by 18.2% as against Rs. 242.5 crores in the previous fiscal. This obviously is before adjusting for the excise element for the previous year, if you adjust for the excise duty than the growth will be close to 25% on the Railways business side.

EBIT margin is up to 13.9% as against 12.7% in previous fiscal. In Q4 FY '18, revenue was up by 14.2% at Rs. 76.02 crores as against Rs. 66.6 crores in same quarter of previous fiscal. EBIT margin is up to 15.9% as against 10.8% in the same quarter last year.

Order book for this division stood at approximately 350 crores, which will get executed in next 12 to 13 months period.

Going forward, we expect Railways equipment segment to grow at 18% to 20% CAGR.

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

**Moderator:** Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Hitesh Goel from Kotak securities. Please go ahead.

**Hitesh Goel:** Sir, first of all can you just shed some light on this Construction Equipment improvement in margins, I can see that revenue has increased very sharply on a QOQ basis and also YOY basis, is there any one-off in these margins or this is just operating leverage which is showing in these results?

**Bharat Madan:** I think it is all operating leverage, so there is no one-off in these numbers, so the numbers margins to be in these levels if you continue to maintain this sort of number volumes going forward too, so I will say this is sustainable numbers for us.

**Hitesh Goel:** There is no VRS or anything in this quarter, which has gone to number?

**Bharat Madan:** Nothing.

**Hitesh Goel:** Similarly, in the Railways segment, so basically Railway's revenues have not increased much on a QOQ basis, but margins have improved, so can you tell us what has happened there?

**Bharat Madan:** Again, in the Railways side like I said there are two reasons, one obviously is the element of excise which was there till last year, we put the excise impact the growth has been there on the top line too, so that is where the numbers which we were mentioning for the last three quarters are not really comparable as far as the growth pattern, but yes again it depends a lot on the mix what we are selling in the Railways business, so we think the kind of mix which is sold in this quarter is decent enough is pretty good, so that is why the margins have actually shown an upward trend and we expect again the margins to be in this range or even better next year in FY '19.

**Hitesh Goel:** My final question is on tractor side basically the kind of ramp up we were expecting on export side has not played out to that extent, so what is happening in exports, can you give us some detail on FY '19 outlook on tractor exports?

**Bharat Madan:** Well, I think we had given the guidance for export of about 2000 tractors which is almost 100% growth over the previous year and we are pretty close to that, I think we did 1971 tractors, so it is only 29 tractor short of our target, so I think we are pretty much close to the numbers which we had given the guidance for. For FY '19, we will be again looking at about 50% growth over the last December, so roughly 3000 of tractors what we are targeting to export in FY '19.

**Moderator:** Thank you. We have the next question from the line of Raghu Nandan from Emkay Global. Please go ahead.

**Raghu Nandan:** Sir, my first question was on the tractor side, we have gained market share in East and West regions, but if I look at South region, there seems to be a slight drop in market share for the full year FY '18, one of the product which we were considering for the South region was a paddy specialist tractor, any timeline for that launch of that product and how do you see the market share increasing in the South region going forward?

**Shenu Agarwal:** In the South, we talked about this new product launches in the last call I think, so both these products have now been launched in the South and the West market, so there is one tractor which is a rice special which has been recently launched. The volumes are very, very small right now because we are still testing the market with some small number of volumes and in this quarter and the next quarter, you will see quite a big ramp up on that. Also the other tractor as we talked about was a compact tractor which was mainly for Orchard segment largely in Maharashtra, Gujarat, and some parts of the South so that tractor had also been launched in the previous quarter and again after testing the market for a few months, we will ramp it up in the following quarters.

**Raghu Nandan:** Sir, would it be fair to assume that now there are no product gaps and everything has been filled?

**Shenu Agarwal:** Yeah, I think so except for some very small niches that we are working on product development specifically for South and West, the large gaps have now been filled.

**Raghu Nandan:** Sir, your strategy to further improve share in the South region, one is I understand is the new products, apart from that anything on the distribution network expansion?

**Shenu Agarwal:** If you look at our state wise market share, you will see that we have grown market shares in almost all the states especially in the opportunity markets which comprise of South and East and some parts of Maharashtra. Our market share in the last fiscal has improved more than what we have improved in the strong market and that is what we have been saying also that it may take some time for us to improve market share in the opportunity market. In the last fiscal, we improved market share by about 50 basis points in the opportunity market and 10 basis points in the stronger markets, so I think you will see that an incremental better growth in the opportunity markets going forward also.

