



“Escorts Limited
Q4 FY2022 Results Conference Call”

May 13, 2022



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INVESTOR RELATIONS TEAM



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Moderator: Ladies and gentlemen, good day, and welcome to Escorts Limited Q4 FY2022 Results Conference Call hosted by Asian Market Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Mayur Milak from Asian Market Securities Limited. Thank you and over to you, Sir!

Mayur Milak: Thank you, good evening and on behalf Asian Market Securities Private Limited, I welcome you all. I also take this opportunity to welcome the management team from Escorts Limited. Today we have with us, Mr. Bharat Madan, President Finance, Group Chief Financial Officer and Corporate Head, Mr. Shenu Agarwal, President - Agri Machinery and Construction Equipment Business and the Investor Relation’s team at Escorts Limited. We would start the call with the brief opening remarks from the management followed by 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 and are subject to risks as outline in the annual report and investor releases of the company. At this point, I would request Mr. Madan to make his opening remarks. Over to you Sir!

Bharat Madan: Thank you, Mayur. Good evening everyone and thank you all for joining us on this earning call for the fourth quarter and financial year ended March 31, 2022. I would like to present few highlights of company’s standalone performance for FY2022 as follows: Turnover at Rs. 7,152.7 Crores as against Rs.6,929.3 Crores in previous year is up by 3.2%. Tractor volumes at 94,228 tractors as against 1,06,741 tractors previous year. Construction equipment volume at 4,117 machine is up by 5.2% as against 3,913 machines last year same quarter. EBITDA at Rs. 951.3 Crores as against Rs.1,129.2 Crores in previous year is down by 15.8%. EBITDA margin now stands at 13.3% as against 16.3% in last year.

Margins have been adversely impacted by steep inflation in commodity prices as well as lower sales volume in the Agri machinery segment. Company continues to be debt free with sufficient available liquidity for growth. The PBT is at 1,021.9 Crores as against 1,157.1 Crores last year. Net profit at Rs. 765.6 Crores as against Rs. 874.1 Crores last year. Standalone EPS at Rs.58.9 per share as against Rs.68.1 per share last year. The board of



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directors have recommended a final dividend at 70% that is Rs.7 per equity share for the year ended March 31, 2022, as against normal dividend at 50% that is Rs.5 per equity share for the year ended March 31, 2021. This is excluding one-time platinum Jubilee Year's special dividend of 25%, which was declared last year.

Moving on to company's quarterly performance, turnover is at Rs.1,861.4 Crores as against Rs.2,210.5 Crores in previous fiscal same quarter. Tractor volume is down by 32.8% to 21,895 tractors as against 32,588 tractors in last year corresponding quarter. Construction volumes were down by 19.8% to 1,286 machines as against 1,604 machines in last year corresponding quarter. EBITDA was at Rs. 243.4 Crores as against Rs. 344.7 Crores in last year corresponding quarter. Net profit for quarter was at Rs.202.2 Crores as against Rs.271.3 Crores in last year corresponding quarter.

On consolidated basis, revenue from operation at Rs. 7,238.5 Crores in the year ended March 31, 2022, was up by 3.2% as against Rs. 7,012.5 Crores in the year ended March 31, 2021.

Consolidated net profit recorded at Rs.735.6 Crores in the year ended March 31, 2022, as against the profit of Rs. 872.6 Crores in corresponding period last year. Consolidated EPS stands at Rs.74.06 as against Rs.92.15 per share in previous year.

Now moving on to segmental business performance, starting with the Agri Machinery business, the domestic tractor industry volumes in FY2022 went down by 6.4% to 8.42 lakhs tractors as compared to 8.99 lakhs tractors in previous fiscal. You may recall that FY2021 was a record year with the growth of 27% Even with a 6.4% drop over the peak of FY2021, the tractor industry in FY2022 recorded its second highest peak. While tractor industry remained subdued in second half of a FY2022, the recent trends are pointing to building up of positive sentiment. This is owing to good crop prices and prediction of a normal monsoon. April 2022 witnessed a 41% growth in the industry, and we expect Q1 of the ongoing year to be quite positive. We would hold full year the industry guidance until after the onset of this monsoon season.

Our domestic volume went down by 14.5% at 87,043 tractors in FY2022 as against 1,01,848 tractors in the year fiscal. Inflation pressures in the entire year led us to take five price hikes in six quarters including recent price hike taken in mid-April 2022. Most of these price hikes were taken ahead of competition to balance our profitability and volume goals.



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Tractor market share improved from 10.1% to 11.8% between FY2016 and FY2019. For the next two years it has the marginal decline to 11.3% in FY2021 due to supply chain issues in the COVID inhibiting our ability to meet the demand. In FY2022, we declined further by 1% as industry we have a strong market like UP which de-grew at 15% and Bihar which de-grew at 20%, did not do well compared to some of our weaker markets such as Maharashtra, which grew by 20% and Karnataka which grew by 5% and AP and Gujarat which de-grew at 3% and 4% respectively lower than the industry average de-growth. Q4 FY2022 market share sequentially has gone to 11.4% as against 10.4% in Q3. Also, we hope the inflationary pressures to subside from Q3 onwards after a massive steel and oil led inflation in Q4 FY2022, the commodity price are more stable at least for the time-being.

