



“Escorts Limited Q6 and 18MFY13 Earnings  
Conference Call”

**May 29, 2014**



**MANAGEMENT:** **MR. S. SRIDHAR – CEO, ESCORTS AGRI MACHINERY.**  
**MR. AJAY SAMBRANI – CEO, ESCORTS CONSTRUCTION EQUIPMENT.**  
**MR. DIPANKAR GHOSH – CEO, ESCORTS AUTO AND RAILWAY PRODUCTS.**  
**MR. BHARAT MADAN – GROUP FINANCIAL CONTROLLER.**  
**MS. JYOTI KHATUKA – HEAD, TREASURY.**  
**MR. SAIKAT MUKHOPADHYAY – CFO, ESCORTS CONSTRUCTION EQUIPMENT.**  
**MR. RAJEEV DASS – VICE PRESIDENT, CORPORATE AFFAIRS AND COMMUNICATIONS, ESCORTS LIMITED.**

**MODERATORS:** **MR. RAGHVENDRA JAIPURIA – ANALYST, PERFECT RELATIONS**

**Moderator**

Ladies and gentlemen good day and welcome to the Q6 and 18MFY13 Earnings Conference Call of Escort Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raghvendra Jaipuria of Perfect Relations. Thank you and over to you Mr. Jaipuria.

**Raghvendra Jaipuria**

Thank you. Good morning everyone and thank you for joining us on Escorts Limited Q6 and 18MFY13 results conference call. Today we have with us Mr. Sridhar CEO – Escorts Agri Machinery, Mr. Ajay Sambrani – CEO, Escorts Construction Equipment, Mr. Dipankar Ghosh – CEO, Escorts Auto & Railway Products, Mr. Bharat Madan – Group Financial Controller, Ms. Jyoti Khatuka – Head, Treasury, Mr. Saikat Mukhopadhyay – CFO, Escorts Construction Equipment and Mr. Rajeev Dass – Vice President, Corporate Affairs & Communications.

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

**Rajeev Dass**

Ladies and gentlemen a very good morning to everyone and welcome to Escorts Limited earnings conference call. As you are all aware Escorts Limited has extended its financial year by six months that is up to 31<sup>st</sup> March 2014 as approved by the Board of Directors in their meeting held on 2<sup>nd</sup> October 2013. The results reported yesterday are for Q6 and for 18 months ended 31<sup>st</sup> March 2014.

Let me give you a small snapshot of the 18 months performance ended March 2014. Tractor volumes increased by 9% to a little over a lakh tractors from 92,543 of the earlier period. Construction equipment volumes down 35% at 4,789 from 7,307. Our operating income up by 6.2% to Rs. 6,291.5 crores whereas our EBITDA increased 31.7% to Rs.381.2 crores. The margin now stands at 6.1%. Finance cost down by Rs. 29 crore to Rs.110.7 crore. Profit before Tax up by 81% to Rs.272.4 crores and PAT increased by a similar multiple in 18 months ended to Rs.244.9 crores. EPS at Rs.20.53 as that of Rs.11.34 last year same period. The board of directors have recommended a dividend at 18% i.e. Rs.1.8 per equity share of Rs.10 each for the 18 months period ended 31<sup>st</sup> March 2014.

Our performance on a quarter basis ended March 2014 tractor volumes at 15,556 up by 5.3% correspondingly and down by 18.33% sequentially. Construction equipment volumes stands at 677 as against 737 of last quarter and 1,113 of corresponding quarter. The operating income stood at Rs.982.9 crore as against Rs.1,159.6 crores of last quarter and Rs.1,000.06 crores of corresponding quarter. The EBITDA at Rs.45.8 crore as against Rs.71 crore last quarter and Rs.54.3 crore of corresponding quarter. Finance cost down by Rs. 2 crore to Rs. 13.5 crores as compared to last quarter. The PBT up by 4.3% year-on-year to Rs.32.6 crore from Rs.31.2 crores.

I will now turn our attention to division performance, starting with Agri-Machinery Division. The domestic industry grew by over 20% in fiscal ended March '14 touching a volume of

634,000 tractors approximately from 528,000 tractors. During H2, that is October'13 to March'14 the all India industry growth was 16% whereas growth from southern and western markets was 24% year-on-year. This was on the back of a very good monsoon and steady rise in water tables across water bodies. As compare to the industry Escorts Grew by 11% on year-on-year basis and grew by 14% in our strong markets during the fiscal ended March 14. In the last quarter which is Q6, our tractor volumes went up by 5.4% to 15,556 tractors on a corresponding basis. We kept our focus on increasing market penetration in FY14 and added 205 exclusive Escorts dealers in the last 12 months keeping in mind our objective of having strong and sustainable profitable dealerships.

In line with our intention to broad base our international presence we entered the South African market in the month of May with the launch of heritage series the same that was launched in Europe in Hanover in November 2013. To strengthen our product offering across horsepower and HP categories we made series of launches both in Powertrac and in the premium Farmtrac category. Our Powertrac Euro DS Plus Series which offers 10% higher fuel efficiency + 10% higher power output - was launched in the 30-40 HP category and has been received enthusiastically by the farming community at large and they see this as a great value buy for their farms. In the 50HP+ segment, Farmtrac Executive Series has been received well gaining market share across the geography. Raw material cost formed the largest chunk for any manufacturing companies cost base. To benchmark our self against the best, we have taken initiatives that focus on building the lean supplier base with supply chain productivity to enable reduction in working capital. We are confident of seeing positive results here. Our efforts towards reducing fixed cost has kept pace in the quarter gone by and tangible results will be visible in this financial year.

