



“Escorts Limited Q3 FY2022  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Escorts Limited 3Q FY2022 Post Results Conference Call hosted by Batlivala & Karani Securities India Private 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. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you and over to you.

**Annamalai Jayaraj:** Thank you Zaid. Good evening, on behalf of Batlivala & Karani Securities India Private Limited I welcome you all for Escorts Limited Q3 FY2022 Results Earnings Conference Call. I also take this opportunity to welcome the management team from Escorts Limited. Today we have with us Mr. Bharat Madan, President Finance & Group Chief Financial Officer and Corporate Head, Mr. Shenu Agarwal, President Agri Machinery & Construction Equipment Business, Mr. Ajay Mandahr, Chief Executive Officer – Agri Business India, Mr. Sanjeev Bajaj - Chief Executive - Escorts Construction Equipment, Mr. Ankur Dev, Chief Executive - Railway Equipment Division and the Investor Relations team at Escorts Limited. We would start the call with some 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 and are subject to this as outlined 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 Jayaraj. Good evening ladies and gentlemen and thank you all for joining us on the Earnings call for the third quarter and nine months ended December 2021. We trust each of you and your families are safe and healthy. I would like to present few highlights of company's standalone performance for third quarter ended December 2021 as follows:

Revenue from operations during the quarter at Rs.1,957.5 Crores went down by 3% as against Rs.2,017.4 Crores in previous fiscal. This is primarily due to drop in tractor and construction equipment volumes. Tractor sales volumes came down by 19.8% to 25,325 tractors as against 31,562 tractors last year same quarter. Construction equipment volumes went down by 8.2% to 1,151 machines as against 1,254 machines last year same quarter.

EBITDA for quarter ended December 2021 at Rs.264.6 Crores and down by 27.3% as against Rs.364.1 crore last year same quarter. EBITDA margin for Q3 stands as 13.5% as against 18.05% last year same quarter.

Margins have been adversely impacted by steep inflation in commodity prices as well as lower sales volume in both agri and construction equipment segments. Company continues to be net debt free with sufficient available liquidity for growth. The PBT at Rs.268.8 Crores as against 376.5 Crores last year same quarter. The net profit stands at 201.5 Crores as against 280.7 Crores

last year same quarter. The standalone EPS at Rs. 15.33 as against Rs. 21.28 last year same quarter.

The consolidated EPS at 19.76 per share as against 29.21 per share last year same quarter.

With this now moving on to the segmental business performance starting with the Agri Machinery business. The domestic tractor industry volume went down by 13.5% to 2.24 lakh tractors as compared to 2.59 lakh tractors in last year same quarter. This is primarily attributed to late monsoon rain, delayed harvest of kharif crops impacting rural cash flows and coming over high base of last year.

Our domestic sales volume at 23,321 tractors went down by 22.4% as against 30,072 tractors in last year same quarter. At this time, we are highly focused on supporting our channel profitability, which is under pressure because of frequent price hikes which this industry is not used to, and also because the slowdown in the industry resulting in less volumes for dealers. Among other measures, we have reduced our dealer stock in this quarter to reduce the working capital cost of our dealers. We might continue to adopt these measures for another quarter or so for dealer inventory level in terms of number of days of sale continues to be lower than the industry average.

As far as the inflation is concerned, we are seeing some signs of this peaking out. However, since in most cases we pass some inflation towards suppliers with the lag of a quarter, we still might see some inflation in Q4 of this fiscal, while we are watching the trends we hope we may not see significant inflation from Q1 FY2023 onwards. However, some more price increase are imperative in the next fiscal year to be able to pass on the complete impact of inflation to the market.

Industry of Indian tractor exports was up in this quarter by 29.3% to reach the level of 34 thousand tractors as compared to a level of 26 thousand tractors in last year same quarter. Our exports volume went up by 34.5% to 2,004 tractors as against 1,490 tractors in same quarter last year. This is driven by continuous success of new products launched by us in the last few years as well as by our expanding distribution network. Sales through Kubota's global network is also gradually picking pace.

Agri segment revenue went down by 8.9% at Rs. 1,505.6 Crores as against Rs. 1,652.7 Crores in corresponding quarter previous fiscal. EBIT margin for agri machinery business stood at 15.8% as against 20.1% adversely impacted by steep inflation in community prices and lower volumes.

Q4 FY2021 saw a huge increase in the tractor industry to a level of 63% over Q4 FY2020 because of this high base we expect industry volume to continue degrow in Q4 this fiscal year. On full fiscal year basis, we expect the Indian tractor industry to degrow by 4% to 6% as compared to record industry volume of FY2021.

Coming to the construction equipment business, our served industry comprises of Backhoe Loaders, Pick n Carry cranes and Road Compactors; went down by 36% in Q3 on Y-o-Y basis. Our total volumes went down by 8.2% to 1,151 machines as against 1,254 machines in last year same quarter.

Our performance is better than industry resulting in market share gain of 510 basis points in pick n carry cranes segment, 80 basis points in backhoe loaders and 600 basis points in Road Compactor segment. Construction equipment segment revenue went up by 12.9% at 276.2 Crores as against 244.7 Crores in the corresponding quarter of previous fiscal. EBIT margins were at 2.5% as against 7.5% in corresponding quarter of previous year, adversely impacted by steep inflation in commodity prices.

Given high base of last year Q4 on account of pre-buying caused by emission norm changes, we expect single to low double-digit growth in FY2022 for the volumes of construction equipment segment. With the COVID-19 related restrictions easing out and with recent budgetary announcement with major push on infrastructure, we expect the overall industry demand to improve from next fiscal.