**Raghu Nandan:** Sir, there was a slight dip in the 40 to 50 HP segment market share although all other segments we have gained, any reason for this dip in market share in that segment?

**Shenu Agarwal:** This was mostly temporary and most of it happened in Q4 and I think we will be able to regain it in this quarter and in the next quarter. We had launched some new products in the lower horsepower segments because we did not have those products like one was this compact tractor and also we launched a new champion series in the Farmtrac range in 31 to 40 HP, so probably that had little bit to do when you look at the billing numbers that have little bit to do, so when you launch new models, you fill up your stocks with that new model, and therefore, existing models, the dealer stocks is kind of balanced out, but when you look at the delivery of the retail numbers, this is not really the situation, so you will see that in this quarter and the following quarters, you will see a change there

**Raghu Nandan:** Can you share Farmtrac and Powertrac mix for FY '18 and FY '17?

**Shenu Agarwal:** I am talking about FY '18, 60% for Powertrac and 40 for Farmtrac, and in the previous year it was 58 and 42.

**Raghu Nandan:** To Bharat Sir, I had a question on a quarter-on-quarter basis, there has been an increase in the raw material cost as a percentage of sales, what would you attribute this to?

**Bharat Madan:** There are two reasons, one is obviously the product mix which we sold in the last quarter, but we have introduced the product in the smaller HP category especially the tractor which have come in the compact series also, where our margins are slightly lower, some 30 segment and also in the 30 to 40 segment, we introduced tractors in Farmtrac brand, which is actually 35 Champion Series where again the margin segment is lower, so this is one of the key reason and second is the inflation obviously, so we had material cost increase of roughly 1% in Q4 and normally we have a lag of about a quarter in passing on that price increase if you taken now, so

that impact has also come in, so I think there is a combination of both, this is affecting in both the lower realization for tractors in Q4 as well as in the higher material cost percentages.

**Raghu Nandan:** Sir, related to that what is the price increase which we have taken in this April-May month and also would it be possible to share volume for the compact tractor, if you have it handy?

**Bharat Madan:** I did not say about the last quarter, but if you look at the total 15 months period, full last year plus this quarter, we are expecting the material cost increases close to 4% and against that the price increases which we have taken so far including the increase in this quarter is about 3%, so we are lagging about 1% point on the cost passing on to the market and that is the lag which I talked about where we normally pass on the lag of about a quarter, so that will get fully implemented in next quarter, this is the way we stand. On the compact tractor series, I think in the 20 to 30 HP segment, we have sold close to 260 odd tractors, which includes the new compact tractor which is about roughly less than 100 I would say the number in first quarter of launch, but that number is going forward, so there will be more impact on the product mix going forward too, so in the FY '19 full-year basis though we see the good growth may happen on number side, but these are the segments where we will also see the volumes going down.

**Moderator:** Thank you. We have the next question from the line of Jinesh from Motilal Oswal Securities. Please go ahead.

**Jinesh:** My first question pertains to if I look at your tractor realization, which has declined almost 7% on QOQ basis, is it just affliction of mix or is there anything beyond that?

**Bharat Madan:** 7% I do not know, you can take, in the earlier three con calls which we had after the GST, this is specifically GST impact, so 7% was the correction we had taken in the price because earlier the tax which was levied on tractor was only 5% VAT, there is no excise duty on tractor. Now, if you look at the GST scenario, the GST is 12% on tractors, so there is drop in top line against last year is only because of GST impact which is 7%.

**Jinesh:** Sorry, but I am looking on vis-a-vis third quarter?

**Bharat Madan:** Vis-a-vis third quarter, a mix which we have in this quarter has been slightly lower because we selling the lower HP tractor, so if you look at the category up to 31 to 40, up to 40 HP tractors sale has been much more, so we also introduced product in the lower HP category which is the compact tractor series, so that is also impacting the overall mix which has become negative and that is also the reason why our margins and the material cost has also gone up and margins have gone down slightly.

**Jinesh:** This mix of Farmtrac versus Powertrac 60:40, you expect this to further go in favor of Farmtrac in FY '19 considering the compact segment ramp up as well or you expect to stabilize it around these levels?