Coming to the Construction Equipment Division:

The year has gone by was full of challenges for the sector. We hope now that with the stable government at the center the industry should turn around in the coming quarter. Our focus for this division has been on product enrichment and reducing our fixed cost base and with this approach in mind several initiatives have been taken. No increase in fixed cost even after taken the effect of increased wages and salary increments. Reduced our breakeven point by a fair margin mainly through fixed cost rationalizations. Business transformation exercise underway to transform sales and marketing structure, warranty and inventory terms and rationalization of our product platform. We would also be working on to induce for raw material efficiency and vendor rationalization. We are continuously working towards shift towards a better product mix, leaner manufacturing, sales set up and better management of fixed cost to overcome the slowdown in the sector and to meet the opportunity that we will see in folding hopefully later in the year.

Moving to the Auto Products Division: The India Automobile industry continues to witness a weak demand across vehicle segments. In view of the pressure on OEMs segment sales, the business undertook the following initiatives to reduce the adverse impact on profitability. First, greater focus on domestic as well as global aftermarkets, EAP – Escorts Auto Product increased its reach both in the domestic and global aftermarkets expanded its merchant exports to Sri Lanka, Bangladesh, Nepal, Egypt and Dubai as well as entered into many of these markets and Indonesia through direct dealers. Second new product development, 80 new product variance

were developed during the last 18 months, the focus primarily on high margin exports and aftermarket segments. Cost reduction efforts, key fixed and semi variable expenses such as power and fuel cost and administration expenses have reduced year-on-year despite more than 30% increase in fuel price. As we speak the mandate that we had earlier spoken about is still actively out in the market looking for a strategic partner to turnaround the business coupled with the restructuring objectives and VRS scheme that the company is looking into further restructure and bring this business back to profitability.

Finally, coming on to our Railway Division: The order inflow from railway continues to remain subdued at Escorts we are developing products for new generation rolling stocks as we are seeing a decline for the old generation rolling stocks. The Escorts Airbrake System for BMBS that is the Bogie Mounted Brake System has been performing well in the field and the commercials benefits for which we will start post approval in mid-2014. Income for the quarter increased to Rs.45.13 crore an increase of 35.8% on quarter-to-quarter basis order book for this division as of 1<sup>st</sup> April stood at Rs.36 crores which will get executed in the next two to three months. Before we start the question answer session, I would like to thank you all and also as you know we distribute our earnings release through our website [www.escortsgroup.com](http://www.escortsgroup.com) so do feel free to visit our website for our earnings releases as well as the other details that accompany the call. You can also visit our social media page for latest company news and updates.

I will now request the moderator to open the floor for the question and answer session with our management team. Thank you ladies and gentlemen.

**Moderator**

Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Raghu Nandan from Asian Market Securities. Please go ahead.

**Raghu Nandan**

I had a query on the tractor segment. Generally, how are you looking at the industry in terms of outlook for your domestic and exports and specifically the reference through domestic if this concern on El Nino pans out so how would it might impact sales, would you think the impact will come with a lag for the next year and the impact will be lower for the current year?

**S. Sridhar**

Good morning Raghu. The tractor outlook for the year El Nino effect is today we cannot even count on because it's too early and it is not about only the quantity of rainfall it is about the timeframe, even if everything goes right the way it has happened February end like a hailstorm and very many things are involved. So, providing for is little too early even though we prepared some contingencies, so I will keep that aside without looking for that effect. Our outlook for the industry remains like this, so maybe in the month of Jan, till Jan and February our outlook for the industry was something like 12% that was, what sharp than the last quarter. That we revised to 8% after that Hailstorm whatever has happened in February and March large scale I think 15% of the area had some damage that is what has happened but currently the way we see the industry from the month of March which was growing at the rate of 20% came down to something like 5% in the month of March and became -10% in April, currently it is going at the rate of -5% for the month. So, providing for all these we would like to arrive at an estimate of something like 4% for the whole year which will remained something like 8% plus kind of growth rate and the second six months and the current six months can at best be flat and current quarter can be

negative. When it comes to exports performance, I think we have been gearing up, we have been preparing products and positioning for certain specific countries. Homologation is underway, the benefits that we have seen from the month of September and October. Just to give you an idea as against 1000 number kind of an exports what we have done last year this year it should be at least double and it should further double by one more financial year that means this year it is going to be 2000, year after the next it should be 4000 that is the kind of a growth rate you should expect for exports.

**Raghu Nandan**

If I may, with reference to exports like where are you seeing more traction coming from, I understand that in the initial comments you talked about Europe and South Africa, so those be the geographies which are giving those incremental numbers. And second on the overall agri segment how do you see margins panning out like for example like how far do you have to go in terms of improvement when you compare with the likes of the best in the industry say Mahindra & Mahindra and like your near term initiatives on that and any low hanging fruits which could bring in some benefits.

**S. Sridhar**

I think I will split the question into two, First I will explain about the exports and then I will talk about the domestic. See, exports still we are going through a very, very preparatory stage, may be two years back the way we used to do exports is only based on institutional orders, only when we get a government orders we use to sell. The way we are preparing ourselves is preparing our retail business model is what we are developing it in many, many continents. So the numbers are small like one per month, two per month is kind of things to happen but it's happening in many countries. For example, Southeast Asia is one of the areas we are preparing that way, countries including Malaysia, Myanmar including Cambodia, Lagos shortly few more countries so these are the countries which can give us a very good margin, has a good potential eventually but we are warming up. Possibly these are of the markets two years from now we should expect a very rich harvest, this is one side of the story. The other side of the story is the preparations happens two way, one for developed markets like Poland, Germany, European continent and it is there for African continent. So, for both the markets we are preparing simultaneously, the model what we have developed heritage series is one such a product which is a global product which should cater to both this category, almost at the bottom of the pyramid for those kinds of developed markets. This is the product which is undergoing of home homologation, so including Africa the products are getting ready but the countries are not yet ready, so we are tying up, we have done it for three countries, it has to become seven or eight countries by end of another six months, so Africa will get ready end up this financial year and when the product is also ready, same is the story for Europe. We are already doing almost like 4% to 5% share of business in Poland, the same thing is being targeted in the market like Germany. So, one year down the line in addition to Germany it will be a story of Italy and France which is the top of five countries of Europe. So, to give you an idea first we have developed the product, showcasing in Expos, eliciting responses from the trade, now the trade recruitment is going on, on those kind of an area, these things should happen by September and October, but simultaneously homologation in Europe should be approved. So, if all those things happen this is the reason what we are seeing almost 1000 exports should become 2000 number in this financial year, should double into 4000 numbers for the year after the next. So, this is roughly the idea of how we are approaching the exports and export has got a huge potential. So, far we are not spoken about USA, we have not

