"Escorts Limited Q2/H1FY13 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Escorts Limited H1FY'13 Earnings Conference Call. Joining us on the call from the Management of Escorts Ltd is Mr. Sridhar – CEO, Escorts Agri Machinery; Mr. Murthy – CEO, Escorts Construction Equipment; Mr. Bharat Madan – CFO, Escorts Agri Machinery; Mrs. Jyoti Khatuka -- Head Treasury; Mr. Rajeev Dass – VP, Corporate Affairs and Communications; Mr. Lalit Pahwa – CEO, Escorts Auto Products; Mr. Saikat Mukhopadhyay – CFO, Escorts Construction Equipment and Mr. Dipankar GHOSH – Business Head, Escorts Railway Products.

As a reminder for the duration of the conference, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Rajeev Dass, VP Corporate Affairs and Communication. Thank you and over to you sir.

Rajeev Dass: Ladies and gentlemen, a very warm welcome to all of you from Escorts Ltd. We are addressing you from our corporate office at Faridabad, Haryana. Thank you for joining us on this Escorts Ltd Q2/H1 result conference call. We plan to start with the operating highlights and then we will briefly touch upon the numbers for the period under review. Ladies and Gentlemen the overall improved H1 performance is attributable to leaner operations and a favorable product mix. Our Q2 PAT is of 61.6% on a corresponding quarter to quarter basis; where as H1 PAT numbers are up 103% on a corresponding H1 basis from 32.3 crores to 65.6 crores. Our half yearly EBITDA numbers are up 31% from 81.6 crores to 107.3 crores and our quarterly numbers are up by 6.1% from 51.2 crores to 54.3 crores on a corresponding basis. Let me quickly take you through the overall snap shot of Escort Agri Machinery division. Tractor volumes stand at 14,764 in Q2 as against 15,034 in Q2 of the previous year. On a corresponding half year basis the tractor volumes are almost flat, if I look at the H1 numbers, 31,870 in the current H1 versus 31,640 in H1 last year. There is a considerable reduction in the finance cost, mainly due to lower utilization of funds. In the coming quarters, we will further optimize our operations by strategic softening and Lean management. We have received an encouraging response from the new tractor launches which you are aware of, are underway over the last 8-10 months, in both the powertrac and farmtrac brands. The future of Indian farming, as we see it, lies is in increasing farm mechanization and entrepreneurial farming. The whole face of the farmer in Indian landscape is changing rapidly. Keeping that in mind we keep our focus on the higher HP segments, also sharpen our focus and increase our reach in the mid-volume sections and in the crop solutions area where we are refining our strategy for the future. You may have noticed, we have also forayed into specialty farming by launching the Niche Ferrari tractors, which will feature in the second quarter. These tractors as we have mentioned in our press releases in the past are targeted to orchard farming and highly specialized machines favorable to taking out the drudgery and taking out the routine and increasing the productivity of the orchard farmers. Coming to the harvesting season, which has been good across the country and procurement by the government at good rates has ensured substantial cash flow for the farming community. Sentiments are up on account of normal monsoons which are expected in the months to come as predicted by the meteorological department; we are holding on to their purchases last year.

Looking at the NBFCs which form a crucial driver of demand for the tractor customers, we see aggression in that area, which has lead to an increase in demand. In the Eastern states, where financing options were earlier limited, we have seen increasing penetration by NBFCs. Northern States which has been our main stay and continue to be so for the current year, also assured a very healthy pace for the third consecutive year. We are confident that this will help us to better our tractor volumes while increasing EBITDA percentage to double digits in the coming 24 to 36 months at the consolidated Escorts Ltd level**.**

Looking at a small comment on our cost front, material cost has strategically been reduced by the way of maintaining the right balance between our design requirements and our production forecast. Cross functional synergies have also brought about important gains in this area. I would now like to switch very briefly to Escorts construction equipments. This industry continues to see head winds but we are hopeful about the second half of the financial year. We are looking at making ECE flexible unit operations to tide over the tough macroeconomic scenario where in we have seen slackening of demands in some of our key verticals of our business. To rationalize this further, to improve our efficiencies, to become leaner we on the way to utilizing the common technology platforms for our Pick and Carry crane, Dig Max, Backhoe loaders and this we feel will add substantially to our P&L in terms of reducing manufacturing costs. We are also in the process of making the organization leaner and straighter in these recessionary times so that as we go forward, we then plan to give you a better scenario in terms of our P&L management. In the quarters to come we will see some significant therefore changes in operational and financial efficiencies and centralization of materials, manufacturing excellence, finance and HR departments will kick in with further efficiencies.

Escorts Auto components, if I were to now go to in that sign, the signs are there for a hopeful revival. The sales for our auto products increased 18% on a sequential quarter basis and increased 10.7% on a corresponding quarter on quarter basis. Therefore this means that in Q2 we have revenue of 44.3 crores versus 40 crores of the previous year and 37.5 crores in Q1 and the EBIT loss that we are seeing in the Auto product business also reduced both on a sequential and on a corresponding basis. Even on the half yearly basis sales increased by 15% and EBIT have positive strings of 614 basis points on a corresponding basis.

Switching to our railway business: In our railway business the quarterly sales are up 65% sequentially and 12.7% correspondingly, there is a positive string of 2,363 basis points in the EBIT margin on a corresponding quarterly basis. Existing product range in the railway business is undergoing significant up gradation, both in breaks and coupler segments. Railways will complete the product test protocols within this fiscal year, positioning us well for future commerce. Escorts remain committed to uphold the high standards of corporate governance and compliance processes and with this Ladies and Gentlemen we open the floor for your questions to our team and our queries. Thank you and have a nice day.

Moderator: Thank you very much sir. Participants will begin the question and answer session. We have our first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Just wanted to check on the tractor industry, we have seen pretty good numbers coming out in the month of April for Escorts as well as for M&M, so just wanted some thoughts on that as to what is the main reason for that, is it a one off seasonal shift or do you see it as a trend continuing going forward as well?

S Sridhar Good Morning Kapil. I will just give you a little background. Almost for 18-months in a row industry was stagnating, the growth was almost zero. The last quarter was something like a -2%, the quarter before was little more 4%, so that is why April looks like an exception. One input that we should keep it in mind is in the month of April, there is something called as Navarathras, which is very famous in the farming community for purchase. This year it happened in the month of April and not in March, so that is one of the reasons why this is showing a hike. Despite of this showing a hike, the demand what we experienced is little more than the shifting of auspicious dates, okay, so this is a little more than what we experienced, this is not only true for us, it is also true generally for industry. And this we have to see from the effect of the kind of secondary level deliveries, what our dealers deliver to the customers. We also experienced it for the month of March, which was also a little better. What it means is, if this continues for couple of more months, i.e. for the month of May and June that means this is signaling as sign of revival for the industry. So that is the way we should read, signs are better but still we may have to hold ourselves for a couple of more months.