- Bharat Madan:** The other development I think which is there is this compact series tractor and also the 31 to 40 HP segment where we were not earlier present in Farmtrac brand, now we are present in to that brand category in the segment too, so I think going forward difference between Farmtrac and Powertrac and also the margins will get diluted, so even though the ratio which was significant earlier, but now I think going forward may not be much significant, so whether you sell 60:40 or we sell 70:30, I do not think it will have major significant effect on the margins going forward because of the mix which we introduced in Farmtrac brand now.
- Jinesh:** Lastly, in terms of your market share for FY '18, can you give market share in strong versus opportunity market?
- Bharat Madan:** Strong market on a full-year basis on a FY '18 we had 15.3% market share and in the opportunity market it was 5.7%, so overall roughly around 11.05% to be precise for the overall market share, but in Q4 if you look at the number, in Q4 we had 20.3% market share in the stronger market and in the big market we had 6.7% market share, so overall was 13.5%.
- Jinesh:** Last quarter for market share gain going forward also would be driven by opportunity market, right?
- Shenu Agarwal:** Yeah, it will be slightly more towards the opportunity market, but as we have been saying that opportunity market we need to do some very basic fundamental work both on the product and distribution side, so to a good extent we have completed that work in most of the market and therefore we will see some better growth coming, market share growth coming from opportunity markets also. Until few years back most of our growth was actually coming from strong markets only, but that scenario should change now.
- Jinesh:** Last question is on Railways business, we have order book of about 350 crores, this order book would be entirely executable in FY '19 or would be spread over a couple of years?
- Bharat Madan:** We said it will be 12 to 13 months, so yes primarily in the next year.
- Moderator:** Thank you. We have the next question from the line of Mitul Shah from Reliance Securities. Please go ahead.
- Mitul Shah:** Sir, first question I have on the Construction Equipment, current quarterly average of around 1500 vehicle that is 500 per month, is this sustainable and how do you see margins going forward in case of we witnessed 20% growth?
- Ajay Mandahr:** I will talk about the numbers that we are talking about, you talked about 1500 probably with the market going 16% to 18% up and we have our plans for new product launches, I think this number is sustainable quarter on quarter it can be increased by few notches. In margin side, I think the margin more or less has Bharat just said is sustainable, so we would sustain these kind of margins and mix becomes much more improved, probably we will get more.



**Mittul Shah:** The current quarter margins for this segment is there anything to do with the highly different product mix in terms of compared to Q3 or whether this is a one-time or this kind of product mix we expect for full year FY '19-20?

**Ajay Mandahr:** I think so as we go forward, what we started last year was basically working on the product mix. There are certain products which gives you better returns and there are certain products which do not give you returns, so we are mixing and matching. Basically, we are increasing our play in the products where we have good contributions, so that mix has played a greater role and we continue to do well I think next year also on the contributing products, we will focus on that only.

**Mittul Shah:** It should translate into higher margin than current quarter going forward?

**Bharat Madan:** If you look at the trend, normally for Construction Equipment segment, the second half is very strong and normally in March quarter we see very strong numbers, so that does not really get reflected in the first half, so normally you have overall year we still think we can be sustaining these margins, but if you look at the quarter by quarter and probably the quarter in the first half normally give a low margin, but normally H2 gives a very strong margin, but overall on a full-year basis we think we will be able to sustain these levels.

**Mittul Shah:** But mix will not change much?

**Bharat Madan:** Mix will not change.

**Mittul Shah:** Second question on the tractor side, Sir, we are expecting around 8% to 10% growth for '19, what is our estimate or any indication for FY '20 considering the overall penetration level has already gone up from 25 to around say 40 tractors per 1000 hectares agri able area in the last three to four years, so on those base, do we see growth in FY '20 also?

**Shenu Agarwal:** It is very difficult to say precisely what would happen in 2020. As we know that, it is cyclic market and we do see some downward trends after three or four years, but right now we think that for the next 12 to 18 months the fundamentals are very, very strong although the tractor penetration has gone up, that is right, but there is still like lot of mechanization that the country needs, so right now the things are looking bullish. For this year, we are giving the projection of about 9% to 11% for the year and we think that 2020 may also be good, we do not see any negative signs but it is difficult to give a specific number right now.

**Mittul Shah:** Which are the regions where do you see more growth coming for next one to two years?

**Shenu Agarwal:** It depends on really tractor penetration and some other factors like monsoon etc., but definitely we think that the growth will be higher in the markets which are not so much saturated right now, so these could be like Maharashtra some markets in the South and definitely the Eastern

block like North-East, West Bengal, Orissa, Chhattisgarh, so these will flow better than the rest of the country.