Lastly on the railway equipment division, revenue for the third quarter went up by 48.1% to highest ever quarterly revenue of Rs. 173.9 Crores as against Rs. 117.4 Crores in the corresponding quarter. Sales from new products now contribute 64% to total division sales as against 69% last year corresponding quarter.

EBIT margin for the quarter ended December 2021 stood at 14.3% up by 164 basis points as against 12.7% in corresponding period last year. We are witnessing good traction in tendering process as Indian Railways has started gradually recovering to a pre-pandemic level and long-term growth drivers remain attractive.

Order booked for the division at the end of December 2021 stood at more than Rs. 400 Crores. For FY2022 we expect railway equipment segment to grow in mid-20s and margins for the segments are likely to be maintained around 15% to 16% level.

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

**Moderator:** Thank you very much, Sir. Ladies and gentlemen we will now begin the question-and-answer session. First question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

**Gunjan Prithyani:** Hi! Thanks for taking my questions. Just couple of questions, firstly on the agri segment. If you can give us some more color on what has led to this ASP improvement because if I recall last quarter you all had mentioned that we are not holding off the price hike because this is season, and we will reevaluate it later. So just the ASP improvement and what led to this quarter-on-quarter margin improvement in the farm segment.

**Bharat Madan:** So, one thing obviously is now I think we have taken the price increase from 1<sup>st</sup> of December so it is a significant price increase which was taken, close to 3% increase which happened now. So that is one of the factors because the price increase taken in the earlier quarters the whole impact came in this quarter and also the mix side, which happened. So obviously it happened after the festive season was over so which is why I think the overall realizations have been coming better in this segment and other than that obviously like you know that there is a lot of discounts in scheme which is running, which are more retail led schemes which also was slowed down with the lower retail so there also some intake which came because of the lower incentives at that time, so which also added back to the top line. So that sort of thing is affected in the overall average increase on the ASP side which you are seeing in this tractor volumes.

**Gunjan Prithyani:** And on the RM side we are pretty much whatever increases has happened in the industry we are pretty much covered up now.

**Bharat Madan:** We are still carrying some lag from last quarter, so as you know I think the commodity price started softening up from November onwards, so we still had some inflation till October. So, we are still carrying in the sense we pass on the impact to the supplier with a lag of a quarter. So, there is some impact from the last quarter which get pass on in this quarter but the overall lagging from November onwards we have seen the prices have started stabilizing a bit in November, December so marginal departure happened in the prices. So, we expect the prices should stabilize but see there is still a lag which is carrying from the last quarter because it is not fully passed on, so maybe there will be another price increase which will happen sometime in Q1 maybe next fiscal which will likely more or less absorb whatever the inflation has been there and after that commodity prices will stabilize and no further increase should happen.

**Gunjan Prithyani:** But it is not a very meaningful under recovery and any number?

**Bharat Madan:** Yes, it is likely to be adding in 2% to 3% range depending on how the numbers look like for this quarter inflation.

**Gunjan Prithyani:** Okay got it, and the second question I had was on the industry now nearly this year now we all understand high base and peak season is pretty much behind, but anything structurally you want to call out that things are pretty slow on the ground and what is, if we have to think for FY2023 anything to keep in mind in terms of the on the ground fundamentals and inventory, as you call that inventory is lower than the industry but when I look at Escorts number versus the industry the decline is much more steep and there is clearly seems to be some corrective action which has been taken on the inventory side. So, if you could just give us some sense where are we, how much more correction needs to be taken on the channel side.

**Shenu Agarwal:** Okay Gunjan this is Shenu, I will take your question. So firstly, on the industry side of course as we said last year was an abnormal year, I mean, we know that industry in FY2020 was close to 708000 tractors, and it jumped to nearly 900000 tractors. So, one biggest factor is that we are operating this year on a very, very high base. Now also we know that growth in the industry last

year happened not in Q1 because Q1 was really bad because of the COVID so it happened mostly in like Q3 and Q4. So, for example Q4 industry growth last year was 63%. Now the other point is that this year we have also seen some constraints in the rural cash flows, mainly we think because of the delayed monsoon and therefore the delayed crop cycle. So, for example, the cash from the paddy crop is still not in the hands of the farmers yet, it is still trickling down just because of the late harvest. So, these factors are mainly temporary because of the delayed monsoon, and I think we will recover over these by end of this year. But fundamentally speaking nothing is going wrong as far as the industry because otherwise, I mean, from 708,000 to 900,000 jump and coming down only by let us say 50,000. So fundamentally industry looks okay, now when I say fundamentally, I mean, the crop prices are holding up more or less actually some prices are very promising, some crop prices are very promising, also the production is very good, the recent rains we were worried that they might have a damaging impact, but they did not, but they have not so far. So, retail finance availability is not a problem, but just because of the delayed cash flows in the rural market there was some caution which was very temporary from the retail finances in the month of October, November, December, and still continuing to some extent, but as I said these are temporary factors, I think fundamentally the industry factors, economic factors are quite strong. So, we are quite optimistic right now, of course in quarter four we will see a drop.

**Gunjan Prithyani:**

This is just the inventory number, and I will fall back in the queue and then just how they are we in terms of channel inventory.