spoken about many, many countries. So, all these things will happen but the first thing first, the products and positioning is first and that is where we are working as on date and it's almost ready. And you talked what you call profitability for margins for the tractor business just to give a rough idea we have been making something like three quarters back we were making around ~35% growth in EBITDA. I think last but one quarter I think our margins were around 25%, the last quarter margin growth rate was around ~12%. If you look at it what is the gap between 12% and 25% is prominently two areas, one is internal area, like we have outsourced such an activity but the manpower cost still exist in the system, hopefully in another six months that manpower will go down, so that's a headcount reduction will happen. There is second activity, like repair cost also and onetime cost we have to incur this is one portion of that cost, other 50% of the cost is because of certain new model introduction. In the last concall we have talked about such a new model getting launched and we also spoken about 700 number types will become three times the number is what we spoke. So, the same thing has become something like 800 number has become 2400 number the new model contribution to just give you an idea from 6% contribution is already reached 20% kind of a contribution. Good thing about the new model means we are securing our future, bad thing about the new model we are not in a position to recover the entire material cost the way we have developed this product, we have just recovered 50% of the material cost, so this is also resulting in our under recovery for the quarter. Going forward I also spoke about in the last time itself I will be needing two to four quarter more for a full recovery, that as of now looks a little more difficult because assumption was the industry should grow at 8% if industry goes down to the way what's happening now, our ability to pass on the full prices will be difficult because now discount war has already started in the market, People started providing discounting as high as 20,000 to 25,000 in the press itself it's there. So, our ability to pass on this will prolong, instead of two months it can become three months and six months kind of time but having said that this will prepare us very well because the way 6% becoming 20% in a quarter speaks very well about our product and positioning what we are going through, so let us see we are eagerly watching, as and when things recover we will start recovering that kind of a money so once we start doing possibly we should go back to the way we have been growing on EBITDA margin shortly in two to three quarters back, this is broadly our idea actually.

**Moderator**

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

**Sonal Gupta**

Just again on the tractor side, you have grown 11% year-on-year in FY14 four quarters if I take versus 20% for the industry, so I mean what is the plan, I mean and how do you explain underperformance really speaking?

**S. Sridhar**

Mr. Gupta I think we have to see it this way, this is the consistent with the language what we have spoken in almost two years or one year now. First from the market side and next from the Escorts side, let us split this and see. While let's look at it from the market side, the market we classify is almost like our decent present or you can be little liberal in terms of calling strong markets of Escorts and weak markets of Escorts. The strong markets of Escorts is almost 60% of Indian size, weak market of Escorts is something like 40% of the Indian size. The strong market of the Escorts and when I say strong market I am talking about prevailing market share of something like 14% to 15%, when I say weak market of Escorts I am talking about something

like 4% to 5% of our market share. So, this is the classification of our strong market and weak market. Now, if you look at the industry performance, even though the overall industry is almost like 20% if you look at it for the year, maybe the quarter is 12% the strong market of Escorts if you look at it and the last three months and six months is minus 1%, 5%, 8% in other way the strong markets of growth rates were very, very less. Whereas the weak market of Escorts was continue to grow very well, just give you some numbers for your understanding. For example, weak markets of the last month grew at 16%, three months period 17%, six months period at 24%, nine month period 24% this is the growth. Strong market of Escorts in the last one month is 0%, 9% it's almost that weak markets are growing at the rate of double that of Escorts strong market. This is an industry scenario, if you provide for this then you will be seeing and retaining our market share and stock market and losing our positions in weak market. Now, the question comes on what are you going to do about our weak market which is growing at 20% and we have been growing at negatively not even holding ourselves. So, I think couple of conference back we already spoke about our starting of an initiative in couple of stages especially Andhra and Maharashtra, we said we are starting up an initiative where the tangible research will happen after one year and it maybe a two year effort to completely make them on par within national level, markets are position to give you an idea. The activities are on, this is also product lead activity the products what we have developed on the premium end are the products which is meant for the weak market which broadly I call it as an MNC markets like a John Deere and New Holland kind of a market. So, we are into our action plan but we are half way through, some results are seen and some of the results in terms of markets are doubling, still it's very small market share to start with something like 3% market share becoming 5% or 6% market share, still in long haul I would be expecting at least another four quarter to go to bring in a very decent market share and those kind of market.

**Sonal Gupta**

Yes and just if you could shed some light on, I mean do you think given that the industry is sort of slowing down, I mean will there be any change in terms of the shift towards higher HP tractors or do you think that I mean you don't see much of a transition from here?