**Mittul Shah:** My last question on the Railways side, any new products we are introducing for the Metro?

**Dipankar Ghosh:** Metro we are actually still under development stage. In the coming year, this particular financial year, we do not have any new product coming up for the Metro because all the products which are in the development stage now.

**Mittul Shah:** FY '19 we will not have anything?

**Dipankar Ghosh:** Yeah.

**Mittul Shah:** For FY '20, are we expecting any sizeable revenue in future from this Metro segment?

**Dipankar Ghosh:** Yes, we are expecting a sizeable revenue not only from the Metro part, there we are seeing a very high chance of penetration of our coupler and our brake systems, so there we see a sizeable growth possibility.

**Moderator:** Thank you. We have the next question from the line of Nitesh Sharma from PhillipCapital. Please go ahead.

**Nitesh Sharma:** Sir, to begin with the tractor segment given there has been a sharp pickup in the construction activity, are we experiencing any strong signs of demand for tractors coming from the construction segment?

**Shenu Agarwal:** Yes, that is true that when construction segment starts improving then there is a tractor demand that comes along with it, so last year you saw the market grew by 22% and a significant part of that was from the construction sector also.

**Nitesh Sharma:** Can you give some ballpark spread as to how much percent of industry sales would be construction in the last few quarters?

**Shenu Agarwal:** It is very difficult to say that because as we have explained in the past also that a pure construction-based purchase decision is quite rare in the tractor industry, so it is multiple use. There are very few people who just buy a tractor only for construction or transportation purposes, but lot of people who are waiting to buy a tractor for their own land, they take early decision to buy a tractor if there is a positive scenario on the construction side because with that they can generate additional from the tractor and therefore they decide to buy early, but roughly speaking in terms of usage of a tractor, we think about 30% to 40% is used in construction or transportation-related activities and the rest for agricultural activities.

**Nitesh Sharma:** On the Railways segment, I wanted to check with Mr. Ghosh where are we in terms of localization right now, have we achieved what the expected level of localization level or FY '19 we will see more localization going through?

**Dipankar Ghosh:** If you see our localization for the axle model we have specific localization, but as you rightly said in Railways business, 50% is localized and another 50% is the approval for the localized product, so we are still working on the approval for the localized product and we are confident that in the next few quarters we should be getting a very positive response from our main customer ICF, NCF and RCF for Kapurthala factory, if we get the approvals we should be through with our localization for our axle model.

**Nitesh Sharma:** We were also looking at some inorganic growth opportunities in this segment, so any update on that?

**Dipankar Ghosh:** We are still working on it; there are few targets, but we have not really reached a point to go ahead with it. We are still under process.

**Moderator:** Thank you. We have the next question from the line of Vaibhav Jain from Credit Suisse. Please go ahead.

**Vaibhav Jain:** Sir, my question is around realizations only, I think you explained earlier that realizations were lower this quarter because of the product mix, so if you can throw some light as to how do you see the product mix in entire FY '19, will it go back to earlier levels or this kind of product mix will continue and so we should keep kind of expecting similar realization, so that would be my first question?

**Bharat Madan:** Going forward, like I mentioned earlier in the product mix you should look at this, this is the first quarter in which we introduced the tractor and the Compact series and also the Farmtrac brand in the 31 to 40 HP segment, so this is the beginning so initial volumes in the quarter are low, but going forward we can expect more volumes coming in the smaller HP category so actually the mix will not really improve from what we have seen in last year, we believe will slightly go down so if you look at the last quarter also, our ratio within the sales up to 40 HP segment and beyond 40 HP is roughly 53% and 47%, it used to be almost the other way round, almost 50-50, so going forward we expect this mix will further go down, so we are looking at about 55% to 45% ratio up to 40 HP and beyond 40 HP tractors.

**Vaibhav Jain:** Sir, if you can comment on the margins on the Agri business as to how do you see it, you spoke about your potential price hike that you will take to pass on RM price pressure, but if you have to give a composite number or some sense on that?

**Bharat Madan:** We had given the guidance earlier that we will be looking at about 100 basis points improvement in the margin in FY '19 over FY '18, so if you look at from the tractor business also and for one year basis, so we are giving EBIT margin now for about 13.6%, so next year looking at roughly

100 basis points improvement on the tractor basis margin too, it cuts of all the inflation pressure and everything which is there, but yes that will remain a challenge, so like you said we have been passing on the cost increase is obviously looking at the competition how they react with the lag of about a quarter, so that impact will get built in, but we expect I think the pressure will be more in the first half of the material side than the second half, so by the second half we think it should stabilize a bit and the price increase from the commodity, but overall we still look at about 100 basis point improvement will happen in this year on the tractor margin and also on the overall numbers for the company, the tractor is almost 80% of the business....