On tractor export side industry was up in a FY2022 by 45.2% to highest 1.28 lakhs tractors as compared to 88,000 tractors in previous fiscal. Our export volume went up by 46.8% to 7,185 tractors as against 4,893 tractors in the previous fiscal. This is driven by continued success of new product launch by us in the last few years as well as by our expanding distribution network. EBIT margin of Agri machinery business stands at 15.5% as against 18.3% adversely impacted by steep inflation in commodity prices and lower volumes. Post the recent price hike in April 2022, we still have significant unabsorbed inflation. We plan to take one more price hike in Q2 of this year and then hope to recover the entire impact of inflation by end of the ongoing year.

Coming to the construction equipment business our served industry of cranes, backhoe loaders and compactors was down by 23% in volume as compared to FY2021. Only crane industry showed marginal growth of 1.8%, but compactor industry was down by 11.6% and the backhoe loaders were down by 28.2%. Our total volume of the manufactured and traded products went up by 5.2% to 4,117 machines as against 3,913 machines in the previous fiscal. Segment revenue for the year at 985.3 Crores was up by 27% as against 776.1 Crores in previous fiscal. We increased market share in FY2022 in all key products segments. However, due to steep price inflation and lag effects in passing on the same to the market, our construction equipment business, EBIT margin was at 2.4% down by 116 basis points in the previous fiscal.

With renewed government thrust on infrastructure and enhanced budgetary layout, we expect a good recovery in construction business starting Q2 of the current year.

Now, coming to the railway division, revenue for the year ended March 2022, went up by 32.8% to the ever highest yearly revenue of Rs. 636.2 Crores as against Rs.479 Crores in the corresponding quarter. Sales form new product were at 65% to the total division sales as



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against 59% last year. EBIT margin for the year ended March 2022 stood at 14.8% as against 16% in the previous year. We are witnessing good traction in tendering process and order book for the division at the end of March 2022, stood at more than 440 Crores. In FY2023, we expect the railway equipment segment to continue to grow in the double digits.

Post successful closure of the open offer on April 11, 2022, Kubota Corporation has become joint promotor of the company. Joint teams have started working together in various functions to bring together best practices from both the companies and also started working together on developing a mid-term business plan for the company, which will be shortly re-named as Escorts Kubota limited. The plan is likely to be ready by third quarter of this fiscal year, outlining road map to achieving joint aspirations and associated investment strategy. Now, I request the moderator to kindly open the floor for Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now be being the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hitesh Goel from CLSA. Please go ahead.

Hitesh Goel: There are two questions, first is on the RM inflation front, what is the under recovery still in Q1 on the RM side and how much price increase have we taken given the current spot price of steel and secondly on the railway business, we are seeing last two quarters, the revenue has jumped up, but margins are still declined from Q2 level, so you know you have guided for 17% to 18% kind of EBIT levels on railways, so what is under recovery there and when will we reach those 17% to 18% EBIT margins?

Shenu Agarwal: I will answer the first question on the raw material inflation, so I am speaking about like the tractor side, so after the end of this quarter after having taken one price increase in mid-April, we would still have about 4% to 5% of unabsorbed inflation of the average sales price, so this is although going to be a challenge, but as Bharat said we are planning to take one more price increase in Q2 and then subsequently, we will see how to time the balance price increases, of course it would be too optimistic to hope for any deflation right now, but at least we are seeing some stability in the raw material commodity prices in last few weeks, so that is the situation on RM inflation and prices. The most recent price increase that we have taken is roughly 2% and I will pass on to Bharat to answer the question on railway.

Bharat Madan: Hitesh, in the railway margin front there are two keys reasons, as we mentioned, so the new product contribution is been going up now in that segment and which is large dependence on imports for meeting those demand and we know the exchange rate has not been very

supportive so the growth and the margins low in the new product segment, although it is giving very good top line growth to us and second is our currency issues and third because these are all fixed price contracts, and we have a large order book now from the railways, but it is all fixed price contracts so the inflation cannot be passed on to the government, so that is another challenge, which is coming on the railway front, so even though we carry a good order book now, the tendering which has started now, so the new orders, which are coming which probably will factor in the cost increases but the one which are existing on the on the books, obviously will have some impact on the margin because of the inflation, so that will have some impact overall I think this year also so on the railway margin front, so which having more in the range of 13% to 14% now for this year what was able to be get to the new order, but the building of cost increases, which has already happened.

Hitesh Goel: Thank you.

Moderator: Thank you. The next question is from the line of Raghunandan from Emkay Global. Please go ahead.

Raghunandan: Thank you, Sir for the opportunity. My first question is to Shenu, Sir, farmers seem to be benefiting from both higher crop prices and additional crop as rabi harvest was at early this time, can you talk about farmers sentiments and income improvement, can industry growth be 20% plus for Q1 FY2023?