Kapil Singh: Sir so what will be the broad range of retail volume growth that you would have see if you combine the last two months, say March and April?

S Sridhar You can see that the industrial growth for this month itself is something like 25%, last month was something like 0%. So there is no growth and an average you can take it as something like 12%, but if you look at it, together between these two months, we are a little positive on the market share, a couple of .2%-.3% we have grown in terms of market share; this is what we should take actually.

Kapil Singh: Okay and sir just one more question. I just wanted to check on the discounting levels as well, you had given a guidance that you are looking to focus more on premium products and cut down significantly on discounting so is that a trend that is continuing for you and is there a change in the industry thought process overall as well where discount levels have come off?

S Sridhar We think our strategy path is same as what we have discussed with you last time. We can only share in terms of developments, though the thinking has not changed from our side. As far as the industry is concerned, the industry thought of the way of utilizing the capacity will not change unless the revival in the demand. See with discounting is in proportion to the rate of revival; the moment revival becomes very good people will automatically stop it. But as I told you till March the growth rate was 0 or 1%, that means everybody has got an abundant capacity, there are all operating at 2/3rd or less than 2/3rd of their capacity. So the discounting is expected, whether it is car industry or tractor industry, so it is there but consciously we stayed away. We are looking at a different path and we are successful so far at least.

Kapil Singh: Right and sir finally just wanted to check on the raw material cost, is there some more benefit that can be expected in the coming quarters and is there a price increase that you have taken in recent times, if so how much?

S Sridhar Yeah when it comes to price increase, we did increase our price but it is very marginal, something like 2000 rupees that we have taken in the first of February, which the industry has not done so that price is, we have taken but it is marginal. But when it comes to material price, I think we do not expect any significant commodity price increase in the forth coming quarter. So in line with the kind of actions what we are taking, the material cost should go down. So to what extent we will get to know over a period of time but the direction should be declining.

Moderator: Thank you. Our next question is from the line of Mehul Desai from HDFC Bank. Please go ahead.

Mehul Desai: My first question is on the product mix that we are seeing that is improved. Can you just throw some light on how your product mix is shaping up, can you give me some percentage figure as to what is the higher horsepower contribution.

S Sridhar Okay see when we talk about product mix, it is not only higher horsepower; higher horsepower per say is perhaps the numbers are limited, the purpose itself is far enhancing than image. That is what we launched, that is what is getting stabilized and some of the markets we started doing very well, which is almost 9-month from the time of launch. More importantly when we are talking about model mix to our favor, let me explain through a case of one particular model which we call as 439. This model is even in the segment like C, which is mix segment, our popular standard segment. The kind of a product that we launched that product, the pricing is almost on the cadre of the next level of product which is D-category product. And those kind of products now started contributing more than 50% within that 439 model. And that is one of the significant volume contributors for Escorts. So this is the way within the popular model, we are creating, we are differentiating we have something called Deluxe model, the code word for us is something called DS plus. So even our B-category model, we have something called 434, which is generally not our territory, this is a territory of Mahindra's, our TAFE kind of a model. There also we introduced some special models called the 434 DS plus, those models have started contributing 24%; the pricing of those models are in the next category pricing. So this is how we are using the model mix to our advantage.

Mehul Desai: Okay. And my second question is on the way the other expenditure that has been reduced or the cost rationalization. Can you just give some examples of what kind of cost rationalization and do we see further down side also in this, further scope of improving the other expenditure?

Bharat Madan The cost decreases in this quarter has been basically on the marketing and promotional front and also if you remember, last time we had a Tanzania order which was being executed, so the huge number of export and the related costs were high, which are coming in the other costs. So those costs are no longer there, well this time exports also have been low and beside the promotional costs the warranty because of quality improvement in the world which we are doing, the warranty cost is coming down, where in maintenance cost has gone down. So overall in the other costs, combined with all these primarily contributed by this selling and distribution costs, the decrease is happening.

Mehul Desai: Okay and do you see if further there is a scope in reducing this? Or we can say this is the stable level around 11% of your sales?

Bharat Madan No I think there will be some slight reduction but obviously if the market remains the way it is then there will be continued effort on reducing the cost. But if the market starts showing signs of revival and we come back then obviously there will be some same level which can be maintained going forward.

Moderator: Thank you. We will take our next question from the line of Mr. Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: The different regions, how they are doing like, North, West, South and Eastern side, like you said Eastern side the penetration of finance is increasing, so can you talk about that and my second question is pertaining to that, 40 to 50 horsepower segment is going pretty rapidly. Is it a case that manufactures have launched more models in this segment because of which the growth is coming or we would read it like, there is generally a higher demand for this segment?

S Sridhar Now between the regions I think South is not doing well. South and West continue to do negative. Negative growth is continuing to be seen in South and West. The North is normal, the central portion which is Madhya Pradesh and Rajasthan continue to grow very explosively and East is more or less little below normal. This is the kind of a growth rate we are seeing. Now having said that perhaps zones like south can come back, it is almost for the last 2-years that they are not doing well. So with normal monsoon I think south and west zone should come back very well and so far whatever we have done, it has worked to our advantage. Now when it comes to the growth rate of categories like 40 to 50 horsepower I think many of the 55 horsepower tractors also are all getting reclassified as 50 horsepower because of the emission norms. So those tractors also appear in the category of 50. That is what it is showing in terms of temporarily skewing in terms of the way it is getting reported. Otherwise there is no significant growth but for example if Maharashtra growth rate, if it is going to higher perhaps Punjab and Maharashtra, these zones when they grow very well, you will also see the higher horsepower also growing very well. Other zones are only catching up. Just to give you an example, Maharashtra will have close to 45% of that entire tractor industry, will be a higher horsepower industry. Same is the case with Punjab, whereas places like UP it will be 18 to 20%. So even though where they have growth rate the quantity is very different. So overall we do not see any change in terms of higher horsepower customers moving into smaller horsepower. They are all moving into higher horsepower but the pace may change the depending on which zone is doing very well.

Hitesh Goel: Okay sir. And any sense on the tractor ASP because we were very positively surprised with how tractor ASPs are doing, they were up like 7-8% despite industry not growing actually declining. So do you see the tractor ASP will go up further, like you said even, south and west coming back will lead to a significant improvement in ASP?