**Vaibhav Jain:** Sir, lastly if you can talk about the CAPEX plan, near to medium term specific numbers on FY '19 and how do you see CAPEX in each of the segments?

**Bharat Madan:** CAPEX cost this year we have put aside a figure of about 200 crores which is on the product development side in the normal CAPEX and there is another 100 crores spend which we are planning for the capacity expansion, now since we already touched 80% capacity utilization in tractors last year and this year will be probably touching almost close to the 100% mark, which is 100,000 capacity which we have this year, so we have to start investing now in the capacity expansion side, so we are putting up investments on machining side this year for which we have set aside another 100 crores, so the total CAPEX for this year will be close to 300 crores and this capacity expansion will get completed only next year when we put up another assembly line and the transmission line, so the total CAPEX we spend will be about 225 to 250 crores on setting up another 50,000 capacity, so the project will get completed next year, so within this year if there is 300 crores total CAPEX and next year again, it will be something similar to about 200 to 250 crores of CAPEX will be there next year too.

**Vaibhav Jain:** Sir, fair to assume that the capacity will come sometime in first quarter of next year or will it take more time?

**Bharat Madan:** Assembly may not happen like in the first quarter, but like I said machining capacity probably will get set up, so this is one of the bottleneck which we have today, so that bottleneck will get removed definitely by end of this year or very first quarter of next year, but assembly I think will not really get completed by that time, so that probably will happen maybe sometime in Q2 or Q3 of next year.

**Moderator:** Thank you. We have the next question from the line of Mayur Milak from IndiaNivesh Securities. Please go ahead.

**Mayur Milak:** Sir, just wanted to do the FY '20 analysis a bit, so we have seen two big years of about 24% growth and we are hoping this year we may clock about 9% to 11% so that will really take the industry size to about almost 8 lakhs plus kind of units, based on that do you really see any significant macro change which suggests that we may really not look at the cyclical event of

going into a flattish or a negative growth in FY '20, something that has changed strategically in the last 10 years that you may see that this growth is sustainable?

**Shenu Agarwal:**

At a very fundamental macro level, we do not see any negativity in the market at least for next four to five years, so all the macro factors are in favor of market. The basic factor is the labor availability is going down every day, and therefore, mechanization has to come in and India is not a very mechanized country as compared to the Western world or even the Southeast Asian countries, therefore, mechanization has to be there, tractor is only like a starting point of the mechanization and then the mechanization story goes very deep and wide beyond tractors also. The other factor that helps long-term industry growth is also availability of retail finance and retail finance is doing very well, we have seen a few new players actually entering this segment in tractor retail in the last few years, so this looks like that this is an attractive area to be in for a lot of financial companies, so the only problem that we see is the cyclicality of industry, so it largely depends on monsoons so that is difficult to forecast what would be the monsoon like over the next year, but normally what we see is that if we have a good monsoon in a particular year even if we have a bad monsoon next year, it does not hurt the industry, so it starts hurting only like two years later when we have a bad monsoon, so since the monsoon projection this year is good enough, so we think not only this year but next year should also be fine right now.

**Mayur Milak:**

We have been hearing a lot on these farm waivers that have been coming through various State Governments, do these really have any kind of bearing impact on tractor demand or that is just purely to do with their basic growth on crops?

**Shenu Agarwal:**

Things like farm loan waivers, I do not think they really add to the demand, actually they create some temporary chaos in the market because some of the people who have outstanding loan, they just kind of stop and wait for the government schemes to implement which takes normally a lot of time, but other than farm loan waivers there is a lot of focus that government is providing, which is really helping like there is lot of States which are coming up with subsidy schemes, which is very different from a farm loan waiver so subsidy schemes different State Governments, they announced different levels of subsidies to promote mechanization in the country in different forms, most of it is like upfront subsidy when tractor or some other farm equipments is purchased and then sometimes it is through some custom hiring centers etc., but all these they help so even last year we think that subsidy based business had a big role to play in this 22% growth and it will continue for at least next one year until we see the general elections.

**Mayur Milak:**

Just the last thing, just help me with this subsidy part, this could be a driving factor and we are definitely looking at this year as the election year and the benefits really do continue to the farmers, so you think that could also play a effective role in FY '20 once you have passed the election and then you are just hoping that they will continue to do and care about the Agri income doubling by 2022?