**S. Sridhar**

See, one is slowing down for the industry we should not worry from agri sector, so irrespective of government support this sector is here to stay. If you look at the history we will never develop a doubt on this kind of sector actually this is not like infra, this market is here always to grow on an CAGR of something like 8% or 9% but this kind of dips do happen so I don't think we revise our agenda just because one quarter goes this way or that way, we do watch the industry we don't change our action. So, just don't bother about the industry, the second areas what you talked about is how the new segments are going to pan out, how this is going to happen, will it go into a smaller pace market or it's going to be bigger sized tractor what you are asked for, this I think two year back itself we made a public statement. In India the bigger size tractors are here to grow and that segment is growing, but what happens is within the biggest segment also it is becoming a sub-classification, so within the bigger tractor for example, 45 – 50 horsepower above there are certain expensive tractors there are certain cheaper tractors within the tractor horsepower category. The cheaper tractor within that higher horsepower category are the category growing whenever market is stuck to the bottom like at this, not necessarily expensive just give you expensive tractor means John Deere kind of a brand. Those people have a difficulty that's why you will be seeing their markets are also from a high of 8% coming down to 5%,

5.5%. So, it's more to do with a segment behavior than to do with anything to do with the brand. So, having understood this we have to prepare ourselves for not only on the premium end of the higher horsepower we will also preparing ourselves for the lower end of the higher horsepower. In other words, some our brands like Powertrac which were meant only around 35 – 40 horsepower is getting ready with a lot of models around 40 horsepower, 50 horsepower even above to cater to those kind of an area. In other words, higher horsepower tractors are here to stay that it will bring out lot of sub-segments. Escorts is preparing for catering to all those sub-segments because there is a good money there, even if you are catering in to the economy segment within the higher horsepower segment, so we are getting ready, maybe in two quarters from now you will see all our models in the marketplace. Now it is being on the launch phase so I cannot disclose more on that.

**Moderator**

Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

**Srinivas Rao**

Thank you very much. Just wanted to expand on the previous comments you made on the outlook for the tractor market. Your comments seem to indicate that the growth rates between various markets are, the divergence is very large and second on an overall basis you seem to indicate that the tractor market is headed for a more softer growth for the next 18 months, so if you can just throw further light on that, it would be helpful.

**S. Sridhar**

See, when we are talking about softening we are not talking annualized we are talking about immediate quarter perspective and when we talk about it we will also talk about months perspective. For example, it was growing at the rate of 20% and now I am talking about all India because almost growing at 20% till January – February types, suddenly that February hailstorm has softened the whole industry from there it started coming down from a 20% growth rate suddenly came down to 5% growth rate in the month of March, then -10, -5 that kind of a thing. So, this kind of a thing you should see definitely for this quarter, this quarter will become a negative industry to what extent we will get to know next month because June is a peak month that will show the intensity, okay that will happen maybe July – August – September also maybe on a recovery phase from a negative phase to a recovery phase, again if industry starts growing this industry doesn't show any moderation if it starts growing again it will grow at that pace, okay 8% I am trying to be moderate, it can be even sharper growth on that so this kind of industry you need to be very nimble footed, flexible, many things to be ready, step up production if necessary not happening, cut down inventory and then be quiet about it, so your flexibility is the important key to succeed in this kind of an industry, so it can swing from -10% to -20% so unless we align then we will not gain out of industry behavior, we are watching so what I am putting out is, it's a moderate situation, so this quarter negative next two quarter is recovery, third quarter chances of coming back powerfully is pretty high let me limit because beyond that it's hazarding a guess so let me hold to myself actually.

**Srinivas Rao**

And secondly, I mean you have indicated weak versus a stronger market for Escorts, I mean is the divergence between various states quite large, I mean what is the scenario right now there.

**S. Sridhar**

See, what happens is markets like South and West in terms of tractorization has started pretty late, whereas the soil conditions that these markets are pretty demanding actually, so what



happens is even though they are the late starters they didn't go through the graduation part of A category, B category, C category not like this, they landed up with the higher horsepower tractor quiet steeply because of the demanding environment, so that has a facilitated many MNCs like John Deere even New Holland have started doing very well, they established themselves it's affordable. Financing is very high in those infrastructural supports of our enabling finance; this kind of a facility is very high so that also moves the customer into a higher horsepower segment much faster. Okay this is what has happened, unfortunately Escorts in the last 10 years didn't participate in those market, they are still yearly 90s with our brand called Ford, we were significantly presence in those kind of a market we almost vacated it and that gave the space for many of our competition to occupy, having said that 10 years are pretty long period for them to tightly occupy. So, today we have become stranger in the market where we have been the leader once upon a time, so the many actions what we are doing is two level actions, so one is the innovative products and also brand lead action is being prepared. Having said that when I am talking about brand lead action it also means that lot of money is required, so good product alone is not good enough for rebooting in those kinds of a market. So we are organizing ourselves, we will do state-by-state, we are seeing initial success. Possibly you bear with me for another four to six quarter, you will see a fantastic story afterwards.

**Moderator**

Thank you. Next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

**Riken Gopani**

First thing that I want to understand on the pricing side as you mentioned that there is a heavy discounting going on in the market right now. Could you highlight as to what would be the discount levels and have we also started participating in the same?

**S. Sridhar**

See, I am commenting based on what the press advertisements not through field intelligence. The press indicated something like Rs.20,000 and all the lead brands have straightaway dropped their prices, it's all evidences through a press advertisement, so Rs.20,000 is obvious. Beyond that is, it's only a guessing, I hope another Rs.10,000 will be below the table, so I would like to get that something like Rs.30,000 is there, maybe Rs.10,000 maybe from the dealers there, Rs.20,000 maybe from the companies like kind of guesstimate I make based on what I am hearing. So, as I said this tractor industry has this kind of a behavior when there is a boom, it is excessive, when it is bust it becomes a sharply go down. So, if you tightly don't read the industry, don't organize ourselves, every time you end up with excess stocks or poor stocks, the poor stocks lead into, I am not saying companies, maybe including the dealers, maybe making excess money and when it is bust what happens people pump in the similar kind of a money to sustain those kind of a volume. So, this sharp fall also is the reason for why people are getting into this kind of a discount. This is not surprising; I am watching this industry for 2.5 & 3 years every time this kind of phenomena happens this is an automatic response I am seeing from the industry players. But having said that, we had a poor EBITDA history almost 4.5% & 5% and we also wanted to become a leader in the EBITDA story, which is around 15% kind of an area. So one thing what we have said away is playing those kind of game, we refused to stay away even at the difficult sales we have stayed away. And now also we are staying away from the discounts story, we wanted to place a product story, we are making the most impressive products, not in a position to recover full money is a different story, so we also contributed, it's like more for more story, superior product, little more attractive price is our story, not for same for less story which many

of the players maybe playing, so everybody has their own way of responding to the market, market is competitive, will continue to be so for couple of quarters again they are quarter three or October – January, I do expect a boom, again I will be seeing a very different behavior from the same industry. I think everybody is used to those kind of a phenomena today.