S Sridhar See average selling price, if you look at the last 6-months to 8-months or 1-year it is stagnating almost for 6 month I think there is no affective price increase in the industry. Nobody has done except I think we have taken some price increase here and there and one more price increase also we have done in the month of May, we have taken a price increase of Rs. 5000 which industry has not done. So average sales price is different than the level of discounting and developed capacity utilization which is happening in the industry, so when the industry is choosing to utilize their capacity pushing higher volume we stayed away from those kind of quantity driven action. So answer to your question is the average sales price will go up only when the industry revives. The rate of discounting coming down, only then it will improve averages sales price.

Hitesh Goel: Okay. And any specific sense on discounting because we keep on hearing different things on discounting, we heard that the main two players are not discounting too much, whereas the other fourth and fifth players are discounting. Is that true, how should we read it, because we keep hearing different things on this?

S Sridhar The main two players, who are they?

Hitesh Goel: M&M and TAFE.

S Sridhar This syndrome you will see in every industry, whether it is tractor whether car or a bike where the capacity is very high, utilization is very low the first attempt for everybody is to push quantity. And same thing is happening here, it is not a question of who is doing who is not doing, the question is who is not doing, that is the question in tractor industry. So I do not want to name the player, it is not the top two, it is only one definitely Escorts, I do not know whether any other player is there in this industry who is choosing to stay away from that kind of a path. Now that for one and half years we are very successful in doing it without losing our market share, it can at best there are others who are observing whatever we are trying to do. Hopefully this should become a trend in this industry also. People will also take a lesson out of what we are trying to do by not discounting, otherwise a lot of specific evidences, which I do not want to give over phone, so we are just staying away.

Moderator: Thank you sir. Our question is from the line of Girish Nair from BNP Paribas. Please go ahead.

Girish Nair: I had a question on your railways business. What is the outlook for your railways business and do you see any headwinds because of the recent corruption scandal that has hit the Indian Railways?

Dipankar Ghosh The current order book what we have as on date that is almost 60 crores plus. Though there is a lot of news about the corruption, this was from the member staff, a very senior official. I do not think it has anything to do with the business we do with railways. Because railway is a big organization and this particular corruption would not be affecting any business with us.

Moderator: Thank you. Our next question is from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: I have just one question, can you help me understand how the inventory levels are in the tractor industry, you mentioned earlier that the demand has been a little ahead of your expectation, can you give us a sense of how inventory levels are before this quarter and kind of where they are currently?

S Sridhar See this we have discussed the last time itself, we were the first to spot the down turn of the industry. So this is something like one and a half years back, so over a period of time we have corrected ourselves. We do not have a specific inventory related, I think specific question comes it is because I think Mahindra's were in the press to announce certain actions and they said why they are doing so. This is not applicable for us because we have corrected ourselves over a period of time. So for us it is retail and the demand and our billing will almost go together actually. So again the answer is inventory is not an issue.

Sahil Kedia: Would you say this is true for the industry as well or is it just that you guys have lower inventory and others have a higher inventory, how would you suggest what the industry is doing at this stage?

S Sridhar See I can only do a guesstimate, I really do not know who operates what, but to all that what we can see is almost one and half years now, this kind of a trend is the assumption to what you can make is one and a half years, everybody corrects themselves. If it is a short term of like one month or one quarter, people suffer. One and a half years means general rule is people correct over a period of time, so I assume everybody has corrected.

Sahil Kedia: And sir lastly one more question, you mentioned that there are some new launches, is there any particular region that you are focusing on in terms of growth of the year and any guidance in terms of what you think this year could be for the tractor industry growth and Escorts as well?

S Sridhar First I will talk about the guidance what you are asking for, as we told you the last month and this month is a kind of retain as the secondary level demand is a little more than our expectation, little more than our plan. So if this continues for a couple of more months, this will signal revival. But having said that it is too early to predict, we have to endure at least a couple of more months to arrive at what exactly is the revival. If revival, if it happens, this would mean that industry growth are something like 5-6%, this is the kind of a thing we should count on; and then what will be Escorts growth rate? Growth rate has to be in multiples, it is industry by 2, industry by 3 that is the matter of detail so that we are working on. So maybe next time, after achieving some success may be we will share with you a little more detail.

Moderator: Thank you. Our next question is from the line of Jinaal Sheth from Multi Act. Please go ahead.

Jinaal Sheth: You have been answering lot of questions on the higher horsepower, but I just wanted a bit of understanding that of course as a percentage of the entire industry is still small but I wanted your sense, is this a more of a permanent shift and why is it that people are shifting there, I mean as a farmer can I not just do with the normal horsepower and if I move to a higher horsepower, do I get benefit. So I just wanted your understanding whether this is structural and we can continue to see its strong growth in that space.

S Sridhar See I think this calls for a very detailed explanation, I will try to be as concise as possible. For the last thing what you have mentioned, this is structural, okay, this is not reversible. Why I am saying so because this is the path of all the cars have taken all the bikes have taken, the country is moving forward that way. So the tractor cannot be an exception, this is to give you a broad guide line. Now the most logical answer now is what is the insight? Contrary to what the popular belief of land fragmentation, our insights are telling us a different story. So the legal titles are split into a smaller land holding, it is true but the person who manages there is an informal consolidation is what you have seen in this country. That means instead of four brothers who are actually holding the land, it is only the one brother who is actually doing the farming, the rest of the three brothers have already moved out of farming, somebody is a teacher, somebody is a worker, they have moved. This means that actually they need a higher horsepower tractor. Besides the equipment, like a Rotavator has become a norm, it is no longer cultivator, Rotavator is a norm, so bigger horsepower engine and then informal consolidation is the major trigger for higher horsepower tractor. Now these are all very logical reasons but even if you go to a place like Eastern UP, where the soil nature is soft there is no need for a higher horsepower tractor, in my last personal interaction with a customer whom I have spoken to, it has also become a status symbol. We should also realize what the car to an urban customer is the same thing about a tractor to a rural customer. So the kind of a tractor what he wants and then parks in front of his house reflects on who he is. So when I asked him why did you purchase such a high 60 horsepower tractor and all, he was laughing at me, how can I buy a small tractor he was said. So he is supposed to be a big man of the town and he had one more SUV. Please understand there is both the dimensions are driving, one is the logical dimension another is an emotional dimension. And also there are evidences on the industry which are related to tractor industry. So, with all these means, this is irreversible and this is how all the economies of the world has moved why not India so we take this as a long term permanent structural and then all our strategic directions are towards that way.