Shenu Agarwal: Raghu, thank you for the question. yes, farmers sentiment is quite positive more so in the wheat growing parts of the country right now because as you know most of our wheat is being sold in mandi at market prices and not as the Government MSP price and the market price varies from mandi to mandi and state to state, but it is quite a bit higher than what the MSP, so in MP for example, it is ranging between Rs.2,300 to Rs.2,600 and in Rajasthan in some places it is even going up to about Rs.3,000, so that is one good aspect, the other thing that we have to keep in mind that while in many areas the yield of the wheat is good, but in some areas especially in the Haryana belt the yield has not been so good, we have seen because of high temperatures and early summer onset, the yields have affected, but yes, overall the situation is good in terms of the farmer income per acre etc. So, after having seen a 41% increase in the industry, although some of it is also because of some pushing, the dealer stock, yes, it is quite fair to say that we can see something between 15% to 20% growth- in Q1.



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Raghunandan: Thank you, Sir. Shenu sir, can you also speak on the efforts at your end to regain market share towards 11% to 12% your thoughts on marketing efforts, new product, network expansion?

Shenu Agarwal: So, Raghu, as we have already always maintained that we have a very clear strategy that is in place for last three to four years and this strategy has basically two or three parts to it, so the first part is that wherever our market shares are more than let us say 13% to 14% or more than the average market share, which we call our strong markets, there we are trying to marginally increase or sustain our market share. The second is like what we call the weak markets or the opportunity markets where our market shares have been traditionally very, very low either slightly above five percent or even below five percent, there we are running several special projects to increase our penetration, now of course most of these projects have a long-term, medium-term horizon, but we are very, very consistent in our approach to these. Now, last couple of years have been a little bit kind of jittery for us because of this unusual unprecedented inflation pressures and every quarter we have to think how much price to be increase and how much hit on the profit to be taken, so we were kind of balancing our act between our profits and between the market share or the volume aspiration, but I think now is the time because we really think that this situation or era is now probably going to be over sooner than later, so we are going back to now fully focused on the market site again. The strategy is not going to change. Even this year, we are following the same strategy, but we have renewed our efforts now in those projects, so for example, right now for this year we will be running at least four or five projects in the weak markets and also two or three projects in the strong markets where we have lost some market share, but overall strategy remains the same, so we are expanding our dual distribution, which means separate dealers for Powertrac and Farmtrac, we are enhancing our reach by improving our channel coverage in wide spaces and we are also launching products wherever we have white spaces or opportunity to improve the current product range.

Raghunandan: Thank you, Sir, for the comprehensive answer. Just a clarification there, would Kubota products get sold in our wide and strong network or would Kubota continue to be in a separate channel?

Shenu Agarwal: So, Raghu, that deliberation is going on as Bharat said, we are in the process of creating our midterm business plan and this midterm business plan would cover all these aspects like what is going to be our joint brand strategy now going forward, what is going to be our channel strategy not just in domestic, but even overseas markets, what is going to be our strategy in enhancing our efforts on the implements, attachment side, etc., so please be a



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little bit more patient on this, hopefully by end of Q2 or early Q3 maybe we should be ready by all the plants, lot of detailed plans are being worked out along with the investment plans also, so we will be able to answer to these questions around that time.

Raghunandan: Thank you, Shenu, Sir. One last query to Bharat, Sir, Sir, we have a huge cash reserves any plan on utilization or reward to shareholders and in the of form dividend, buyback anything that can be expected, or would you want to share this during that midterm plan?

Bharat Madan: Yes, Raghu, I think we are all waiting for midterm business plan but that will also you know give us a roadmap of how much investment is needed organically for the business going forward, so depending or whether we will be setting up a Greenfield plant or going for further product, portfolio expansion, or getting to the new ranges I think all this clarity will come maybe at that time, so it will be too early right now for us to say anything on that front. We know all of the preferential allotment which we did so, the entire money which has come from Kubota actually has restricted use, so that cannot be used for dividend, so what really will be available will be, whatever surplus we were carrying prior we were carrying prior to this preferential allotment or whatever will get generated in the future, which will be the kitty, which will available to us for distribution or for buyback or allocation that we can from this plan so I think we will come back to you, I think when the plan is ready, we also intend to announce it to investor at large, what is the roadmap for the company so may be wait for few months more.

Raghunandan: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Thanks for taking my question. I have two follow-up on the earlier question on the market share, if I look at the market share will been losing even in our strong markets in north as well as east, what I am trying to understand is it just the price action that you all have taken is much higher than the competition or is there something else you are seeing aggression from other players and what is it really going on your stronger markets from market share perspective?