**Riken Gopani**

Okay got it. And also would that be there for the right reading that your inventory is well under control across the system as of now?

**S. Sridhar**

Of course, we will be the first to drop, my finance control is watching, my inventory is more in heave, the buttons are more with him than with the sales guy could, so we will cut down, we will always be a lean company and of course, our attempt to cut right in the market itself is moderate to the extent 500. Some more cuts we will do it because we would like to be lean, we don't want even sale office working but we don't want to be inefficient company so some more is on the pipeline.

**Riken Gopani**

My question was to understand, more on the dealership side as to what you are doing there on revamping the distribution if you could highlight what is happening there?

**S. Sridhar**

See the point is you would have seen a lot of articles and reengineering Escorts, old company with a lot of history, so we also have a lot of old dealers with old mindset so it is not only internally we are reengineering, we are externally also reengineering, I think we would have replaced to something like 200 to 250 dealers in the last two to three years' time. So, we are replacing lot of dealers who are not willing to change which type that's already happening and we are also aggressively impacting the dealer, this is on the surface. More importantly, our story is more like a brand led story, the clarification of Powertrac as a brand and Farmtrac as a brand the most important dealership story is aligning the dealership with a brand story of the company. In other words now, dealers are becoming exclusive dealers for Farmtrac; exclusive dealers of our Powertrac this is what will become a winning proposition two years from now, when the products become distinct, positioning becoming distinct, the ability to charge premium becomes distinct, so we will have a two different set of range, two different set of network so that is also being put in place. Initially this is happening in our so called strong markets, eventually it will happen all India over a period of three to five years over a period of time.

**Moderator**

Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

**Chirag Shah**

I wanted to understand that for your tractor portfolio how would be the usage for infra related activities, if you can share some light over there it would be helpful and are you seeing any kind of cushion that could come in your overall tractor volumes from that side over next 12 to 15 months.

**S. Sridhar**

For your answer, if infra does very well, we are a direct beneficiary and we are indirect beneficiary also. Direct beneficiary because we have a construction equipment division, indirect beneficiary is the tractor division which I will explain now. See, the infra nobody buys a brand new tractor and put it for what you call mining stone, infra activity support is not done through a brand new tractor then where it is getting used? The infra led activity kick start a demand for a

second hand used vehicle, sales demand are the resale for the used vehicle goes up. A three year old tractor starts commanding a better price, the moment customer gets a better price for a three year old tractor he is attempted to replace the tractor so that higher resale value recovery thanks to this action, is indirectly become a boost of our new vehicles. But this comes with a lag effect means if an infra activities revise you should expect the benefits to happen three to four quarters later not simultaneously. For me infra every six months the action what you are asking for is still one-and-a-half-years away.

**Chirag Shah**

This meant for the tractors and the regions where you operate how good could be the demand potential for you coming from this side, is it possible to do that kind of analysis of not really, can we say that 20% - 25% of your volumes are indirectly linked to recovery in infra?

**S. Sridhar**

No, see I would put it in this way 50% of my tractors have a trading kind of an arrangement, people buy and sell, those people who buy and sell are the people who are bothered about the resale value. Infra kind of an activity has a higher impact on the resale value. 50% of the people will upgrade not only they upgrade they upgrade for a superior products. The kind of a segment where we are interested in, like E category, E+ category we are interested in. It has got a lot of indirect benefits but comes with a lag effect. It does not come simultaneously. I am talking about haulage.

**Chirag Shah**

And if I can just follow up thing on the discount that you highlighted. So, I was not able to understand that there is a brand advertisement done of 20,000/25,000 reduction in discounts, but has actually the prices at the dealer level also dropped, is that the way to look at it?

**S. Sridhar**

See now what happens is in a difficult days now whatever I am committing and press advertisements I talked about the industry, the newspaper advertisement targeting the customer end price that's what I will get to know at what price they bill I will never get to know. So these prices have gone down to 20,000.

**Chirag Shah**

So, is it that your billing or you have low as a OEM industry have lowered prices by 20,000 but whether it is actually getting percolated or that is not very clear, that is a right way of understanding your statement?

**S. Sridhar**

No, I am talking about customer prices are fallen by 20,000 that's the way to read.

**Moderator**

Thank you. The next question is from the line of Bharat Gyanani from Reliance Securities. Please go ahead.

**Bharat Gyanani**

Actually I missed your previous guidance, like you said the industry would show flattish kind of a growth in H1 and then probably kind of recovery in H2, so just wanted to understand like what are the reason for downfall in the current quarter, is it only the abnormal value conditions or like is there any other factor to it?

**S. Sridhar**

See we should look at it like two reasons of this kind of phenomena to happen. One is obviously the weather condition which I have already explained the going was very, very strong, till February the kind of a crop output the prices were very, very good. From there suddenly when

the hailstorm hit has killed the sentiments, one is actual problem, second is the sentiment. People got into a much cautioned mode this is one area. The second area where we should not rule out if you look at it last year's same quarter the industry was growing almost like 26% to 30%, the industry was growing on a very high, one reason, we are talking about growth to over a very high growth quarter. We want to see this both these factors together and the story for the next quarter also, then onwards it will become something like realistic.

**Bharat Gyanani**

So, sir like your guidance I missed your full year guidance for the industry growth actually if you can just repeat that?