**Shenu Agarwal:**

Yes, so as Bharat said in his opening remarks the season did not perform as good as we were hoping because of all these delays in the crop cycle and delays in the monsoon etc. and at the industry level also there was some buildup of stock because of this reason. Now there are two factors which are really affecting the morale of our dealer network and their profitability, and we are quite focused on improving on those or supporting our channel network for the last three to four months and I think for one more quarter we will have to kind of support our channel in abnormal ways. So one is that their profitability is suffering because of the frequent price hikes in the market as Bharat also mentioned, our industry is not used to so many price hikes at best we do like one or maybe two price hikes totaling like 2% or 3% over a year, but this time you can see, I mean, there has been massive price hikes almost every quarter except for the peak season where we delayed the price hike by a couple of months. Now the dealers are facing a challenge have been facing a challenge in establishing these frequent price hikes within the market. So, customers especially are from a rural area and it is very difficult to sell a tractor Rs.20,000 more expensive in the same village three months hence, and therefore that problem dealers are facing, and we have been trying to support them. The other is that since there was some kind of inventory built up we decided that we will just lower the inventory the dealer inventory as we go along. So, our inventory level when we say is more than the industry our dealer inventory level is roughly around 30 to 35 days, and we believe the industry average levels are more than that.

- Gunjan Prithyani:** Just, Bharat Sir, last question if I can squeeze in on the timeline for that tender, where are we versus the earlier guidance of finishing the open offers by February end.
- Bharat Madan:** Right now as you have already seen that in the media the CCI approval has come, we also received RBI approval now so this last leg which is pending is from the SEBI approval they are on the letter offer, where we are expecting the observation that should come any day then there is some final approval pending for one of the broking company which is on the verge of being sold out so for which approval is coming from SEBI. So, we are expecting it should happen soon maybe within a few days' time and after that we will go ahead with the process of preferential allotment to Kubota post this the letter offer will get this price to shareholders so maybe you can say tentatively, so I think the offer should open somewhere around this month and should maybe close before the end of March when it should get concluded.
- Gunjan Prithyani:** Okay got it. Thank you so much.
- Moderator:** Thank you very much. Next question is from the line of Hitesh Goel from CLSA. Please go ahead.
- Hitesh Goel:** Thanks for taking my question. Sir, my question is on the same tractor industry, so basically you are saying that because when we see the kharif output growth that is quite robust I am not talking about only the volume growth and value growth like you said Y-o-Y the crop prices are at quite high level and the farmers would be start realizing this kharif benefit now, right. So, are you saying that because the inflation in the prices have been quite high their billing purchase and what happens if say for example for the industry to pick up, when the raw material cost starts coming down would you correct prices for the volume to pick up? So, what is the way forward to get the industry on track.
- Shenu Agarwal:** Yes, Hitesh if I understood your question right I mean definitely there is an impact of the increased prices on the market, right, especially on the first-time buyers not so much on the replacement buyers but especially on the first-time buyers. So first time buyers have been really dialing around the kind of whether to purchase it is more of a psychological factor really than a financial or a economic factor because you know that, I mean, tractors, most of the tractors are financed especially for the first time buyers and the margin money required is hardly 10% to 15% so even if the prices go up by let us say Rs.50,000, Rs.60,000 actually the margin money that is required for them to go ahead for the purchase is only Rs.5,000 to Rs.6,000 to Rs.7,000 more. So more than an economic factor it is more of a psychological factor because people I mean it is hard for customers to digest such an increase of prices. So, I think it takes like a little bit of a time for such acceptance to happen so every time we increase the price it takes about 45-60 days and that has an effect on the industry in pushing the industry forward or out. So, I think now since we are expecting that the inflation might be peeking out and there is only kind of a small gap that is left between inflation and the price hikes we have made, which we will cover up hopefully by mid of April or April some time. So, I think the situation would start easing out on

this factor from Q1 onwards, but as I said other macroeconomic factors are good and they are in place.

**Hitesh Goel:** So, if the need of a tractor rises because if monsoon is expected to be good at least the indication from Australian weather department is that this time also did the La Nina. So do you think that industry can still grow next year from this base, I mean, is it just a temporary correction because of the second COVID wave hit pretty badly, and the inflation prices were quite steep in a short period of time would that be the right reading.

**Shenu Agarwal:** Yes, that reading would be right, we would like to give a confirmed estimate for the next year industry maybe sometime around March when the IMD predictions may also be out the first prediction, but right now we are optimistic about next year growth, next year industry and we think there will be some positive growth.

**Hitesh Goel:** Okay. Thank you.

**Moderator:** Thank you. Next question is from the line of Ameen Pirani from JP Morgan. Please go ahead.

**Ameen Pirani:** Yes, Hi! Sir, thanks for the opportunity. My question was actually on the construction equipment business. I am sorry if I am repeating it my line was not clear in the beginning. So, this quarter you have seen a significant decline in profitability even though on a quarter-on-quarter basis revenue are actually up. So can you just help us understand what is happening on that front.

**Sanjeev Bajaj:** I think it has nothing to do with the inflation and although we have increased the prices as per the inflation happening but then the recovery of those prices from the market is difficult. We have gained on the volumes but then the inflationary pressures have decreased the overall margins. The market is still not accepting the prices it will take some more time when the demand picks up then the expectation means that the prices will again be recovered from the market that is the challenge right now.

**Ameen Pirani:** And on the volumes itself I think last year your volumes were flattish even though I think industry had grown and this year you are growing ahead of the industry, but the industry continues to be quite subdued, if I look on a two-to-three-year basis. So is the pricing the main reason for the industry volumes itself to not come up or is there lack of activity what is your reading on that front.

**Sanjeev Bajaj:** See there are ample indications in the current situation as well as in last year also there were ample opportunities from the industry to grow. Unfortunately, because of the price hike in the last 5-6 months the retail customer has not been in the market very aggressively and he has been very skeptical because his hiring rates have not been increased and because of the frequent lock down, the retail customer has been very skeptical. We believe that now COVID impact is over, and the projects are opening up and government is spending a lot of money on infrastructure so we hope that this condition will reverse starting from Q1 of next year.