Shenu Agarwal: Gunjan, thank you for the question. I mean on the surface it looks like price is the reason because most of the price hikes we have taken, we have taken ahead of competition by a few days or weeks or even month, but what has happened in this process is then some of the stronger markets our positioning got upset, our price positioning, product positioning got upset because of this phenomena, so we do not think there is anything fundamentally

wrong, we are not losing any dealers, there is no like a big problems with the product and there is nothing like competition has done, which is unusual in these markets like we think it is temporary phenomena, of course you know in such a scenario our responsibility is not just to ourselves, but to also to take care of the entire ecosystem because when we do five price hikes in six quarters of course it creates an impact on the dealer profitability when the inflation is so high it creates an impact on supplier profitability, so I mean we had to balance a lot of things, I mean I am not commenting like what the competition did, but we know our story best, but we have to balance a lot of things, we have to balance dealer profitability, our own volume, market share aspiration, our own profit, our suppliers, cash flows, etc., so it has been a difficult time and like I said we think things would be stable now going forward and therefore we are refocusing on our market share aspiration now.

Gunjan Prithyani: I will just take my second question which was on the price on the farm segment, if I look at the ASP quarter-on-quarter they have come off now you did indicate lot of price increases that have been taken along the way, so what really explained that the price reduction and in a similar I do not know maybe if I missed while I got dropped, are there any discount schemes that are being floated in the market just to you know kind of bring the demand back?

Shenu Agarwal: Nothing unusual, of course like from season-to-season like we vary our discounts a bit, but nothing unusual right now, of course if the market comes back and if the inflation subsides there would higher competitive intensity in the market because everybody would now start gunning for market volume and share, but nothing we have witnessed so far of this sort.

Gunjan Prithyani: ASP, Sir?

Shenu Agarwal: What was your question on ASP, I could not get it?

Gunjan Prithyani: The ASP sequentially has come on despite you taking price hike in January or in quarter four, what explains that reduction sequentially?

Shenu Agarwal: I am not sure if it come down, do you have any specific data that you are referring to?

Gunjan Prithyani: Yes, I am referring to the farm segment ASPs, maybe I will take it take it offline.

Shenu Agarwal: Yes, that would be better, thank you.

Gunjan Prithyani: Thank you.



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Moderator: Thank you. We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: It is a question on the April month, strong volumes which we saw for the industry any sense on how was the retail side trend I mean wholesale as you indicated there has also been inventory push, which is happening, any sense on the retail growth for month of April?

Shenu Agarwal: Yes, there was quite a bit of growth in retail also in April, see we do not share retail numbers even at the TMA level, etc., so it is like more of internal estimates, but yes, there was a solid growth in retail as well; however, the wholesale growth seems to be more than the retail growth in April, but yes, retail also improved quite a lot.

Jinesh Gandhi: Sure, and what is the price increase we took in the fourth quarter I mean in the Jan, Feb and March quarter?

Shenu Agarwal: I will just respond to that in a minute, you said January quarter, right?

Jinesh Gandhi: Yes.

Shenu Agarwal: My colleague is looking at it, I will just respond in a minute.

Jinesh Gandhi: The question to Bharat, is with respect to the cost inflation roughly what is the gross RM cost inflation witnessed in the fourth quarter?

Bharat Madan: In the fourth quarter, I think on the RM side it will be close to 2%, but you know we pass on the cost increases to the suppliers to the lag of a quarter normally the contracts are reset with lag of the quarter so what actually got passed on in Q4 was more than of Q3 inflation, Q4 has seen steep inflation and basically will have the impact going forward, which will get passed on in the next quarter.

Shenu Agarwal: Also, Jinesh, on the price in the fourth quarter we took a price increase on December 1, 2021, which continued of course to the fourth quarter and that was roughly between 2% to 2.5%.

Jinesh Gandhi: Got it and lastly if you can talk about exports, how are we progressing on leveraging on Kubota's channel through E-Kubota brand and beyond Kubota's channel for how should we look at exports from FY2023 basis? Thanks.



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- Shenu Agarwal:** We are very, very optimistic on that front because you know that Kubota is a multinational brand and they have very, very strong distribution network in many parts of the world, so definitely we are going to leverage that, also as part of our joint partnership we have already notified that we are going to come up with new product range consisting of maybe some existing aggregates and some new, but this will be like basic machinery, not basic from India standpoint, but basic from a world standpoint like a basic value innovative machinery, both farm machinery and construction that we will create and then export through or sell through Kubota oversea channels, so very optimistic, but yes, a lot of planning is being done right now to take it to another level, right now as you know like a year or year-and-a-half ago we started some volume to export through Kubota channel, but now since this partnership has taken another form and shape you know it will go to a very different level now, so all that planning is in works as soon as we have our MTBP plans ready then we will share a lot of details with you.
- Jinesh Gandhi:** Sure, on the 7,200 exports in FY2022, how much would have been through Kubota channel?
- Shenu Agarwal:** Very small number, less than 1,000, but in a minute I will give you the exact number as well.
- Jinesh Gandhi:** Thanks and follow back in queue.
- Moderator:** Thank you. The next question is from the line of Mitul Shah from reliance securities. Please go ahead.
- Mitul Shah:** Thank you for the opportunity, I have question on tractor volume for FY2023 again, I know that it is difficult to give number, but directionally if you can help whether it will grow, it will remain flat, or maybe decline, on a wholesale basis?
- Shenu Agarwal:** Mitul, generally the direction or the thought process right now is that it should be on a growth path again after having dropped 6% last year, we are quite optimistic about the first half especially the first quarter, now as Bharat said in his opening comments we would try to hold back our guidance for the whole year until the onset of the monsoon and also watch some other macroeconomic situations that are happening such as inflation and the war and other things, you know there has been a lot of uncertainty and volatility in various macro parameters off late and therefore we are just hesitant to make the full year prediction right now, so give us few more months and we will come with that prediction, but yes, first half looks very positive.