Jinaal Sheth: My second question is why are we seeing this disparity where the South and the West and specially the south has been very bad, what reasons could you attribute to the poor demand out there and some segments are doing well but why mainly south is very bad, we hear it with all the industries. Power is issue, so what could you attribute out there?

S Sridhar Yeah but answer is simple, it is a monsoon failure. Let us not look beyond this. See what the good thing about South is and West and both together we should see is, they have the best infrastructure; they have no issue with the NBFC penetration. The structural things are to their advantage, it is only the monsoon which is the deterrent**.** Also if you look at historically, as and when these people revive, For example, till four years back, Maharashtra's growth rate was something like 50% year-on-year for 2-3 years in a row. So when it revives it grows at that rate. When it goes to market, goes down at that rate. So, it is simply the monsoon. There are no other issues around that.

Moderator: Thank you. The next question is from the line of Nishant Vyas from ICICI Securities. Please go ahead.

Nishant Vyas: My first question is on the Tractor business. Optically, it seems that the ASPs are up for this quarter. But the EBIT on a segmental basis is down by around 90 basis points. So could you highlight what is the reason for the same?

Bharat Madan This is essentially volume-driven. If you look at last quarter we did about 17,000 Tractors and this quarter we did about 15,000 Tractors. So it is essentially driven by that because your fixed costs are same and your contribution levels are pretty high. So when you sell higher volume obviously, the EBIT margins are better but you look at last year levels, we were at 7.7% EBIT margin and today, we are at 8.6%. So versus last year corresponding period we have improved by about 0.8, 0.9% against sequentially basis. Essentially, it was volume driven where the margins were low.

Nishant Vyas: So how is the ASP, is it average discounting that is lower or…?

Bharat Madan The sales which reflect have got tractor sales and there is a non-tractor business, it is spare parts or it is engines...

Nishant Vyas: Can you categorize how much is the tractor per se non-tractor for this quarter and similar quarter last year and preceding quarter?

Bharat Madan This quarter about 90% is Tractor business and 10% is non-Tractor sales. And the ratio was I think more or less same. It was about 89-11% last corresponding quarter. Like we mentioned, the product mix has been improving and we are moving towards higher end products, we introduced new products in the market, the products like Diesel Saver Plus which are higher contribution models where we are earning better, so the margins are better. Even in the E+ segment we are showing a growth in the market share. In 51 HP tractor we have shown a growth, we improved our market share from 1.9% to 5.1%. So those factors are leading to the high level of selling price overall and there have been some price increases. If you really compare against last year there have been 3 or 4 price increases in between because of inflation. So in the last 6 months we have not seeing much inflation happening but in the last 1 year, obviously, there has been inflation. So the overall increase in the average selling price on account of this is about 20,000 odd.

Nishant Vyas: Can you point out at what level of tractor sales would you be doing in EBIT that is above 10% in terms of volumes?

Bharat Madan I think it will be roughly around 68,000 odd.

Nishant Vyas: On a quarterly basis around 16,500?

Bharat Madan About 17,000 a quarter.

Nishant Vyas: On the Construction Equipment business, can you give me the unit sales for this quarter?

GVR Murthy Totally, in this quarter we have sold around 1,113 in volumes.

Nishant Vyas: Also there has been a marked shift on a quarter-on-quarter basis in the EBIT. So, is this the breakeven level for the company on the Construction Equipment business?

GVR Murthy Yes, I will answer it in a little prolonged way. If you notice the Construction industry it is the issue of top line in the volumes which are driving our profitability, and at the same time we wanted to make the organization looking at the macroeconomic situation today a little flexible. That means we are definitely working on our operational efficiencies to meet this breakeven points of these volumes. And as you correctly pointed out, we have seen a significant change from Q1 this year to Q2 and we are looking at improving this even further.

Nishant Vyas: On a gross profit level, how this business different from the tractor business?

GVR Murthy The comparison is rather a challenge, but at the same time we have products of varied verticals. If you look at our Material Handling Equipment like Pick & Carry Cranes and safe cranes, they contribute in a different way some Backhoe Loaders and same is to do with the compacters and the Slew Cranes. So we are very, very, very diverse in this profitability when you compare. It may be a challenge for me to say this is directly comparable with the Tractors because compacters will definitely give a different GPs than Pick & Carry Cranes and so is the Slew Cranes.

Nishant Vyas: I just wanted to understand, the company has brought the Construction Equipment business completely, there has not been a very big change in that. So I was thinking whether they are on similar trends. Also, it was highlighted there have been cross functional synergies post this thing happened. So could you quantify what is the kind of cost that you have mitigated and what is the quantum?

GVR Murthy The cross functional synergies that we are bringing in after getting merged with the Escorts Group is getting the excellence and using the strength of each of the group. We have strengths in Agri business and we have strength in Construction business, whether be it in materials or be it in HR, be it in financial model. And we want to utilize that strength and put it under one umbrella and take all the four divisions in the same direction to be successful. At this time, probably it is only three quarters now and probably to quantify the GP effect on this and the profitability effect on this may be too early to comment on.

Nishant Vyas: In the whole of last year we had been focusing on market activities in the southern region to penetrate more. We just got an idea that marketing expenses are trending down. Have we penetrated to a certain level that we wanted or have we left that exercise altogether?

Rajeev Dass You are talking of Construction Machinery or Tractors?

Nishant Vyas: Tractor business.

S Sridhar I think our current market share in key markets like Andhra or Maharashtra is hovering around 4-5%. We do have something called a 3-year plan. So in the 3-year plan we are arriving at some major action plan for these two markets. So I will not be in a position to disclose much more but I will tell you something what we are picking up. We have already discussed. These markets are very high on higher horsepower range which is E and E+ category. In this category, there are a lot of new products at an attractive pricing with the channel effectiveness, will be deployed on those kind of areas. We are about to deploy those kind of actions. Possibly it should happen in a couple of quarters. But the action will go on for almost 1.5-2 years to arrive at a significant market share, means it is on par with the national market share what we are achieving. So those kinds of action plans are ready and then at this stage I will not be in a position to disclose greater details of how exactly we will do. But definitely it is there in the pipeline.

Nishant Vyas: Is it fair to assume the benefits of this could be coming through in the election year?

S Sridhar No. For south and west, I think we should count on not only for this year, we cannot even count on for next year also. The earliest returns when it comes it will be the third year from now. From then onwards, it will be contributing very, very significantly to our bottom lines, are one reason, because these are all on the higher horsepower range, it is the E and E+ category So, I will say that another 2 years is an investment, it is only the third year we should look for returns from those kinds of investments.