- Ameen Pirani:** Okay Sir. Thank you I will get back in the queue.
- Moderator:** Thank you very much. Next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.
- Mitul Shah:** Thank you for taking my question. My question is on the tractor side in terms of this regional growth, the industry declined by 13% during the quarter wherein north decline was 10% and central was just only 2% so higher decline is mainly from the south side and despite we are stronger instead of increasing market share we lost market share despite the growth parameter of the regional side was in favor of Escorts. So can you explain this.
- Shenu Agarwal:** You are right, quarter three was favorable for us but we still could not increase market share. In the first two quarters the scenario was quite opposite wherein south and west market was growing much more than the north and central. Now of course as we have explained we are quite focused on our dealer profitability; dealer viability and we are taking some extraordinary steps to support them especially on the inventory side and even on other measures. We have done a considerable stock deduction; you can see our stock as I said is roughly right now in the range of 30-35 days while the industry is still sitting at a higher stock in our view. So, we are very conscious of the fact that market share is important, but the dealer viability profitability and comfort is also important. The main issue with the dealers there is not so much with stock right now, but it is mainly with the acceptance of the price. Now acceptance of the price, we can hardly do anything, I mean, we have no options but to increase the price and hope that in 45-60 days the prices would settle after the increase has been made. But then definitely whatever revenues are present to us in helping dealers sail through this period of frequent price hike, so we are doing that. So, we are trying to balance both.
- Mitul Shah:** Okay sir thanks for that. Secondly on the inventory side industry-wide inventory during Q3 might have declined marginally can you quantify approximate number for the industry.
- Shenu Agarwal:** Industry wide inventory Mitul, I mean, my guess would be as good as your guess in that case, but yes you know that there was a drop in the inventory at industry level in October and November but then some more stocks were pushed in December because of some season in the south. So, as I said it is hard to say what is the final drop in the inventory, but that we know that the industry inventory levels are higher than normal.
- Mitul Shah:** Same is the situation in January also.
- Shenu Agarwal:** We believe some stocks have been reduced in January we cannot say with surety what is the quantum, but some reduction has happened, and I think some reduction would continue to happen at the industry level I am saying in February and March as well. Now you know that 2nd April we have an official period starting in next fiscal so it is hard to say which manufacturer will adopt what policy but let us see, but overall, I think there should be some further reduction.

- Mitul Shah:** Thank you Sir and all the best.
- Moderator:** Thank you very much. Next question is from Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Hi! Sir, thank you for the opportunity. I just wanted to check on two small things, one what has been the cumulative price increase in the last 12 to 15 months in the tractor segment in particular and secondly you alluded to the fact that a first-time buyer demand is getting more impacted than replacement because of this price increase. Can you give some color what does the buyer mix in the industry in terms of first-time buyer replacement or maybe additional tractor buyers?
- Shenu Agarwal:** So roughly the price increase in tractors has been roughly about 10% since November, December of last fiscal so that is the extent of the price increase and as I said there is still some gap that Escorts as well as the industry has in terms of inflation versus price increase. Now what was the other question.
- Nishit Jalan:** Mix of buyers in terms of first time and replacement.
- Shenu Agarwal:** So, see the mix of buyers have been roughly around let us say one third and two thirds, one third being the first-time buyer although the situation widely is different in different markets. So, for example like if you consider Punjab or Haryana or more developed or saturated markets then the first-time buyers are very, very small there I mean they may be in single digits or just around 10%. In some markets the first-time buyers ratio would be higher even more than one third because these markets are still nowhere close to saturation.
- Nishit Jalan:** Correct that is exactly the point if it is only the first-time buyer which is getting impacted, but we have seen tractor industry volumes be weak across states. So is there something more to this than just a first-time buyer filling the trench because of price increase, and all are you seeing some slowdown happening on the replacement side and all those sorts of things as well because we have seen volume decline across north, northern states as well where the first time buyer looks.
- Shenu Agarwal:** No, I mean I have stated like basically three reasons so one is the biggest reason I think is the higher base of last year as I said there was a phenomenal industry growth after July, August last year. So that is the biggest reason. You will remember that quarter one last year actually had a drop in the industry. So, when I say the industry increased from 708,000 to roughly about 900,000 last year then mainly that entire chunk of roughly 190,000 tractors increases happened in Q2, Q3 and Q4 so that is one. The other is that which is a temporary factor which I am saying again is this because of the delay in monsoon there has been a shift in the cropping cycle and therefore that has created some impact on the industry as well because of the delayed cash flows and the third factor is the price factor, which is also creating a negative pressure on the market which is mainly on the first time buyers not so that the replacement buyers are not affected by it but as I said it is not so much of an economic reason it is also a big psychological reason right it takes time for the buyers to accept such a price hike so therefore they tend to kind of wait they tend to kind of postpone their decisions hoping for a better price. So, all the three factors are on

the play but yes price increase factor is temporary it creates temporary problems it always does but this time that temporary is I mean bit longer because of frequent price increases.

**Nishit Jalan:** Got it. Sir my last question is slightly more structural one. What are your thoughts on electrification on the tractor side? So, I will just give you a brief background recently we heard a Tube Investments talking about they acquired one company and they have talked about that electrification will happen quite fast in tractor especially given that our power is relatively lower in cost and they are looking to launch an electric tractor in July this year. So, if you can give some broad thoughts on the industry on the electrification side maybe certain niche segments now can get electrified in the next few years and also so some thoughts around that will be useful. Thank you.