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Mitul Shah: Basically I am asking from wholesale point of view, is that inventory level in the system roughly around 1,35,000 - 1,40,000, which is much higher than what we have witnessed in the historical leverage of 85,000 to 90,000, see even if you adjust the inventory event slightly elevated at closed to 100 or 110 K, still there needs to be 30,000 to 35,000 correction required in wholesale, so what I am trying to understand even if industry retail will grow by 5% to 6% wholesales or may not grow, so what is your thought on this inventory side correction as well as on the retail side from that point of view?

Shenu Agarwal: Yes, you are right that stock levels, the dealer stock levels are higher than normal right now and your numbers are pretty okay in the range. Yes, there would be some correction that might happen after the season on the dealer stock, but until then I do not see any correction happening really, yes, even right now every manufacturer is gunning for full production hoping for a bumper season in May, June and even later in the festive season, so let us see how it pans out, but as I said in the first half the things are very optimistic where everybody is going to hope for the best retail numbers ever.

Mitul Shah: Second question on the sustainability of April number that what we are hearing from the few farmers as well as some dealers that because of the export of food grain going up and there is a kind of fear in the minds of private procurement companies that in future because exports going up there would be lesser availability of this food grain, so they are purchasing at higher prices as you pointed out rightly for wheat as against Rs. 1900 MSP per quintal roughly Rs. 2400 to 2500 is at most of the places so it is coming out primarily because of the Russia-Ukraine thing once it gets settled down, the Mandi prices might come down, so how confident are you about the sustainability of this such a high growth, which we have witnessed in month of April, even in that month roughly I think 12,000 to 12,500 is the inventory push, retail growth was roughly at 25% to 27% only, so your view on this for coming months?

Shenu Agarwal: Mitul, you are right, I mean we are not at all expecting a repeat of April phenomena throughout the year, April growth was 41% and of course as you rightly said, retail growth was not that high, but still very, very strong, I mean you are right, I mean this wheat thing is a temporary phenomenon, which will affect the first four or five months of tractor industry and after that we have to wait to see how the monsoon is, how the sowing is, but I think the Navaratri are also in September this year right and we are expecting some early sowing as well in some parts of the country right so all in all it seems like the first six months have all the positivity around it because this rural cash flow actually some of the customers or even farmers are even holding their crops some of the customers are because they are receiving money from the mandis and not from the government, so they have a staggered cash flow

also, so the customer is not getting on spot money, some money they get right now, some money they get a month later, some money they get even two months later, so considering all these factors and the few more we are optimistic about the first six months, again to your point that there may be a stock reduction at the dealership level, but again like season like Navaratri are in September we do not see that happening in first six months in fact in first six months stocks may go up slightly more than what they are right now right before the Navaratri.

Mitul Shah: Sir, thank you for the detailed explanations and lastly anything would you like to share on the non-Agri tractor side?

Shenu Agarwal: On the?

Mitul Shah: On the non-Agri tractor user as your tractor for non-Agri purpose also growth seems to be strong on that side?

Shenu Agarwal: Mitul, that is also one area which is bringing some optimism in our industry because as you know that for last two years whether it is non-Agri or even to some extent government backed sales, it is not really, really healthy even like some states which have a high share of market in non-Agri like Bihar for example, you know they are not doing well even now because of the slow momentum in the non-Agri side, now what we see now is that this has to change I mean the COVID possible is kind of mild, a lot of spends has been committed by the government in the budget, lot of outlay is there on construction, so we really think that this will take a kickoff this year not exactly when it is hard to say, but still my personal belief is after Q2 we should see some improvement in non-Agri side also, so that will also help the industry and help Escorts.

Mitul Shah: Thank you very much, Sir.

Moderator: Thank you. The next question is from the line of Vikram R from MIB Securities. Please go ahead.

Vikram R: So, my question is on the supply side, two to three quarters back we had an issue with supplies, which was fixed specially of the injection pump and now we see most of the other auto industries that again facing issues with chips and basically the semiconductor shortage anything that you would like to comment and there are pending orders due to this?