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

Aditya Makharia: I was just wondering, you said that south and west remain weak but would the industry now at least be flat out there or do you think it is declining?

S Sridhar You are talking about industry or Escorts.

Aditya Makharia: Both.

S Sridhar Escorts, it is almost like 4-5%; is a stagnant market share we have. So for us the answer is flat. The industry is down. But as I told you the industry will revive. It is only a matter of time and matter of monsoon. The only big opportunity is when it revives this market will revive on the top. It will revive on the higher horsepower range. That gives a huge opportunity for the company to put in our strategy because end of the day our core strength is also getting developed around the higher horsepower range. So these two things can go very, very well together. So we are readying ourselves for one such occasion. For example, today, I cannot even think of those markets. Because this is where the price play is very, very high, because this is a competition-driven market where the industry is already 40 % down. So our entering at this point of time is not the correct time to enter. So we are readying ourselves, at appropriate time we will enter those markets.

Aditya Makharia: Would you say April would have also been down, 20% or would April be lesser?

S Sridhar No, as on date, it is down. The severity is very, very high in Tamil Nadu. Continues to be that way even in Andhra with 20% . So the direction as on date is that way. So these things will change only with the monsoon. Till that time we should not expect a change.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Most of the questions have been answered. Just wanted to know what is your take on the raw material prices going ahead?

S Sridhar In the near-term, if I were to tell you for the next two quarters it is expected to be stable. No upside or no downside things are expected. Beyond that we really do not know. So in the near-term, stagnation. Whatever in-house improvement actions that we are trying to do will reflect in some improvement.

Kunal Bhatia: And you were mentioning that currently for you, Maharashtra and Andhra Pradesh are the key markets. So out of the current volumes, what percentage would be to these two states?

S Sridhar Negligible. I actually feel ashamed to quote you. It is so small. In a way there is no stake. Everything is to our advantage.

Kunal Bhatia: So what is your plan going forward, because during the initial comments you did mention that EBIT margins will be in double-digits going forward? So what other factors would lead to that?

S Sridhar Our strategy direction now it is completely established, it is not going to be anything different; it is only an implementation which is happening now. Quarter-after-quarter we have to only review what we are trying to do. As long as we are operating on the high end of the segment, which is E and E+ kind of a category where we wanted to have some leadership aspiration in those kind of a category. As long as we move on those kind of a direction which has significant volumes, these kinds of EBITDA margins should follow. So, I do not think is there any. I do not anticipate any great difficulty in that, unless the monsoon fails and some major unforeseen circumstance should happen there.

Kunal Bhatia: And again coming to Maharashtra and Andhra Pradesh, what will be your current percentage here and what is your target going forward?

S Sridhar Our current market share is just 4-5 %, and national market share is something like 12 %. As I said 3 year plan is to revive. But having said that, it calls for significant action because if we establish ourselves very well in those kinds of markets it has to be at the cost of somebody else. So, I have already explained but I do not want to disclose much more but all that what I can tell you is now that our strategies are becoming clear for rest of the country and we are becoming stable, the next action ground will shift it to those, what we call it, as a breakthrough market. You should expect some action and benefits from two quarters from now.

Moderator: Thank you. The next question is from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.

Sameer Deshpande: I would like to know, Escorts along with the strategy of manufacturing own tractors, just started trading into the products of some multinational from Europe. I think that strategy is pronounced by our managing director also that they would like to go for more looking good tractors as well as some crop-specific products. We will be launching Ferrari. So what are the margins we make on the sale of those trading products?

S Sridhar There are two things we are talking about. One is we are talking about crop solutions, another one we are talking about traded tractors, traded tractors margins are almost nothing. The most important thing in terms of what we are trying to do is that we are trying to bring in the different experience to the customer. I will give you some insight; the whole strategy is about E and E+ category which is a high end category where we are the leaders now. We are something like 22 %, 23 % which we wanted to go up to 33%. To sustain that kind of a position for long, we have to embellish ourselves with certain attractive products which the Indians have not experienced. So we will keep bringing in those kinds of tractors. Ferrari is one such attempt for one such crop which is vineyard. So this is what is being done. But significant for us is to bring in good looking different kind of products under development. The first product what we are launching now which we have just show-cased some few months back itself is from Italian design house. It is in collaboration with certain job works. Going forward, we have a very deep down collaboration. We are building tractors together with design houses, consultancy houses from European companies and then with our engineering skills. Together some 2-3 years from now you will find some tractors which are truly a world-class, which are very, very different from what Indians are experiencing. So those kinds of things are in the pipeline. When it comes to crop solutions, I think it is little too early to disclose the benefit. So, this is where we talked about crop-centric solutions. We wanted to be seen as a No. 1 solution provider for all the mechanical needs for a paddy crop, and this action we started almost 1.5 year back. Now we have 80% perfected ourselves. Now, we are in the stage of scaling. This also means a lot of mechanical equipment need from a land preparation to puddling, to weeding, to the level of spraying and harvesting. So there is a host of product requirements coming up. These products details we will put up, maybe 2-3 quarters from now, when we have established certain initial success. This is where we are today.

Sameer Deshpande: Can we have any potential for export because of the cheaper cost of production here?

S Sridhar Exports is an area where we are just scratching the surface. We are not doing well if I have to say so. The kind of authentic approach we are talking about and within the domestic market we have not yet started in export. Having said that maybe 6 months from now, we will be in a position to give timeline of what exactly will happen, when exactly we will export and what kind of country and continent we will **.** Possibly it is still two quarters away.

Sameer Deshpande: The commodity prices are softening, oil prices are also coming down. Because normally we must be maintaining inventory for 1, 2 months. So in next quarter or going forward can we feel the effect of that in terms of favorable raw material cost percentage that is lower cost?

Bharat Madan Commodity prices are expected to be this way at least for two more quarters. That is our expectation. If at all we discuss, we have to discuss about three quarters from now. It is little too early to discuss about commodity prices. So near-term we expect stability.

Sameer Deshpande: Regarding this Escorts Construction Equipment, we have pruned losses in this quarter. So I would like to know from Mr. GVR Murthy or whoever can answer this. We have decided to use our own captive diesel engines for our cranes and loaders, etc. So are we doing that or it is still not being done?

GVR Murthy: We are definitely pursuing that and it is work-in progress. When we are applying this modality to work forward, we have to actually do this in a phased manner and it will not be in all of a sudden. So what we are doing is we are looking at each of the equipment and it is not only what we buy from our agri group as to engines and we are looking at various options in standardizing what they also buy and we also use. So, it is work-in progress and we are definitely pursuing that.