**S. Sridhar**

As of now something like 4%.

**Bharat Gyanani**

4% growth for the FY15?

**S. Sridhar**

Yes.

**Moderator**

Thank you. Next question is from the line of Mitul Shah from Karvy Stock. Please go ahead.

**Mitul Shah**

I have question on the construction equipment business. There is a sequential drop of roughly 8% in this quarter but margin last quarter was (-2%) this quarter it is (-9%) so any specific reason for sharp decline though volume decline only 8%?

**Ajay Sambrani**

Well, if you see as an overall year the construction segment has been a tough year for the whole segment specifically the last quarter we have seen number of decision-making on key projects have not really moved forward. As you are aware that Escorts have a quite good balance when it comes to portfolio but we are quite tilted towards industry and infrastructure. We have not seen the kind of recovery especially in the industry side where our material handling products are positioned and that's where we can see we have slowed down in this quarter and that's where we see our volumes coming down.

**Mitul Shah**

But sequentially margin decline is around 700 basis points so anything one time kind of thing happen in this segment?

**Ajay Sambrani**

Yes, as we saw the last year the segments going slowdown and the volumes going down we have to rationalize our fixed cost and we have been running number of transformation and adjustments of manning within the business so we have taken those costs of adjustments of our fixed cost and that's where we see the cost booking in this quarter.

**Mitul Shah**

What will be the breakeven volume for this business and can we lower it further?

**Ajay Sambrani**

Yes, I think last year was a good year where we lowered our breakeven points substantially by almost 35% going forward we will further rationalize, we are driving number of business transformation programs basically to align as you are aware this segment is quite volatile and cyclic and it's important that we manage our fixed cost well so I think going forward we will continue our journey on operational excellence and also especially on the adjustment of fixed cost.

- Mitul Shah** Can you give any ballpark number for volumes for breakeven of this business?
- Ajay Sambrani** Well, on annual basis if you look at we have brought down to closed to about 5,000 equipment and going forward we will look for another 20% reduction.
- Mitul Shah** And last question on the market is that markets of this construction equipment business are we losing it?
- Ajay Sambrani** I think if you look at our positioning we broadly put into three baskets one is the material handling equipment, the second is the earthmoving and third is the road application, so if you look at we have a very strong positioning in the material handling segment and we have not lost the market share we are holding on to path, actually we are moving up the value chain when it comes to the product offerings. Earthmoving, it's a shot, we have launched a new product last year and this year we will see ramping up of volumes basically in the backhoe loaders that's the product we have launched last year. This year going forward we will ramp up our volumes and we will see the market share going up, we have 3% market share and the target is to double up going forward and coming to the road applications last year has been a tough segment and we have repositioned our products so I would say overall level we have not seen our market share profits.
- Moderator** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead
- Sunil Jain** The question was mainly related to your auto division. Can you throw some light on how the things are panning out from here and how we can see improvement in this particular segment?
- Dipankar Gosh** Sunil this particular auto division has been for the last few years where we are losing money now we have taken up a plan that we will go for restructuring of the whole division, we are announcing various schemes and we have taken up the restructuring of the whole operational management so that we can bring down the fixed cost and the whole target is that by March '15 we will make EBITDA positive. We have some internal schemes which are going on so hopefully by March 2015 we will be EBITDA positive.
- Nirmal Bang** About VRS scheme, so is there any one-off charge in this particular quarter?
- Dipankar Gosh** This particular quarter we are working on it we would be announcing it very soon.
- Nirmal Bang** And about this railway division. Can you throw some more light, how the whole year next year can pan out?
- Dipankar Gosh** We feel, I mean I cannot give you numbers and all but we feel that the coming quarters is very positive for us, we see we have already launched one of our biggest products the Bogie Mounted Brake System which would be through with this approval in the coming quarter so we feel there should be a good in that and we also see a lot of like the Kochi Metro, the Ahmedabad Metro and lot of other metros coming up where we are participating in a big deal with the car builders so we are hopeful of getting lot of business but as of now I do not have the numbers to share it.

- Moderator** Thank you. Next question is from the line of Viraj Kacharia from Securities Investments Management Limited. Please go ahead.
- Viraj Kacharia** My question sir on the tractor business. Now if we were to see the growth the domestic tractor industry for the first nine months of FY14 it was growing around 20% as we pointed out. Now if you see FY12 and to larger extent FY13 you had a very bad monsoons and we have seen decline in the tractor volumes so is it that the upcycle which we have seen in the first nine months that's more of a pent up demand which is being catered and that kind of growth rate, it may not be happen in going years.
- S. Sridhar** See this becomes very difficult to predict and that is the struggle, if it happens something like even 24%/26% in few quarters our becomes like (-5%) or (-10%) this is where a CAGR of like 8% to 9% is a very, very reasonable estimate, this is what I think everybody is recommending and we personally feel that is the correct growth rate to look for on a long term. Now the rest on the particular first half, second half is more to do with phenomena on monsoon, good crops, and prices so how the sentiment is panning out that is the way we should look at it. Today also there are certain hidden advantage so like what happens is they always say no more water is better than less water. The current story whatever we are struggling is not having water, but so far the story is the excess water, the ground water levels have really moved up, we really don't know the El Nino kind of an effect we will wait and watch. These things are basically positive only if there is no adversity with the monsoon there are chances of our doing better or high in the second six months.
- Viraj Kacharia** My second question is like in last quarter con call. If you did indicated us that you might be showing some thought process on the range of agri elite products which we intent to enter into, if you can just provide some color on that?
- S. Sridhar** I think we are talking about division called crop solutions I think it is little too early we are still working. Let it take a concrete shape and then we will disclose. See today I can talk about exports because actions portion alignments are already over, so only implementation is placed and timeframes are fixed. Crop solutions still a far cry, thoughts and experiments it's on that level so too early to talk.
- Viraj Kacharia** Would it be in the small farm mechanization space which company is trying to cater to?
- S. Sridhar** No, the point is I don't know whether you are talking about entry level tractor kind of a stand, our machinery portion of it, the machinery whatever we are trying to bring in this is not meant for one acre or two acre type of farmer, the machinery whatever we bring it's more in terms of bigger farmer. Our few farmers coming together and make it really a big space, so that is the kind of an area we are targeting, certainly not the small or marginal farmers.
- Viraj Kacharia** And just last one question now increasingly we are seeing more and more agri and even tractor we were getting into the small farm mechanization space so we would say like tillers and other, so what is holding us back in terms of getting in this particular say like power tillers and other products?