Shenu Agarwal: Vikram, you are right, I mean we had a terrible situation on the FIPs in the tractor market because of dependency on one company on a FIPs for the entire industry and that was

largely related to COVID related lockdowns, so while the rural demand was still going high, but supply chain got disrupted because of COVID and specifically this company had lot of issues, but we are over that problem of course there were some learning also, so we have improved our inventory carrying capacity for some of the critical items such as these or some other items which were in risk at that point in time. Chips necessarily do not affect our industry too much at least until the stage 5 norms come up in 2024, so right now chips is not a problem, yes, in some export products chips is a problem, but not as much as the other players in automotive industry are facing, so even in the export models we use like one or two or three chips per tractor kind of a thing while automotive, etc., use lot many more, so that way we have no problem on supply chain, but yes, supply chain has been very, very erratic for last two to three years and even now and the main reason is this whole disruption because of unprecedented inflation, so in this era of inflation I mean lot of suppliers faced difficulties of cash flow and profits and all that and we have to really hold them, hold their hand in such times, but that also brings lot of volatility and uncertainty in the supply chain, even today we have a huge backlog of export order not because of chips, not because of a FIPs, just because of the uncertainty on the supply side.

Vikram R: Thank you, Sir. My second questions is on southern markets now because of our relationship with Kubota do you foresee our presence in southern market improve because Kubota is slightly stronger than us in the southern side of the country?

Shenu Agarwal: Yes, that would definitely be a strength that Kubota will add to company because their products are more suited towards for the wetland they have like historically for many, many decades. They are very good on the wetland kind of products so that is a strength that of course comes to the company now that technology that know how that knowledge of the market, customer, etc., and on the back of that strength we are going to have a different plan how to grow in south now, of course as I said detailed working is going on for every market, for every state, for every product segments and we will be ready with that by end of Q2 or early Q3.

Vikram R: Just a final question because you mentioned about the rising commodity costs because of general uncertainty around the energy availability and cost, any chance there is a clamor or push to move towards electric tractors or e-tractors or EVs in case of tractors?

Shenu Agarwal: Yes, huge push at least in Escorts. Our Chairman, Nikhil Nanda is personally very, very passionate about the alternative technologies and about their impact on the environment, etc., so you know that we were the first company to launch a commercially viable tractor, electric tractor in the country and probably in the world as well, we have been ramping up



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the supply and production of the electric tractors now, we have already reached to a level of about 60 to 70 a month and very soon they will try to cross 100 a month as well, we are by design kind of taking it slowly because we want to mature this technology more and more before we start pumping up big numbers in the market, a lot of work has to be done by us both on the technology side and the cost of ownership side, so that work is on, but yes, there is a huge focus at least in a Escorts on alternative technologies including electric tractors.

Vikram R: Thank you, Sir. That is, it from my side.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Good evening, Sir. Thanks for the opportunity. I just have a follow up on the commodity cost related the answer that you gave you mentioned that you have taken a 2% price increase in mid April and another 4% to 5% cost increase is to be passed on, so I just wanted to clarify this 4% to 5% is to maintain the current with your margins or it is to achieve target margin?

Shenu Agarwal: So, when I say 4% to 5% it is on a cumulative basis when this inflation trend started in roughly in Q3 of FY2020, this is like cumulative impact of last six or seven quarters that at right now we are still 4% to 5% short we see the difference between inflation what we have given to suppliers and price increase that we have been able to command from the market, it is on a cumulative basis as of today.

Kapil Singh: How much cost inflation show we expect in the current quarter ending of June?

Shenu Agarwal: Fingers crossed, but as I said the last few weeks have been have seen some stability in the commodity prices so there is like roughly no impact, some of the prices have gone down, some have gone up slightly but in a very narrow range, so in these days it is hard to say what would happen in inflation, but right now we are thinking that this quarter probably the prices would be stable.

Kapil Singh: Okay great and second question was, wanted to check for, what is the update on TREM-IV less than 50HP tractor, when are they going to be applicable and what is the cost of that?

Shenu Agarwal: There is no formal notification from the government, but yes, the dates that has been discussed that has been under discussion with the government April 1, 2024, the government in its various discussions also said that they would have a minimal difference of three years between more than 50 and less than 50HP tractors, now more than 50 has



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already been postponed again to October 1, 2022, so the industry does not think that it will really happen in April 2024, it may get extended further as well, but yes, I mean it will happen sometime in that time frame 2024-2025. The impact on the cost would be quite significant, it would be let us say roughly like more than a lakh of rupees on the selling price or even more in some higher HP models, so that it is going to be a kind of challenge for the industry when it comes. Yes, all the companies in the sector are trying to find different ways either to reduce the cost or to add some other value in the tractor to justify that kind of a hike so we are still like minimum two years away, maybe two-and-a-half years, so a lot of time we have on the hand to see how we can justify this to the customer

Kapil Singh: Thank you.

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

Chirag Shah: Thanks for the opportunity. This is a followup on the previous question. Sir, you indicated Rs.1,00,000 price increase in 2024?

Shenu Agarwal: I am sorry, your voice is not very clear.

Chirag Shah: Sir, you indicated Rs.1,00,000 cost increase in TREM-IV?

Shenu Agarwal: No, stage 5 I said.

Chirag Shah: Stage 5?

Shenu Agarwal: Stage 5, which would be coming in 2024 or 2025.

Chirag Shah: For this 50HP tractor, which is to get implemented, which is likely coming, what about that, Sir?