Moderator: Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: Just wanted to check, when you said, we are looking at a revival with monsoon in south and west, we could get a very healthy double-digit kind of growth. We are already seeing that kind of growth in the central market and the eastern market. So why are we saying that if there is a revival we will get only 6-7% growth? Then we should at an industry level probably be looking at a healthy double-digit growth.

S Sridhar We also will love to look at it that way. It is a little more detailing. The growth rate becomes huge only when there are two successive good monsoons. When you are depressed for over a period of two years, when there is a revival, then we are expecting a huge growth rate does not happen. Hope I am making my point clear. The revival signs, immediately we should expect only 6, at best 9. This is the kind of a trend we should expect. The second time when it repeats, you should expect a huge growth. That can even touch 20%. We do not even want to talk about it. That kind of growth rate can even happen, so that is only a contingency planning.

Jatin Chawla: If you look at a slightly longer term period, then why have we traditionally seen only between 6 to 8%kind of CAGR growth on tractors?

S Sridhar It does not happen that way because CAGR is a very simplistic way of people looking at. If you actually look at it till 2 years back, the growth rate for the 2, 3 years before that, average used to be 22 to 24%. That is the kind of growth rate this industry has experienced. When you look at a long-term CAGR then you will see something like 7-9%. So this is cyclical. This industry has certain vulnerability. So it can go down, it can go up also.

Jatin Chawla: So when we had that 20% plus growth rate, it was obviously coming on the back of a lot of things that were happening from the government side, farm loan waiver and successive years of MSP increases. Now you think with the one or two years of slightly subdued numbers that we have had, that correction phase is over?

S Sridhar No, this loan waiver benefit, all other things did not happen on the last trade cycle. It happened last but one trade cycle which is like 2003. We are talking about that kind of an era. So that has no implications. This industry at various stages have seen the various growth. The recent growth was more triggered through NBFCs availability. Convenience of funding of NBFC is one of the reasons for this kind of growth rate of 22-24%. This is what has happened. That is one of the reasons even in a recessionary period this is not registering a negative growth. This is interest zero growth. That means what is giving the stability factor is the finance availability today. So, you should expect this industry slowly experiencing something like a very matured of a growth rate, not the kind of a growth rate we have seen in the last 12 years over a period of time actually.

Jatin Chawla: And with this change in financing that you spoke of, did we see an increase in the percentage of tractor finance or was it just the cost of financing that came down?

S Sridhar Cost of financing actually went up. Because NBFCs almost charge something like a 30-50% higher rate than public sector bank. But what exactly happens is this is a very convenience of funding. You do not go after a banker, you do not need to work for months together, you need not have an explanation, and you do not have the bureaucracy to face. When you have a

NBFCs it happens in the dealership counter. The way you buy a car is the way you buy a tractor today. So it is a convenience which has made a change so is the documentation, so as the discretion of the financier. And also, competition at the trigger point for why people are funding. So this has become very different because this is the case elsewhere also. Today also public sector banks have the most attractive IRR, it is provided by the public sector people; it is something like 12%, and 18% of NBFC. But having said that we know in our previous experience of how the cars behaved and bikes behaved and all that. So initial phase is different, now the NBFCs have got a lot of stability to offer those kinds of interest rates, same thing we are seeing it in tractor. Today, something like 40-45% of the financing is done by NBFC.

Jatin Chawla: Has there been any significant change in the overall share of tractors sold on finance in the last 5-6 years?

S Sridhar Significant change is in the last 7-8 years when you are taking, those kind of a period, from public sector banks to NBFCs there is a significant shift.

Jatin Chawla: That is there. I am saying overall tractor finance.

S Sridhar But again, the second hour what happens is, what previously buying as a cash, today people buying as a cash, also there is a lot of difference. Even now NBFCs have started offering even 6 months to 9 months a period which was not available today. So that means the entire complexion of the financing is undergoing a change. A short answer for what you asked for is the cash purchases are coming down. The overall hire purchases are going up in terms of direction.

Moderator: Thank you. The next question is from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: Can you just share your strategy on your Auto division? How you plan to turn it around? And are there any new products into offing or something?

Lalit Pahwa: Auto, if you look at the past six quarters, has been consistently showing improvement. We are not in positive territory yet but significant shift on positive side both on our top line and bottom line. And that has been contributed by change in our products mix, change in our marketing strategy and aggressively pushing volume and this has to be seen in the back drop of the headwinds that the auto industry has seen in this period. If you see quarter-on-quarter and also sequentially, the last two or three quarters are very, very difficult for the auto OEM industry. But we have shown growth sequentially as well as year-on-year basis and that is primarily because of a better product mix, filling the gap in our product range, and also going after the right customers in terms of unit value, contribution and that strategy will continue to strengthen.

Anil Kini: But can you just elaborate more on what kind of shift in product mix are you talking about? Is there any new product that you are offering apart from what you already have been offering like shock absorbers?

Lalit Pahwa: A lot of them. We have gone into a couple of high end products in terms of performance parameters particularly the OE customers both in India and globally measure. So we are able to offer products which have a technologically higher performance features compared to our competition, and that what is winning our business. In terms of value per unit, it is shifting towards high value product, particularly, commercial vehicles and that is what is a strategy going forward as well. We will continue to enrich our product mix while driving volumes in the right market. For example, our export volumes are going up as a percentage of our total volumes and that is what will continue to drive ahead.

Anil Kini: On the Construction Equipment side, can you give us some idea in terms of a geographical mix that you have or geographical spread you have in terms of sales?

GVR Murthy Construction industry is now that 55% of the business comes from north and 45% of the business comes from south. And we have a similar spread across and I would say the market share across this geographical territory India perhaps is almost on the same line. Whether it is in Pick & Carry cranes, whether it is Backhoe Loaders. And some of the territories like Rajasthan for a particular product like Backhoe Loaders and Madhya Pradesh for compacters may show a higher market share than what our normal market share is. But the spread is across the country.

Moderator: Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Wanted to understand what is the strength of the rural economy right now, I mean, we have had a bad monsoon last year which impacted Tractor volumes but recently I think some good numbers have been coming out. So what is the strength of that side of the business from your?

S Sridhar The correct answer is at least GDP itself. As of now I think it is not doing well. It is as simple as this.

Amit Murarka: Because I think a lot of outlook on demand will be dependent on whether the farmers have the disposable income or not. And what is….

S Sridhar Exactly. We think simply we have seen it. It is the price and the production. If these two things are going together it is very good, I think we have a very good demand. I think this business you can treat it to the prediction on agri GDP only.