**Shenu Agarwal:** Yes, I am not sure that I understood you right because your voice was breaking up is your question around the electric tractors like potential etc.

**Nishit Jalan:** Yes that was my question, and I gave you an example that we recently heard Tube Investments acquiring a company and they are looking to launch in electric tractor a low HP electric tractor as soon as July of this year so just wanted to understand what are your broader thoughts on electrification and do you think any specific segment or niche application where you think electrification can happen relatively faster in tractors compared to the overall industry.

**Shenu Agarwal:** Yes, so Nishit I mean we as a company are very optimistic about the electrification in the tractor industry and we are very, very serious about it and the proof of the pudding is that we are probably the first company to commercially launch a tractor and selling in some volumes. Now we have not launched the tractor in India because of a few problems that we are still addressing before we launch this tractor. However we have launched this tractor in outside India in Europe specifically and in USA and these tractors are under a test marketing plan right now. So, we are shipping some tractors every month on a continuous basis we are not ramping it up as much as we can because we still want to kind of test the market because we are the only one probably in the world also who have commercially launched and commercially selling tractors now to retail customers, electric tractors. So, there are two problems that need to be addressed some of it we have already addressed but we have to still kind of worry about these two issues so one is the range issue and the other is the issue of the cost. So currently the electric tractors are costing more than the diesel tractors and we definitely are working on bringing down the cost. The other thing is the range of the tractor itself and as compared to a diesel tractor where we need to increase the range of the tractor in terms of number of hours it can operate per charge. So, on both the issues we are working and at a fortunate time we will launch the tractor in India. Now as far as the potential of this is concerned of course the potential will purely depend on the economic proposition of the tractor. Now if we look at the economic proposition over the life of a tractor it is already making a huge sense but also what we need to do is to bring down the cost of the tractor. So, a lot of initiatives are going on within the company as we said we are very, very serious about this and with time we will improve on the challenges that we have at hand and then

you will see that we are going to do much better. Right now, we have the first mover advantage in the industry, and we want to kind of make sure that we continue with it.

**Nishit Jalan:** Thank you Shenu for a detailed report. Just one small follow-up, any broad numbers or range you can talk about in terms of what will be the increase in capital cost or the purchase cost of an electric tractor as compared to a typical diesel tractor. Just wanted to understand because the price increases that you are seeing 1%, 2% price increase in the tractor industry that is impacting demand so much. So just wanted to understand the buying power when we will see a substantial increase in capital cost of a tractor to understand the electrification story here.

**Shenu Agarwal:** Yes, see it is not so much about see the cost is better and kind of in scaling up the volume or scaling of the market for electric tractors and as I said we are working on it, but that is not the only factor when you come to electric tractors or any electric vehicle I mean people look at the overall value proposition over the life of the tractor or life of the vehicle I mean you can imagine that 60%, 70% of the cost of operating a tractor comes from diesel only. Now diesel prices the way they are going even at the current levels it makes a huge economic proposition for a customer to go for electric just if you consider the overall cost of operating a tractor or maintaining a tractor over its lifetime. Now having said that I will answer your other question also now see one important thing in electric tractor is that you have to have a battery which occupies a huge amount of space in the tractor and therefore on one side while we optimize the weight space ratio in a tractor in an electric tractor on the other side with the current constraints or the current level of technology we have to start at the lower end of the horsepower so that is why the tractor that we have is equivalent to a 25, 26 horse power tractor and as the technology evolves this notion of electric tractors will move up the HP range also, but the starting point would be the smaller tractors.

**Nishit Jalan:** Okay thank you Sir thank you for the detailed answer.

**Moderator:** Thank you very much. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

**Jinesh Gandhi:** Hi! Sir just following up on the electric tractor so by when do we plan to launch our electric tractor in India.

**Shenu Agarwal:** We will launch but we do not have a specific timeframe right now, but we will keep you updated on that.

**Jinesh Gandhi:** Okay. Secondly with respect to the exports so can you throw some light on how is our exports on Kubota network shaping up.

**Shenu Agarwal:** So we started last year with Kubota in terms of exports to their global channels and currently right now we are exporting to three markets through Kubota channel and as we also said last year that we want to be slow and steady in the beginning with Kubota because we want to make sure

that the product acceptability is fine so numbers are quite small numbers would be like less than 10% of our overall exports this year, but these numbers would continue to increase and you know that one of our goals in the partnership with Kubota is to substantially increase our volumes and also our shares in exports out of India. So, it is a game plan that will evolve in the next three to four years but yes we are very hopeful that number growth would be phenomenon.

**Jinesh Gandhi:** Okay great and second question was with respect to the commercial segment on the tractor side are we seeing any signs of recovery there because that segment has been under pressure for last few years now and are we seeing any recovery there.

**Shenu Agarwal:** Yes, we have seen recoveries on and off because I think the market is ready I mean to move but because of the COVID led disruptions it is a kind of on and off gain now it seems that this construction market or non-agri market will come back in the near future because these restrictions are getting lifted and more and more investments are happening in construction activities.

**Jinesh Gandhi:** Got it, thanks for the answer.

**Moderator:** Thank you very much. Next question is from Sonal Gupta from L&T Mutual Fund. Please go ahead.

**Sonal Gupta:** Hi! Good evening and thanks for taking my question. Sir, just wanted to understand, one, in terms of what is the sort of I mean like because last year Q4 industry was having low inventory post festive season. So, everybody the wholesale was clearly boosted by a significant inventory push and normalizing the inventory in Q4. So just trying to understand like numbers are going down like 30%, 40% so obviously there is an inventory impact there of last year, so what is the underlying retail trend that you are seeing now and what sort of declines are you seeing in retail.