**Shenu Agarwal:** We think so because we think whatever schemes are announced this year, they will not be all implemented this year so they will have a lag effect on implementation, and therefore, it should keep on driving industry next year, next fiscal also.

**Moderator:** Thank you. We have the next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

**Bharat Gianani:** My question is given the rural incomes have been on the higher side for the last two years and also we have a projection of a strong monsoon this year as well, so do you foresee any upside risks to your projection of 9% to 11% growth for the tractor industry, what I am trying to understand is given that strong base could the growth be significantly above than what you are predicting for FY '19?

**Shenu Agarwal:** Right now, our estimate stands the same, this is 9% to 11% growth for the year, there could be some upside because of different factors that we cannot foresee right now, but our projection is 9% to 11% which is like touching almost about 800,000 tractors.

**Bharat Gianani:** In the earlier question you elaborated that there is a 100 basis points margin improvement expected for the Agri Machinery segment, so that will basically bring the margin to about 14.5% kind of a range for FY '19, just trying to understand in FY '20 if the tractor volumes remain buoyant then would you be able to reach your guidance of you have pointed out for an EBIT margin of about 15%, so would you be overshooting that as well if the tractor growth remain strong enough by 20 and obviously on back of new products, you would have gained market share as well?

**Bharat Madan:** The margin remains in the inflation which is on the commodity side, so obviously that is one other factor which is impacting the margin and our ability to pass on the price increase to the market and once Railways, Construction or tractor, that obviously will remain one item which will keep us under pressure until the margin improvement. The guidance of 100 basis points improvement, if you look at the last two quarters sequentially too and the numbers margin has been in the range of 14.6% to 15%, which is exact date which we are actually living the year with a FY '18, so that is the reason which is going to this levels about 100 basis points improvement is something which looks feasible to us, and yes, if the market is buoyant and if you see more industry growing beyond, but we are fairly indicated then there is an operating leverage definitely which will pay out and we can also pretty look at better margins going forward.

**Moderator:** Thank you. We have the next question from the line of Naveen Kumar Dube from Narnolia Securities. Please go ahead.

**Naveen Kumar Dube:** My question is on the other expenses side, we have seen some 34% year-on-year increase in other expenses, so what is the reason behind that?

**Bharat Madan:** But that was sort of level I think which was not there, if you look at the last year also the other cost segment rose to this level only, so 12.5% to 13% sort of number, so I think that is a number which fairly I think operating levels will fairly help in terms of growing, but many cost in that is variable in nature, so most of the selling expenses or the print cost, logistics, forwarding which again the fuel price going up has been putting pressure on the forwarding cost, so overall we do not expect there to be a major change really in the other cost, so it should be in that range only maybe 0.5% movement here and there will happen, but I think more or less it will be in this range.

**Naveen Kumar Dube:** My other question is on the EBIT margin on the Agri Machinery side, so are we seeing this peak margin level or we see further headroom going ahead as the capacity utilization increases?

**Bharat Madan:** If you look at the last quarter number on standalone basis, if you analyze that number we are already doing about 92-93,000 tractor volume, so if at that level we have given about 15% EBIT margin that number, so which is why I said we still see a probably headroom, so we are targeting about 100 basis points improvement, but inflation is one factor which obviously will impact the margin adversely, so that is why we are actually giving guidance only for 100 basis points improvement even though the last two quarters have seen much better margin on the tractor side, so keep that thing in mind I think if the inflation does not really play out that hard on us then only the margins can look better, otherwise 100 basis points is feasible.

**Naveen Kumar Dube:** Actually, I was looking at this 15% in this quarter I think we have 1% EBIT margin, so is this going to increase going ahead or the annualized margin of 13%?

**Bharat Madan:** At the kind of level which we are projecting for next year, we think we will be in 14.5% sort of range on tractor side, obviously you cannot be precise on those numbers, it can go either way depending on how the situation will evolve.

**Moderator:** Thank you. We have the next question from the line of Vasant Patil from HDFC. Please go ahead.

**Vasant Patil:** Sir, can you comment, if we see at the dealer level actually tractor industry is very competitive, the dealer works at very thin margin, so what kind of actually support we provide for the dealers compared to other competitor, what is our strength in that segment even if you see dealers will not sustain for more than five years, very few dealers have a presence of more than five years kind of dealership, so what is the reason, why they lose the because of the thin margins, is that because of the competitive pressure just wanted to understand on that segment?