**S. Sridhar**

Please look at it from our side both the agri space and infra space itself is too large, it is not only India there is a global opportunity, we have to go too far, we are still very small unless we accomplish those kind of objectives straightaway going into those kind of activities in terms of timing may not be a good idea but having said that the way we will cater to those kind of area is to bringing in series of partnerships where we do not get directly involved, we will bring in some strategic alliances where those people will do the rest for us, but having said that I said give me some more time because these are all being cooked, so it's not ready to serve as of now. I will share it with you when time is appropriate but your question is Escorts will not go directly into those kind of area. The Escorts has to do lot of work in terms of tractors, variety of tractors, major markets, lot of things we needed to do before we directly get involved on those kind of case.

**Moderator**

Thank you. Next question is from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

**Ravi Purohit**

Just one question which is related to the previous question that have been asked is that, how does Escort see itself over the next 3 to 4 years in terms of broader strategy because we see a lot of divisions that we have like we have railways, we have auto components but the real profitability point of view it's where the tractor division is and that's where we also have a very strong brand and maybe to the certain extent material handling equipment. So, if you could just throw some light on what is our medium term strategy are we looking at hiring of some of these divisions or are we looking at focusing more and more towards agri equipment or agri and infra is something that we are committed to and we will go forward with the two.

**S. Sridhar**

I will just explain couple of things like. First I will explain about the tractors and agri space itself. See, whatever we are doing is not any different from whatever we have spoken some two year back. In terms of alignment and actually it is already there. Now, slowly what you will be seeing is the actions and implementation and results, this is what you will keep hearing. There is a high degree of consistency in what we are trying to do. What we have set out ourselves is we said that image markets will become number one. When we said our markets are used to be something like 1.5% and 2% and then year before last year it has become 3%, last year it became 7%, this year and the E-Plus category we will be at 10 or 11 and we said in two years to three years from now we will reach at 18% where we will become a leader. So, this is one area we have set out from something like 1.5% / 2%, we are on our path. Currently we are at 6.5% - 7% why because it's such a huge imagery and incidentally good money is there. Once we crack that portion we said then we will start attacking the mass market from an imagery point of view, so in the three year wanting to become number one in that space is the guideline and we are going into the path and the result is supporting that. The second area is, so the segment what we are talking about itself is I am sure you will get it, the imagery and E-Plus and this means is that big profits as well, the profitability is simply double that of any other popular category, 3 times that of the B category and the C category. So that is the kind of a segment where we are talking about, we and our part, I have given you certain market share improvements in the last three years, I also told you that we will reach then. Once we reach there simultaneously we will come into the popular category through a drop down technique, the moment we achieved our imagery and then certain class and the leadership achieve there the so called popular category we will become a leader,

that is where our Euro kind of a model already is being warmed up, it started doing very well and that will start challenging positions for a higher volume and higher leadership, these things will happen after three years. In other words it's almost you can expect in five years seven years from now we should expect number one position in certain premium category and number two kind of a positions in certain overall basis, this also means certain category we have exited like A category, B category almost 10% of the market we almost vacated from 3% share or 4% share we almost vacated those kind of category. Despite of vacation, we will reach something like 18% or 19% kind of a market share, so this is only an Indian story, equally impressive story we have for exports that we have said you will start seeing it every year in terms of doubling our volumes so that is a kind of a story we will see. And if you ask me the other biggest wing which is being developed is the infra, infra story is ready. So far we have been on a leaning ourselves preparing ourselves in terms of strategy wise, you will see a similar story on what we are doing agri even on the infra story. Now, the infra also needs an enabler as I said it's agri, it's not government dependent, the industry is already stable industry, okay so this is the almost safe zone. The infra is a very government dependent industry, that is with the new government and our readiness should couple up entry in a fast forward mode, so between agri and infrastructure will remain as our main focus, incidentally we may do something which maybe supporting those two activities, otherwise the focus for us will remain in one leg on agri one leg on infrastructure, hope I have clarified Ravi.

**Moderator**

Thank you. Next question is from the line of Saket Kapoor who is an individual investor please go ahead.

**Saket Kapoor**

Mr. Dass had spoken about the debt level and the interest cost being reduced, what is the ballpark figures for the debt level and the interest cost reduction that we must be expecting in the coming financial year and what are the maturities of the long term debt that are up for redemption in this year.

**Bharat Madan**

See today we have total debt position of close to Rs. 435 odd crores out of which long term debt is about Rs. 220 odd crores and we have annual repayment of close to Rs. 80 crores every year on long term debt, so maybe another four years you will see the debts getting evaporated from the balance sheet. So having said that on the finance cost side if you look at the improvement which has been there (because we have been discussing this a lot in the earlier conferences with the investors), one of the key issue was that the average borrowing cost has been very high. There are two reasons for that- one obviously was the debt level which was there and second was we had some extended creditors which were interest bearing liabilities not getting reflected on the balance sheet as borrowings which have since been paid off in this year. So, you will see the major reduction has happened on the finance cost on that front and at that level today, if we look at borrowing level versus interest cost that we have now, it averages out to about 12% and this average cost level we expect will continue going forward, but yes, on the debt position, depending on the cash flow, you will see lot of improvement and it should go down.