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

Priya Ranjan: I have two questions. One is regarding the demand outlook for non-farm usage sector substance; you earlier mentioned that contributed around 35-40 % of your industry volume. So what is the demand outlook given, have you seen some kind of pick up in March and April?

S Sridhar For non-agri usage, especially for a haulages, construction activity, road development, infrastructure, what people generally use is they use the second hand kind of a tractor, they do not use a brand new tractor for this kind of an activity. If you look at our business I think 50% of our tractors are the first time buyers, another are repeat buyers, and the people who already have this kind of a usage. Overall infrastructure activities are very, very minimal. So to that extent the demand is very low. This has an effect on second hand vehicles purchase and usage. This has got some crippling effect on the new vehicle purchase. To that extent I think non-agri usage tractors continued to be low.

Priya Ranjan: My second question is you have mentioned that the industry is moving towards a higher HP kind of range. So will that have any kind of an impact? Have you done any kind of work on that? Whether it will have an overall impact on the volume side because higher HP means higher power and you can do much more work out of that same tractor or will it be just volume neutral?

S Sridhar We talked about two things. One is the higher horsepower category what we call E and E+ category itself is set to grow. So the overall demand is going to go up. And second, we wanted to improve our market share significantly in these two categories. This would also mean volume increase as well as profitability increase.

Priya Ranjan: This is valid even for industry as well?

S Sridhar The first portion is valid for the industry, second one is valid for Escorts.

Moderator: Thank you. The next question is from the line of Supriya Madhye from HSBC Invest. Please go ahead.

Supriya Madhye: I am sorry, if you need to repeat this answer. I just wanted to know what is the volume done in FY13? And what is your outlook on the both Tractors and Equipment segment? And how do you see the Construction industry going on, going forward?

S Sridhar We already discussed about industry worth was 5.25 lakhs a year before last year, and last year the industry worth was flat, there is no growth in the industry. Same is the case with Escorts. On an average we were doing something like 62,000-63,000. It continues to be stagnant at that level. We also discussed about the signs of revival. As and when it happens the volume will go up. Last two months, we are registering certain optimistic side in terms of demand, whatever we see from the dealers. If this goes up, then demand will go up. There also we talked about, the industry starts growing, it will be something like 6%. This kind of a number and revision is what if you look at it even with Escorts the minimum of the case. Beyond that it is the market share improvement.

GVR Murthy Coming to Construction industry, last one year we have seen a flat growth there and there is some reduction in some other particular products. And as we go forward, we are expecting the revival in the quarters to come and the estimates are that industry may grow between 6-8%. Coming to what we are expected to do is that even in this difficult downturn we held on to our market shares and probably in some of the cases we have added to our market share, and we will continue to put our efforts to do that way.

Supriya Madhye: What is the current market share?

GVR Murthy We handle quite a widespread of the products, for example, in Pick & Carry business, we handle Compacters, we handle Slew Cranes and we handle Safety Cranes and we handle Motor Grader and rest of the products. The market share in general is something which we will not be able to point out.

Supriya Madhye: But when you are guiding us in terms of market share that you will be maintaining, so approximately, if not in terms of where you stand as compared to your peers?

GVR Murthy That is what I am saying. In Pick & Carry Cranes we are definitely the leader. And when it comes to Compacters, we are one of the top three. And similarly, when we are in the Slew Crane business, we are one of the top three again. So, if we are comparing like that, that is the way I want to put it, we are definitely one of the top four players today and we want to make sure that we want to grow in that also. In whatever fields we are, we are in one of the top four positions.

Supriya Madhye: Any product expansion or a new launch in the segment has been planned for the next one year? And what the CAPEX would be in case if it is yes?

GVR Murthy What we are doing is, first, we are consolidating our technology. In the Pick & Carry Cranes, we are bringing in common platform and common technology to make our various products and definitely we are going to take our experience of reducing this Pick & Carry Cranes. Being the leader we want to lead in the technology also there. One of the major things you might have seen last year is to bring in the technology of safe cranes into the country and we have introduced them. And using these safe cranes is slowly becoming a norm in the industry to sell the concepts. We have been very successful in selling the concept. And today Cranes business around 30% of our business comes from safe cranes. We are very buoyant about the market reaction and some of the large construction users are saying that they would like to go for safe cranes; safety being the paramount feature in the construction industry today. And we have been successful and we are addressing that success in a much more focused way to change this product mix to mostly towards the safe cranes. And similarly, you will see, we have introduced, in our Backhoe Loaders, some additional safety features as well as some user-friendly features like telemechanics and the value add to the customer is much more than the cost what he is going to incur for that, and that will be definitely a customer-centric technology we brought in our Backhoe Loaders business. Similarly, we have developed varied new Slew Cranes and we have this complete range now from as low as 20 tones to 60 tones and we are looking to pushing that market forward. These are a couple of steps we have taken to grid the technology and consolidate our sales and then take it forward when the market grows.

Supriya Madhye: What would be the investment in this additional feature which has been added to our current portfolio? Has it been also compensated with a rise in the prices for them?

GVR Murthy Of course. We are compensating for the rise in the prices, and at the same time, in the Construction industry it is not only the price, it is the value we give to the customer that matters and our equipment's are definitely value adds to customer, we are driving our technology towards the productivity, so that the Construction Equipment user will be more beneficial in value terms. And moving back on the CAPEX, today our view point on this is that we have to first consolidate and our current capability is good enough for the current market situation and probably in one or two years as we see the market growing, we are not hesitant to invest more. And we have plans coming up. I would like to keep it with me for a while. Probably in a quarter's time I would be able to come and say this is what we are doing.

Moderator: Thank you. The next question is from the line of Jay Kale from IDFC Securities. Please go ahead.

Pramod Kumar: This is Pramod Kumar. My first question pertains to the capacity side as to what is the current industry wide capacity and what is the current utilization you see for the industry? For you as you aspire to get into southern and western markets in a big way in the next 2-3 years how important would be a local manufacturing facility in that region?

S Sridhar Industry has no capacity constraints, it is something like the best is the two-third, that is where the industry is operating and same is the case with Escorts as well. So we do not foresee a problem of capacity in the near future that means another 2-3 years we do not see it has a problem, but south and west we will come to it. As and when we hit a target of something like a lakh and above kind of a tractor that time we will completely revisit our assumptions on where exactly, what kind of a plan, what should we do, those things we will do. But since our strategy to the south and west is the high end products, so it is less to do with the quantity, more to do with which model what we are trying to do. So, we will revisit. Capacity as of now is not a constraint.