**Shenu Agarwal:** What we consider internally as one of our very great strength is the loyalty and the stickiness of our dealer network with our brand. We have dealers who have stayed with us for generations, so we have like lot of dealers who are into third-generation with us. Of course, the competitive pressures are there as new players have entered the market in last few years, but we have a very robust dealer development policy where we look at dealer margins and dealer returns on their

investments very closely and I can say that our openness and transparency with the dealers is actually better than some of our competitors and we have a very open dialogue in various forums with dealers to make sure that the dealers stay healthy, and our churn ratio in the dealer is lesser than the industry, so we are in actually a better position than the industry.

**Vasant Patil:** One more thing Sir, coming to the subsidy part whatever the allocation happens that is from the Central Government, that is dispersed to State Governments, is that correct, subsidy allocation even in FY '18 couple of States have more number of subsidy disbursement compared to few other states, so is that because of the change in Government where there is Central one government and State has a different government, is that the reason where that states have the lesser disbursements of subsidies, is that correct understanding?

**Shenu Agarwal:** It is difficult to comment precisely on what happens, but agriculture is a state subject, so it is actually up to the State whether to allow for subsidy and use it as a tool to promote mechanization or not, but it is also true that Centre allocates lot of funds to the States wherever the requests come from, so for example if you look in the South like there is a lot of subsidy playing out in the South right now and also there is a lot of subsidy playing out in the East, so Centre I think probably is what we know is the Centre publishes some guidelines as to where they want agriculture mechanization to grow more depending on various data points, but then it is the internal Government matter, it is very difficult to comment, but we know that it is a State subject and State makes the call and then Centre supports.

**Moderator:** Thank you. We have the next question from the line of Sameer Deshpande from Fairdeal Investment. Please go ahead.

**Sameer Deshpande:** I would like to know this calculation of earning per share for the standalone has been given at 28.85 and for the consolidated it has been given at 41.6, is it because of the Treasury stock adjustment?

**Bharat Madan:** Yeah, that is right.

**Sameer Deshpande:** Actually, the Treasury stock is about 3.73 crore shares?

**Bharat Madan:** Which is roughly 27% treasury shares, if you remove that effect which is the consolidated financial gets cancelled out so you can arrive that number.

**Moderator:** Thank you. We have the next question from the line of Sumit Mangal from Goldman Sachs. Please go ahead.

**Sumit Mangal:** Only one question Sir, if you look at it last three quarters if we exclude the impact of GST as you provided in second quarter, our average margin has been 15.1 and average volume has been around 21,000, let us say even if we grow by 13% to 14%, we will actually do 92 to 93,000 tons of volume so that means quarterly average would be around 21,000 to 28,000 minimum, so are



we conservative when we are saying that we will do 14.5 because if you look at it last three quarter has been 15.1% operating margin and on top of that we have employee cost not growing and then you have raw material saving program so are we conservative when we are saying 15% or 15.5% operating margin on the tractor side?

**Bharat Madan:**

I think it is two reasons, one obviously is the product mix which is getting slightly adverse in and if you look at the profitability wise, so we did lot of good numbers last quarter, but if you compare with the sequential number versus December quarter to March quarter, the volume increase has been significant which went up almost from 19,000 tractors to 23,000 or 23,500 tractor, but the margin improvement is only 0.5%, so on 5000 tractors we have additionally 0.5% and that again is starting with the base of mix which is not fully there, so the product which got introduce into this quarter did not really play out fully in this quarter numbers, so going forward we look at the mix also which will be going slightly adverse, but we will be aiming for good market share growth the overall numbers registering, volume will fairly see an increase happening, but the margin wise it may not happen in the same proportion that we have seen in the past. Second which I talked about was the inflation which again is a major concern, so continuously for last five or six quarters, we are seeing that adverse impact happening because of the inflation, so obviously it gets pass with the lag and there again is the challenge we have to wait and now the competition and the industry response before we agree to take call, we are not having the price details in the industry on this so that will be an another caution which we have actually raised which can really impact the margin, so that is why I said 100 basis points improvement over last year, this has been the guidance we have been giving for now I think two or three quarters, which is coming more from the entirely initiative the company has taken on the cost front, so we are not really counting on the external factors and external environment, so obviously it plays out well, yes, it can be even better, but this we think is same which will be really impacting upon to be delivered.

**Sumit Mangal:**

Sir, what kind of price increase have we taken in the month of April and May?