**Shenu Agarwal:** Yes, you are right, that last year one factor in the 63% growth in Q4 was also that manufacturers are normalizing their inventory levels because they had very poor inventory at the end of the season, end of the peak season in October, November. So some of it is that and some of it was also kind of the latent demand from Q1 but overall the rural economy was really pumped up last year so I would say that like 70%, 80% of the demand last year can be attributed to retail, but the inventory portion would not be that much now and because 63% growth I mean it has to be kind of retail of course there were some specific factors that were helping us in that quarter, but inventory portion would not be that much.

**Sonal Gupta:** But this year I mean are you seeing underlying retail decline or retail is still flattish.

**Shenu Agarwal:** So, see on a yearly basis if you are asking we are saying that the industry on a year-to-year basis this year would be down by roughly 4% to 6%. So now on a year-to-year basis I think there might be some impact of inventory in this because the inventory at the end of the year at industry level might still be a little bit higher than the opening year inventory. So that the retail level if we

are saying wholesale level is 4% to 6% so retail level may be slightly more than that, but not a huge difference for the I am saying year-on-year.

**Sonal Gupta:** Got it you are saying for a full year basis on FY2022, and Sir just wanted to understand also like what is the demand trend on the infra I mean again for the tractor industry from an infra and those sorts of standpoint construction standpoint because it seems like the state governments have not really been spending as much on the infra construction side so is that also impacting demand.

**Shenu Agarwal:** Yes, it has impacted as I said but I think it is going to change very, very soon because we will see a lot of activity in the construction sector in times to come and that is why even Sanjeev was quite optimistic about overall demand of the construction equipment going into next year this will also help the tractor industry this is one of the factors that we are also saying that the tractor industry might have positive growth next year as compared to this year.

**Sonal Gupta:** Got it, Sir but this year non-agri usage would not have gone up is it or is that the best way to think about it.

**Shenu Agarwal:** This year.

**Sonal Gupta:** So, for this year would the non-agri usage for tractor have gone up as a share of the industry demand.

**Shenu Agarwal:** No, actually it was a factor that pulled down the industry this year, non-agri.

**Sonal Gupta:** Okay got it Sir great. Thank you so much for answering my question.

**Moderator:** Thank you very much. Next question is from Chirag Shah from Edelweiss. Please go ahead.

**Chirag Shah:** Thanks for the opportunity Sir. My first question is a follow-up on this FY2021 growth so did I understand correctly that non-agri tractor growth the contribution was lower because last year also it was the case right FY2020 also the non-agri tractor contribution was lower and even this year that is the case. So, it is dragging down the overall growth. Did I understand it right?

**Shenu Agarwal:** Yes, largely right because FY2021 we had the same scenario where construction or commercial demand was not really helping us much it was a boom in the agri demand in FY2021. So, most of this growth that the abnormal growth that we saw came from agri actually much more than the overall growth because construction was subdued and similar is the case this year also. So, construction demand or commercial demand as we say is down for last two years now.

**Chirag Shah:** Sir, second question was on construction equipment side over the 12, 15 months what is the kind of price hike that you have taken.

- Ajay Mandahr:** If you see the BS-IV cost and the inflation price hike is in the range of 22-26%.
- Chirag Shah:** 15% to 16% right.
- Ajay Mandahr:** No, it is 22-26%.
- Shenu Agarwal:** Just making sure this is inclusive of BS-IV led price hike.
- Chirag Shah:** And so, when is the emission norm transition is likely to happen in tractor because it is not getting delayed further right so there is no communication of delay implementation of this norm. So next year there will be some prebuying also.
- Shenu Agarwal:** Let me explain Chirag so the emission norms that are going to be effect from April 1, 2022, are only applicable for tractors 50 horsepower and above which comprises of 8% of the industry and the emission norms that are going to be applicable from April 2024 are going to affect almost all the tractors which is like everything above 25 HP. So, this time what we are experiencing in April 2022 will not have much of a prebuying because the impact is on a very small segment of the tractor.
- Chirag Shah:** And sir just one last clarification from you it is very interesting that you are indicating customers are not willing to accept the price hike that has happened in tractor while presuming the 10% hike which has been happen in pieces but if underlying demand cycle is strong the acceptance should have happened because not that the entire price hike had had happened at the same time right it has been happening over the last 12 months. So, since when are you observing this resistance because this resistance should have been there for reasonable time in the market not just it cannot be a new phenomenon it could be there for last six months resistance to price hike.
- Shenu Agarwal:** Yes, Chirag I think what we need to understand is the problem is not only from the extent of the hike, but also because of the frequency of the hike, because we operate in a rural market and the rural market the sales maturity process is quite long in tractors. So, for example when we generate a lead the sales closure happens in a few weeks after that. So, in the meanwhile if there is an announcement of the price hike then this disturbs actually the whole sales maturity cycle so that is the reason it happens because it is not just the extent of the hike which is roughly 10% over the last four, five quarters, but it is also the frequency of hike. So, when every quarter we have to increase then customers really get very nervous and they kind of try to make sure that I mean it is the price hike is going to stay so they tend to kind of wait for a few weeks.
- Chirag Shah:** So last thing what are the peak selling months generally, so generally four months would be accounting for like 60%, 70% of the retail right. So, if you can indicate what are those four or five months which account for the maximum retails, it would be helpful.