**Saket Kapoor**

If we look at the shareholding pattern also there are two trustees holding about some 32% / 33% of the stake in the company and earlier regulation from SEBI as also being mandated that the



employee trust cannot hold shares in the company? What is the game plan all about and what is the purpose of these shares being held in the trust if a clarification you can give?

**Bharat Madan**

No, one trust, if you look at the shareholding pattern that Escorts is having, holds treasury stocks of let's say about 30%. And that's the investment which we are holding more for future gains and depending on opportunities in the market going forward, we will take a call on those stocks. As of now we have been told there is no restrictions under the new Company's Act or from SEBI side in holding the already created treasury stocks. Same thing applies to the stock option trust which is the second trust where we are holding the shares for the employees. Those stock options are being used as and when the same gets exercised by the senior management team to whom the same are offered and those shares will basically get liquidated gradually over a period of time.

**Saket Kapoor**

A lot have been spoken about the unallocated part which is only 886 crores that is there in the unallocated part, is it about this treasury part and other stuffs altogether that the capital employed.

**Bharat Madan**

Major area is of the fixed assets, i.e. the land and building which is in the corporate office books and the other major portion is obviously this treasury stock which is almost Rs. 360 odd crores.

**Moderator**

Thank you. Ladies and gentlemen due to the paucity of time we will be taking the one last question from Sameer Deshpande from Fair Deal Investments. Please go ahead.

**Sameer Deshpande**

There are definitely certain positives that is a reduction in interest costs and good show by our tractor business, but I am concerned with the growing outlook for '14 - '15. See, if the tractor industry is expected to grow at 4% and our concentration in North and East and not in the other segments which are growing faster there is a possibility there will be a drop in volumes of tractors for the current year and secondly the discounting which is going on will also put pressure on the margins which the segment margins we have seen they have come down to 7.85% in this quarter vis-à-vis about 9.5% for the last year so if the mainstay of our profitability in tractor segment is going to face some degrowth and lower margins, how can these losses of auto ancillary business of about some 30 crores annually and construction equipment of about 32 crores, how can Escorts sustain the profitability for the current year.

**S. Sridhar**

Sameer I will just answer for only one. See the point is industry is discounting yes, but if you also look at it the 20% of our business is with the new products, expected to be (+30%) in this quarter, our way of insulating ourselves from competition is only through the new products, even though there is a stress on the new products because of under recovery it is good for us on the long term, so those portions we are insulating ourselves from competition largely through our new products so that's a good story of it. The other anxiety here is volume maybe threatened maybe yes, but as I said things even in the worst of the situation we have seen on annualized basis couple of years back it was not a negative story, it was zero kind of a growth. So there is no need to develop a panic view so I have only see a zero-zero growth I have never seen an annualized basis as a (-5%) or (-10%) those kind of growth didn't happened. So, even though the anxiety justified the past definite show those kind of an acute downfall but discount we will face it. What is under threat is our ability to recover the money, if this things going forward that is

what is questionable otherwise in July would have one such opportunity to recover much more money, which was internally planning, today I don't know the answer from my side is we don't know we will keep watching the situation that is where when it comes to tractor side of the story, the rest Bharat you can answer it.

**Bharat Madan**

The other two segments which you talked about, i.e. the auto part and the construction one, I think we have already heard Ajay and Dipankar telling you about the transformation they are doing in both the divisions, So the idea is to cut down on the fixed cost and reduce the breakeven point as much as we can, so we will probably see the results coming in from the third quarter of this year, where I think something positive will emerge. And moreover on the construction side, I think now with the stable government at the Center, the expectation is lot of projects will get cleared and the economy will again go back to the original growth rate. So I think once the development happens, obviously the volume should start picking up, and we are really banking on that.

**Sameer Deshpande**

But in auto ancillary are we planning any restructuring.

**Bharat Madan**

As Rajeev mentioned in the beginning of his speech, there is already a mandate out looking for a strategic partner there. Having said that, that's something which is already on for the last one quarter and besides that, there is already restructuring been done in the auto part division both in terms of cutting fixed cost as well as in launching the VRS scheme (what Dipankar told in the beginning of this conference). So the problem that we have in Auto Part business is mainly manpower cost and once that gets addressed, you will see the improvement happening on the auto part segment.

**Sameer Deshpande**

we are looking for a strategic partner going forward for that particular segment?

**Bharat Madan**

that's right.

**Sameer Deshpande**

Are we are not interested in hiving off that particular into two separate subsidiary?

**Bharat Madan**

It's difficult to say at this point of time until we get some details depending on the prospective partners' interest, so as of now it's very difficult to comment anything on this.

**Sameer Deshpande**

Because Mahindra & Mahindra had did it for their own forging business, etc., they have given their majority stake to the company which is more competent and having technology intensive companies because our size of business in auto ancillary segment is too small, if you take the size of the auto industry in India ancillary business of 200 crores annually, doesn't really hold any potential even though economies of scale don't permit us to make any profits, so.

**Bharat Madan**

so, like I said, it will depend on what offers comes on the board and as of now, we don't know. It depends on the interest of the prospective partner if he is wanting the majority stake and we will probably take a call at that time. At this point, I think it's too premature to discuss this.

**Moderator**

Thank you. I now hand the conference over to the Management for their closing comments.

**Rajeev Dass**

Well, Ladies and gentlemen thank you very much for being present on this call today and I would just want to make one final comment that we have a very, very focused plan for both ECE and our auto products businesses along with a group vision which we would be more than happy to share with you on a select basis as and when we are connecting in the months ahead so that there is perhaps a deeper clarity on where we are taking the company in the next two years. Once again thank you very much for being with us today and we will connect again in the next quarter.

**Moderator**

Thank you very much members of the management. Ladies and gentlemen on behalf of Escorts Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.