**Dipankar Ghosh:**

In April we had taken an increase of close to about 1%, close to 0.5% to 0.8% I would say, but if you look at the last 15 months like we said combined, so full FY '18 versus and the first quarter of this year, the cumulative material cost increases happen close to 4%, obviously we have been able to pass on about 3% to the market, so we are still carrying 1% lag on the P&L, so this fairly will get affected and passed on in the subsequent quarters, so that lag effect is something which will be really troubling going forward to if the inflation continues to rise.

**Moderator:**

Thank you. We have the next question from the line of Karthik Sood from Bonanza Portfolio. Please go ahead.

**Karthik Sood:**

My question is what are the projection for your construction business for Financial Year '19, the growth projection?

- Ajay:** We are looking at the industry to grow at about 16% to 18% and our growth would be in the same ratios, the only thing is we are looking at into the product mix going forward, the way we have done in the last year, so we are chasing more contribution than the market share.
- Karthik Sood:** What about the growth projection in the Railways business?
- Bharat Madan:** Railway, we indicated a guidance of 18% to 20% growth.
- Moderator:** Thank you. We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Just a follow up question on the employee cost, actually on QOQ basis employee cost has come down, is it because some bonus was given in the last quarter?
- Bharat Madan:** I think it is coming more because of operating leverage, so obviously if you look at the volume is almost doubled from the last year number, which is the advantage I think you have seen over, but in the absolute number if you compare the cost has actually gone up, so 94 crores has gone up to 109 crores, so this is about 15 odd crores, so yes as a percentage going down, which is the operating leverage play.
- Hitesh Goel:** Bharat, I am talking about QOQ actually the employee cost was 117 crores in 3Q FY '18, which has come down to 109 crores in 4Q FY '18, so any color on that?
- Bharat Madan:** QOQ also from 105 we had gone up 109.
- Moderator:** Thank you. We have the next question from the line of Raghu Nandan from Emkay Global. Please go ahead.
- Raghu Nandan:** On the captive finance that DLL credit tie up which we have, what is the share of financing done by DLL credit?
- Shenu Agarwal:** DLL, we brand it as an Escorts Credit and Escorts Credit has penetration of roughly about 12% to 13% now on our overall sales. This is given the fact that they are not present in the entire country right now, so they are present in about five or six states as of now and there is expansion plan that is available for them to enter the other markets, so as we go along I mean their penetration in our business will be up and up.
- Raghu Nandan:** Any targets Sir for pan India like availability of Escorts' credit?
- Shenu Agarwal:** Our aim is to get a penetration of about 40% with Escorts credit.
- Raghu Nandan:** This is for FY '19?

- Shenu Agarwal:** It will not happen in FY '19, but I think it should happen by end of FY '20.
- Raghu Nandan:** Sir, when you spoke about the paddy specialist tractor, in which HP is this product?
- Shenu Agarwal:** Our product is in the 47 Horsepower and largely the market for paddy or paddy special tractors lie between 42 and 47, so we are playing at the higher end of the HP.
- Raghu Nandan:** More variance are possible in future?
- Shenu Agarwal:** Yeah, we will bring more variants once we have established this one and those would be in the power category.
- Raghu Nandan:** Sir, on a related area like do we track growth and tractors used in non-Agri segment for Escorts, what would be the growth in FY '18?
- Shenu Agarwal:** As I explained earlier, it is very difficult to kind of categorize the customer as Agri or commercial, you know it just depends on how much usage is happening in Agri versus non-Agri, so our estimate as industry and lastly for us also is that between 30% to 40% of the usage of the tractor is in commercial activity and the remaining about 60% to 70% is in the Agri related activities, but it is very difficult to categorize the customer as either Agri customer or haulage or a construction or commercial customer.
- Raghu Nandan:** One query on the Construction Equipment side, what is the progress of the tie up with Doosan Infra?
- Ajay Mandhar:** We already have declared it also, we have a distribution tie-up with them exclusive for India, which is just ongoing now.
- Raghu Nandan:** How big is it, Sir?
- Ajay Mandhar:** This is not very big in terms of the volumes that we talk about in Construction Equipment, it is basically a premium product 100% imported as of now and we are looking at 1% on the market this year.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Bharat Madan for closing comments. Over to you, Sir.
- 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 [investorrelation@escorts.co.in](mailto:investorrelation@escorts.co.in). We will meet again in the next quarter, thank you very much and have a very Good Evening.



*Escorts Limited*  
*May 17, 2018*

**Moderator:**

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