- Shenu Agarwal:** Yes, it varies according to the festivals but generally speaking it is October, November and then it is a period between March and June. So, June being the peak and as you can see it is quite tied up with the cropping in cycle.
- Chirag Shah:** yes, that is how we can speak here but here that we peak inventory in the festival much and till to June there is a good amount of chance that demand will coming up very soon. Thank you very much Sir.
- Shenu Agarwal:** Yes, we are hoping for that. Thank you.
- Modrator:** Thank you. Next question is from Nirmal Bari from Sameeksha Capital. Please go ahead.
- Nirmal Bari:** Yes Sir, thanks for the opportunity. My question is there is generally a seasonality that we see with H2 being particularly strong for us in the tractor segment. So, this year since there is some postponement of demand and the cash flow issues in rural do we still expect Q4 specifically March to be stronger.
- Shenu Agarwal:** Nirmal you mean for the industry or for Escorts.
- Nirmal Bari:** For Escorts.
- Shenu Agarwal:** Yes, so that phenomena will not wean away I mean that phenomena will still be there. You are right that we have certain strengths when it comes to industry in the second half. So that phenomena should continue to play.
- Nirmal Bari:** And Sir in Q3 since South was the market where a significant amount decrease was there, we are not so strong in south so what explains this dip in market share and relatively to lower performance of Escorts as compared to the industry. I think you said in part that it is due to inventory reduction at the dealer level but is that the only thing.
- Shenu Agarwal:** No, that is not the only thing I mean that is one of the factors but another factor is that because of the frequent price hike we have had some issues in terms of the right positioning of the products etc. which we of course I mean the same situation stands for competition also but we have been slightly kind of ahead of competition in increasing the prices and therefore that poses a little bit of a challenge for us in terms of maintaining the right position however it is a temporary thing we are correcting it as we go along so yes, I mean the main factor is we are trying to balance the dealer viability focus and the market share focus.
- Nirmal Bari:** One last question if I may in the construction equipment segment there is so much of construction activity that is picking up both in infra side as well as housing and still if you look at the industry number they are significantly even the year-on-year, and the industry was not doing well before that as well so what explains weakness in the industry per se and when do you see the industry picking up.



- Sanjeev Bajaj:** I think all the macro segments are that the industry should pickup and what we see is that this year the industry actually should have picked up from the last quarter itself and unfortunately January has been again there has been a COVID impact, but the way projects are opening up especially on the roadside and the bullet train and the expected airport projects which are coming up. So what we see is that the demand is definitely coming up this year we think is probably taking a little longer, but as we close this quarter we expect that the industry will open up significantly and we also assume that this year another factor is that our served industry is also largely dominated by backhoe loaders in numbers so that industry has dropped significantly which will bounce back next year and therefore next year industry will have at least 15% to 20% kind of a growth.
- Nirmal Bari:** Thank you Sir.
- Moderator:** Thank you very much. Next question is from Sameer Deshpande from Fairdeal Investments. Please go ahead.
- Sameer Deshpande:** Hi! Good evening, I would like to know what is the cash on the balance sheet of the company as of today.
- Bharat Madan:** It will be including our Escrow account the cash is close to 2560 Crores the export that will be close to 2400 Crores.
- Sameer Deshpande:** It is 2500 Crores that is it.
- Bharat Madan:** Yes, it is more than 2560 Crores.
- Sameer Deshpande:** And what is the average replacement time of the tractor for a new tractor what is the average life that is and how the customer replaces what is the average age.
- Shenu Agarwal:** Yes the average replacement cycle is going down gradually year-on-year and roughly we can say it has come down to roughly about eight years or so eight to nine years now I mean if we look at three or four decades ago it was roughly 16, 17 years.
- Sameer Deshpande:** 16, 17 years so it has almost halved during the period.
- Shenu Agarwal:** Yes, over a few decades now also you have to keep in mind when you think about this is the number of hours that customers are putting on a tractor is also now increasing.
- Sameer Deshpande:** So, because of that the life is also coming down okay and this BS-IV norm will be applicable for tractors above 50 HP from April 1, 2022, and from 2024 it will be applicable for all tractors.
- Shenu Agarwal:** Yes, from April 2024 it will be applicable on all tractors above 25 HP.

- Sameer Deshpande:** And from 2022 it will be for up to 50 HP.
- Shenu Agarwal:** 50 HP and above.
- Sameer Deshpande:** And what is the date for construction equipment's.
- Sanjeev Bajaj:** Construction equipment has gone to BS-IV for about 50 HP from this year April 2021 and next change will happen in 2025 April and then even 50 HP or below will also be covered.
- Sameer Deshpande:** So, they have already gone from 2021-2022 for BS-IV they have already gone for that.
- Sanjeev Bajaj:** Yes, so that is what if 50 HP and above with BS-IV norms, but 50 HP below is not covered under BS-IV yet.
- Sameer Deshpande:** Okay thank you and all the best.
- Moderator:** Thank you. Next question is from the line of Abhinav an investor. Please go ahead.
- Abhinav:** Yes, so my question is on this open offer so as I heard in the opening commentary and some participant had also asked so where exactly in SEBI you said that you expect the offer to close by March so by when do you expect the SEBI approval to come because the CCI and the RBI approval is in place.
- Bharat Madan:** We are chasing them every day so it should happen anytime.
- Abhinav:** Assuming that the SEBI approval happens today how long will the entire payment process and everything what are the timeline how many days should we factor in.
- Bharat Madan:** So there is a SEBI regulation which are in place which talks about the timing which is required when the SEBI observation date is issued within how many days the open offer letter needs to be dispatched to shareholders, what is the record date and then post that there is a minimum period after this open offer process should open and there is a period probably the open offer shall remain open and there is a period for making the payment. So, we expect the entire process takes more than 30 to 35 days and then if that process starts say towards 13<sup>th</sup> of February then we should actually be able to conclude by the 3<sup>rd</sup> week of March.
- Abhinav:** That is good enough. Thank you.
- Moderator:** Thank you. Next question is from the line of Krishna Agarwal from Niveshaay. Please go ahead.
- Krishna Agarwal:** So, as we can see your construction equipment numbers are good but yet you are guiding that non-agri segment is not doing good. So, are we seeing a structural change in non-agri tractor sales or something?