Supriya Madhye: The reason why I asked about the capacity is last time around capacity was a constraint with most of the players, if I am not wrong, John Deere, TAFE were also a lot on the capacities, they have added new Greenfield plants so as Mahindra. So, to that extent can we expect that the kind of margin delta for the industry can be a bit subdued vis-à-vis the last time around?

S Sridhar The last time when the growth rate peaked something like a 25% for 2-3 years, nobody had expected it. They had a capacity issue. But at the same time when the industry is even at a 0% growth rate, I think everybody in my view had overinvested. Every manufacturer. For example, I do not know, Mahindra maybe 5 plants, TAFE maybe 2-3 plants, so everybody has got a lot of capacity. We do not think capacity is any longer an issue. And also the way we approach the manufacturing, the direction also has undergone a change. Look at the case of Escorts. We are no longer obsessive in terms of in sourcing everything. We have an outsourcing model. The user capacities will be created only through a vendor clusters and not through in-house investments. That means theoretically there is a possibility to improve the capacity even from 1 lakh to 1.2-1.3 lakhs. So even the approach towards manufacturing has undergone a change. This time around, neither the industry nor we will suffer for want of capacity. So capacity will not be there. The approach will be different. Your ability to charge, it is all depends on which segment you are choosing to operate. The entire industry is concentrated around the B and C segment. This is a segment a lot of models are there. Established players are there, huge capacities are there this is where they are targeting. That is where there is a huge price pressure on those kinds of a model. But as and when we move towards the E and E+ category the pressure will not be there. So the profitability will largely depend on which segment you are choosing to play.

Moderator: Thank you. The next question is from the line of Rohitesh Hota from Taurus Mutual Fund. Please go ahead.

Rohitesh Hota: Just wanted to have a view on the industry cycle. Probably you discussed lightly about it in a previous question. So typically the Tractor segment industry goes through a cycle in which there are 3 or 4 years where you see 18, 19, 20 % this kind of growth then you have a slump of a couple of years, wherein it plateaus and then it revives. So this time around if at all, you see this as a revival, probably it is too early to call it as a revival. So do you think it is a structural thing that it is coming too early, that everyone is pretty surprised about the kind of demand uptick that we have seen in April?

S Sridhar Very simple observation is industry is stagnant for the last 2-3 years. Then the question is how long we will be like with this. This is the first question. So that means the revival have to happen. Then what is the trigger point? Somewhere the trigger point is government policy, somewhere the trigger point is like monsoon or a huge price increase, maybe the other continents are facing now and some other reasons like this. So one of them has to trigger. Now it is already 2 years. Good monsoon can be a good trigger actually.

Moderator: Thank you. The next question is from the line of Mahantesh Sabrat from Fortune Equities Broker. Please go ahead.

Rohitesh Hota: I had actually had two questions to understand. One is we have oncoming elections due in some states. There is MP and Rajasthan which is more important from your perspective. What is the election reaction on tractors is my question and what are you foreseeing? Number two, when I look at your balance sheet and I recall the first quarter conference call you had mentioned that your total borrowings were about 450-odd crores. That has fallen sharply down to 360 crores as of now in a matter of a quarter. And I find that your receivables are also substantially down when I compare it six months ago to now from something like 547 crores to about 435 crores. Can you elaborate the reasons for this?

S Sridhar The election time, if it happens during the peak demand period, it disturbs a lot. As long as it does not happen, it generally has no effect. So for Rajasthan and Maharashtra now it is a peak time. As long as the election does not happen in this time it does not do the spoilsport, so it does not affect us.

Bharat Madan: On the borrowing side in the disclosure if you look at there is a liability of term loan which is due within one year. This is the current liability. So it has not reflected in the borrowing. So effectively, our borrowing in the last quarter was about 500 odd crores which is now down to about 450 crores. So 364 crores is being reflected here separately as a non-current liability. And the current liability is the balance differential. So today the borrowing stands at about 450 crores.

Moderator: Thank you. The next question is from the line of Vineet Hetamsaria from Bharti AXA Life. Please go ahead.

Vineet Hetamsaria: This is regarding your tax rate. There is a tax credit during the quarter. Wanted to know what would be the sustainable tax rate for us.

Bharat Madan: Two accounts. One is we have an R&D facility where we got the government approval for tax break only this quarter. So we could not have taken it earlier. So that was one reason why we took it. Second is at the end of the fiscal year, when you really come to know what is your profitability and the types of liability lie, so the MAT set off which is available is also taken in the year end by us. So if you factor these two effectively it will be about 25-28% fixed effective rate going forward.

Moderator: Thank you. The last question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta You talked about your strategy in terms of increasing share but if I look at the industry data really speaking on Escorts, volumes have gone down in the 40-50 hp category which is completely opposite to the market trend. And you gained some volumes in the 30-40 hp. So could you talk about why your mix shift is in the opposite direction and what is really happening here?

S Sridhar I do not know what data we are talking about. I already said that some of these 50 hp Tractors above are also getting classified as 49 hp and 50 hp. So…

Vineet Hetamsaria: No, my question is 40-50 hp, not above …

S Sridhar This, we look at the data, the way I have said is actually our 41 hp tractors which is 439 tractor, that is actually come in a good number. So let me look at the data. As far as we are concerned, I think this quarter our numbers have only moved up. Like 439 tractor, like the model I was explaining, it is actually a 37 hp tractor before and that tractor we launched as 439 DS+ which has become a 41 hp tractor. That has contributed 50% of the volume. So that has actually moved up. So we will check and then revert back.

Moderator: Thank you. Participants that was the last question. I would now request Mr. Rajeev Dass to add a few closing comments.

Rajeev Dass: Ladies and gentlemen, as always it has been a pleasure to have you interact with us and we are extremely grateful for sparing the time coming down and spending time with us. I am sure if there are other queries which you may have, issues that you need redressal, we have noted the last question, where we need to address the issue on the horsepower segment and our shares. The e-mail id is something which I would like you to once again recall, it is investorrelation@escorts.co.in So if you have any further queries do email us on this investorrelation@escorts.co.in and we will only be too happy to share whatever information that is happening. Before I close I just wish to emphasize on behalf of our management at Escorts that it is the core values of transparency, collaboration is what we bring into this conference call. Transparency being one where we are open to sharing to the extent possible the information exchange and putting out to all of you, so you get a better understanding of the corporation and that's why we do these calls. This has become and has become a regular feature. We will be looking at the next call on our Q3 declaration and once again ladies and gentlemen thank you all for being with us today.

Moderator Thank you sir. Participants on behalf of Escorts Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.