Shenu Agarwal: Firstly, that market is not really big. That market is roughly 8% to 9% of the total market and the cost increase would see not that much also, cost increase would be roughly in the range of Rs.50,000 to Rs.60,000 and the prices of these tractors also is much higher than the average price so the impact would not be that much from the pricing point also, it is not the stage V norms, the ones greater than 50HP are stage IV norms and therefore we do not need to add too much equipment to manage emissions..



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Chirag Shah: Sir, lastly on this commodity price deflation, which most of the industry is expecting to happen from H2, so in the past would it be right to say that good amount of the commodity deflation is actually passed onto the consumer or the enduser?

Shenu Agarwal: Sorry, can you repeat that. I am really sorry, can you repeat?

Chirag Shah: Sir, the commodity deflation, which is expected from H2 at least hope, it will be, correct me for that, in the past we have seen that whenever there is a commodity deflation it is passed on to the consumer, is it the right way of looking at the industry dynamics whether the demand is strong or not to maintain the brand equity you tend to pass on the benefits?

Shenu Agarwal: We do not know, if I give you any answer it was a very hypothetical right now, so we will see when it comes on India, we are not saying that we are seeing any inflation right now like we are just saying that we are increasing in this looking at some stability in the commodity price, when this changes to a deflation scenario whether it changes or not is very, very hard to say right now, yes, I mean if there is a deflation scenario I think the response of the industry would be a mixed one, some amount would be passed on and then some would be adjusted in the potential price increase that we had to do in any case, like so I think it would be a mixture of the two.

Chirag Shah: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Abhinav Chandra from Ratnabali Capital. Please go ahead.

Abhinav Chandra: Thanks for the opportunity. so, my question in on the merger, so where exactly the merger pending right now, how long will it take and post-merger have a follow up on that, so Escorts has been losing market share whereas we see Kubota has been gaining market share both exports, both Escorts and Kubota put together market share is going to be close to 14%, post-merger what is your take, do you see your market share continuing to grow because Kubota has been eating market share in the small size segment, whereas our sales mix today in the small size is close to 40:60, where do you see the sale mix, what are the margin in the small HP tractors and what exactly is going to happen post-merger of both the entities?

Bharat Madan: Abhinav, I will answer the first question on the merger, then we will pass it on to the Shenu for your second question, so in the merger front right now as you note the open of about only in April last month, so right now we are in the process of doing some formalities so still need to go to the board for approval initially what we have declared in November and



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when we signed the agreement was an intent to evaluate the feasibility of merger, but now we are really closer to that and we need to workout on the process to have a valuation, swap ratios and the timelines, etc., how it will happen, so those things are in process right now so maybe soon you will hear probably from us on that part on the next step, but obviously this is a process, which will be a court process which will take at least a year sign for this we have to go through the stock exchanges, SEBI for approval, then the shareholder's approval and then NCLT so yes, the process internally has been started, let us see, we are trying to do it soon as possible.

Abhinav Chandra: Okay, so in the last call when the merger thing we asked, we were told that the dilution for the existing shareholder is going to be minuscule you still stand by that?

Bharat Madan: Sorry, what did you say?

Abhinav Chandra: The dilution from the merger for the existing shareholder, we were told is going to be minuscule in the last call, so you still stand by that?

Bharat Madan: So the JV are small in size so they are not really first the manufacturing JV is only Captive it for the sales company so it's clearly not really much value there and both put together are not very large companies compared to Escorts, so that is why we thought the dilution should not be much, but it will depend on what value, the values come out with, but definitely we do not think it will be very, very significant.

Shenu Agarwal: and coming to your question on the tractor categories and the market share, etc., I mean from our view at least, we think Kubota and Escorts are very complementary and I will tell you why, because if you look at Kubota's current portfolio they are very strong in the very small HP tractors like orchid tractors and they are very strong or getting more stronger in the larger tractors like 50 HP or more while most of the Escorts strength lies in the mid range, which is like 35 HP to 50 HP, so I think from that point of view it is very, very complimentary, the other thing is even geographically we are very complementary as you know we are more stronger in the west, in the north and the center and the Kubota is more stronger in the west and south and in fact they are not even present in many markets in the north and center, so that is another reason we think very complimentary, technology wise also very, very unique because Kubota is having a background of rice, their tractors are much more lighter and better suited for wetland applications, while our tractors are much more heavier duty, they have more weight and they are much better for dry land application, so I think if we are able to successfully kind of leverage this unique strengths of Kubota and our brands just in terms of geography, technology or product range I think we would have a



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good winning combination. Now, we are working on these aspects like how to create this winning combination, now you are right, our combined market share is roughly 14% and we have a stated aspiration of a joint market share, so we are just seeing how to get there in timeframe.

Moderator: Thank you. The next question is from the line of Rohit Sharma from Motilal Oswal Securities. Please go ahead.

Rohit Sharma: Actually, there is only question from my side. First of all, congratulations for the stupendous results. Just a question is that our average sales realization is quarter four had increased in the tractor segment, when I saw in the tractor segment quarter four Escorts tractor realization has increased where around 28,000 where the selling price we have taken is at only 10,000, roughly 10,000, so is there a positive mix impact that is coming into place for the tractor segment?