**Shenu Agarwal:** No, I have already replied on those things so as far as agri is concerned non-agri sales has been subdued this year and as well as last year but going forward we think it will open up and this will be one factor that we are hoping will help the industry going into next year.

**Krishna Agarwal:** And what is your view on that we are saying that there are many companies they are doing an uber kind of thing for tractors. So, like the rental would increase so the ownership may reduce for tractors. So, are you seeing any trend in this?

**Shenu Agarwal:** Krishna can you repeat that what are the other companies saying.

**Krishna Agarwal:** No so is the rental kind of business happening in tractors? So people are not buying tractors, but they are preferring to just rent for their farms. So there are some start-ups that are working on an uber kind of model. So, what is your view on that?

**Shenu Agarwal:** No, I do not think there is any significant trend towards that in India so far the rental or uberization or whatever we want to call it I mean has not caught on as a trend so far. Actually it is quite the opposite. There is a huge amount of emotional appeal in buying and owning a tractor.

**Krishna Agarwal:** Yes, that is it from my side.

**Moderator:** Thank you. Next question is from the line of Vikram Damani from Damani Securities. Please go ahead.

**Vikram Damani:** Hi Good Evening Sir, thanks for the opportunity. I just wanted to clarify one thing, in your notes to account you mentioned that the obligation to make a mandatory open offer by the investor to the public shareholders of the company has been triggered could you just sort of further explain this what this means.

**Bharat Madan:** So, the triggering happened when the agreement got signed, which was in December, exactly November. So basically the SEBI regulation requires that once when you sign the definitive agreement, that time the open offer gets triggered and obviously the new followers process while if you get all that and then you will have the open offer. So, we mentioned when there is no triggering has happened then the agreement got signed.

**Vikram Damani:** Okay got it. Thank you Sir that is it from my end.

**Moderator:** Thank you. Next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

**Mitul Shah:** Thank you for follow-up opportunity. Sir I have question on railway side, what kind of annual average revenue we can expect going forward in FY2024 onwards maybe this year and next year because of this slowdown impact and delayed orders revenues are slightly lower, but on a steady state basis what could be the yearly revenues for this segment and margin expectation.

- Ankur Dev:** So first of all, this year also we are expecting a good growth which will be in excess of 20% plus in terms of revenue and in terms of growth or revenue after three years we expect that we can maintain a CAGR of 20% plus because a lots of new products we will be introducing which are in field trial and we are working on the localization of our imported products also so with that we expect a healthy margin which we can maintain. I hope it answers.
- Mitul Shah:** Yes, so again basically margin fluctuation is quite high in this segment in last one, one and a half year as compared to earlier range of around 18%, 20% we maintained for longer period so would that be again possible to maintain those level or this 14%, 15% can be a safer assumption.
- Ankur Dev:** I think in the longer-term we expect our margin to be around between 18% to 20% with the new products introduction and the localization of our imported products. So, I believe it is very well possible to achieve those kinds of margins.
- Mitul Shah:** And Sir lastly on the Capex side what could be the range for next two years.
- Bharat Madan:** That is a plan which we will work out with Kubota team so as we state only in the last call so there a midterm business plan exercise which has been kicked off so after the deal conclusion happens by end of March so both teams will sit together and work on the next five, six years plan so we get more clarity in Capex but normally our Capex have been in the range of 250 to 300 odd Crores so the normal way that will continue so anything which is the new initiative coming from this exercise so that is something which will be additional but that will come to know only as this exercise is completed so maybe close to the middle of this fiscal maybe in June, July and then we will have more clarity on the nature of the investment required.
- Mitul Shah:** Yes Sir thanks for the detailed answer.
- Moderator:** Thank you. Next question is our last question due to time constraints. The next participant is Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Hi! Sir, just clarification on the tractor business so we said we expect industry to grow 4% to 6% in FY2022 and fourth quarter to be lower so do we expect our volumes Escorts volumes to be growing slightly ahead of the industry in fourth quarter considering that we are largely done with our inventory correction.
- Shenu Agarwal:** Yes, so I think you are right fiscal year 2022 overall industry we are saying will degrow by 4% to 6% over year-on-year. So, in any case on quarter four of course there are still some focuses as we described earlier that we will continue to put on dealer viability, but let us see, I mean it is hard to say but right now we are very, very focused on balancing the book.
- Jinesh Gandhi:** Okay because at 4-6% decline for Escorts it is still remaining two months to be marginally higher than last year about 3% to 4% growth here in last year. So, Escorts also should be trending along with the industry.



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**Shenu Agarwal:** Yes, I mean we are clear as to what we want to do as I explained but market share also depends on the actions of the competitors so let us see how they react in terms of stocks and everything else.

**Jinesh Gandhi:** Okay great thanks and all the best.

**Bharat Madan:** Okay so that was the last question. Thank you ladies and gentlemen for being present on this call. For any feedback or queries please feel free to write into us at - [investorrelation@escorts.co.in](mailto:investorrelation@escorts.co.in)  
Thank you very much, have a good day and stay safe and healthy.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes today's conference. Thank you for joining us, and you may now disconnect your lines.