Bharat Madan: The 10,000 price increase is actually taken in April, so the last quarter we will see the impact of price increase taken in earlier period too which is adding, but it is coming up beside the product mix gap which are there, so I think that responding to your question, so roughly the price increase of 10,000, but we talked about is taken actually in April, not in Q4, so Q4 we will see impact of more price increase has been taken and that quarter is a bad quarter, so yes, there is some positive mix impact in which is there and third is also that is a non-tractor revenue, so it is not the revenue coming from just tractor, there is non-tractor revenue also which is roughly 10% on the total year end top line which only happen like parts or oil etc., so it is also part of the total agri business segment so it is not pure tractor per se you know which is largely something.

Rohit Sharma: So, that is perfect. I roughly worked out dividing by number of tractors so 594 to 622, you are saying non-tractor segment is also contributing towards that revenue.

Bharat Madan: That is also is seeing the increase happening so on the implements and engine sale which happens, we can restrict to, so it is part to the total topline it is not just tractors that play.

Shenu Agarwal: You also have to consider the price hike we took was on December 1, 2021, so that price hike had no effect in Q3, but full effect in Q4, so when you Q3 and Q4 then you have to account for that as well.

Rohit Sharma: Thank you.



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Moderator: Thank you. The next question is from the line of Eshit Sheth from Anvil Wealth Management. Please go ahead.

Eshit Sheth: Thank you for taking my question. Sir, I had one question when we have seen generally the merger of entity or a global promoter taking over an Indian company because of their style of working and manufacturing process and all of that, is there sometimes an impact of taking an inventory or write off in the company, so you think something of this sort is possible as both companies come together?

Bharat Madan: So, it is very difficult to answer that question Eshit, so we think we have done all clear up all legacies for this company have been sorted out and you have been seeing that happening in the last number of years now, so that is why the performance on the increase year after year, but yes like we said we are in the process of working out a midterm business plan there may be decision taken on what product portfolio to continue, there may be some hard calls, which may need to be taken depending on the synergies which may exist in the longer term, so short-term and midterm there may be issues which may come out, but we do not really as of now you do not have any visibility so it is very hypothetical for us to early say and to comment on that, but we do not rule out, there are many cases, where because of the longer term synergies we may have to take certain calls.

Moderator: Thank you. The next question is from the line of Saji John from Geojit Financial Services. Please go ahead.

Saji John: Sir, most of my questions has been answered, I just want to ask you on the export front, because on a full year basis export was good so any ballpark number would like to give for the next two years?

Shenu Agarwal: As has been explained that there has been a momentum in the exports industry firstly I mean in export industry like shot up quite a bit in a FY2022 and there are reasons behind that and we think the reasons are not just short-term, those reasons are like midterm and therefore firstly there would be a momentum in the export industry that will continue, so that will provide us some tailwinds to our own volumes, the other is you know we have lots of opportunities coming up with Kubota's partnership, so our aspiration is very, very high, we want to be the leading exporter of tractors among all the Indian players that would take us about 7 to 8 years to reach at that level, but you can imagine that year by year what kind of a growth we would need if we were to reach there, so definitely I mean the short-term goal is to cross the 10,000 tractor volume immediately like within a year and a half or so.



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Moderator: Thank you. The next question is from the line of Abhinav Chandra from Ratnabali Capital. Please go ahead.

Abhinav Chandra: This is a follow up on my previous question, you know I asked for margins on the small tractors, so if you could just quantify which segment more than 40 HP has higher margin compared to tractor above 40 HP, what exactly is the dynamic there?

Shenu Agarwal: It is a little kind of technical to explain at this point, but like in all automotive industries or including tractors when we design a particular character, it is not designed for a particular HP point, it is designed for a range, so for example, if I create a new transmission or a new gearbox, I would not design it for absolute 40 HP, I will design it for a range let us say 38 HP to 43 HP right, so one side design there, so on the tractors which are 38 HP because they come on lower price I make less money, but on the tractors 43 HP I come on more money although the cost of the tractor is roughly the same, right so that is why we have this platform theory in automotive, so there are like three let us say platforms, which are most prevalent in tractor industry, one is 38 to 42, the other is 42 to 47 and the third is like 48 to 55, so of course the margin goes up, as we go up higher in the HP category and the margin again goes up when we go higher within the platform also like that is a normal trend in the tractor industry, so you can safely assume that the margins are better as the HP is going up.

Moderator: Thank. Ladies and gentlemen, due to paucity of time that would be a last question for today. I now hand the conference over to the management for their closing comment. Thank you and over to you!

Bharat Madan: Thank you, ladies and gentlemen for being present on this call. I. For any feedback and/or queries, please feel free to write into us at investorrelation@escorts.co.in. Thank you very much and have a good evening.

Mayur Milak: On behalf of Asian Market Securities, this concludes the conference. Thank you all for joining. You may now disconnect your lines. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Asian Market Securities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.