



“Escorts Limited Q2 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q2 FY22 Results Conference Call of Escorts Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Raghunandhan NL of Emkay Global Financial Services. Thank you and over to you.

Raghunandhan NL: Thank you Rutuja. Good evening, everyone. I would like to welcome the management and thank them for this opportunity. We have with us today Mr. Bharat Madan, Group Chief Financial Officer and Corporate Head, Mr. Shenu Agarwal, CEO, Escorts Agri Machinery, Mr. Ajay Mandahr, CEO Escorts Construction Equipment, Mr. Ankur Dev, Chief Executive Railway Product Division and Investor Relations team of Escorts Limited. I shall now hand over the call to the management for opening remarks. Over to you sir.

Bharat Madan: Thank you Raghu. Good evening, ladies and gentlemen. And thank you all for joining us on the earnings call for the second quarter and half year ended 30th September 2021. We trust each of you and your families are safe and healthy. A few highlights of our company's standalone performance for second quarter ended September 2021 are as follows.

Revenue from operations during the quarter was up by 1.4% at Rs.1,662.3 crore as against Rs.1,639.7 crore in previous fiscal. Construction equipment business and railway products segments continue to outperform. Segmental revenue growing by 58.8% and 6.2% respectively. While agri machinery segment revenue came down by 6.1% on year-on-year basis. On sales volume front, tractor sales volume came down by 13.8% to 21,073 tractors as against 24,441 tractors last year, same quarter. Whereas construction equipment volume went up by 30.8% to 1,074 machines as against 821 machines last year, same quarter. EBITDA for the quarter ended September 2021 at Rs.210.1 crores down by 30.2% as against Rs.300.9 crores last year same quarter.

EBITDA margin for Q2 stands at 12.6% as against 18.3% last year same quarter. The margins have been adversely impacted by commodity prices, inflation as well as lower sales volume in tractor segment. Company continues to be net debt free with sufficient available liquidity for growth. Even though there has been temporarily working capital build up in H1 in preparing for the festive season and to avoid any possible supply chain disruption due to COVID as we saw last year, the same will be corrected in the coming months. PBT at 237.4 crore as against 307.8 crores last year same quarter. Net profit at Rs.176.7 crore as against 229.9 crores last year same quarter.

On consolidated basis financial performance for first half ended September 2021 is as follows - Revenue from operations was up by 23% year-on-year at 3,375.6 crores. EBITDA at 446.7

crores up by 6.3% year-on-year. Net profit at 351.9 crores up by 10% year-on-year. EPS stands at ₹ 35.75 as against ₹ 35.10 last year same period.

Moving on to segmental business performance, starting with the agri machinery business. The domestic tractor industry volume went down by 10.6% to 2.11 lakh tractors as compared to 2.36 lakh tractors in last year same quarter. This is primarily attributed to very low rainfall in fall about three weeks in July and August and thereafter heavy and continuous rains in September, affecting the delay of the sowing and harvesting cycle of the Rabi crop. This phenomenon has also delayed the seasonal net peak tractor market demand by about three to four weeks this year. For domestic sales volume at 18,950 tractors went down by 18.2% as against 23,156 tractors in last year, same quarter.

During the quarter, industry in our strong business of Northern Central India was down by 19%, whereas industry in our opportunity region, of South and Western India was down only by 3%. So, this resulted in overall domestic market share in H1 of 9.9% as compared to that of 10.2% last year same period. Our dealer inventory level in terms of number of days of sales continues to be lower than the industry average. Our total dealer count in India now stands at 1100+ with most of our new dealers coming up in the Southern investment regions. Our market share in our opportunity market continues to be on the rise. As far as +40 HP sales is concerned, our sales share in this segment in first half of this fiscal year has been 61.1%, a bit higher than industry share of 60.9%. Two years ago in the same period, our sales share in this segment was 47% as against industry share of 54.3%. This quantum leap in higher HP tractor sales for us is on account of new product launches in these segment as well as on account for better penetration in the Southern investment markets.

The industry of Indian tractor exports was up in this quarter by 55.2% to the level of 35,600 tractors as compared to 23,000 tractors in last year, same quarter. Our export volume went up by 65.2% to our ever-highest quarterly volume of 2,123 tractors, as against 1,285 tractors in the same quarter last year. This is driven by our continuous focus on new product development and on expanding our distribution network through new channel partners. Since two quarters global network is also gradually increasing.

Segment revenue went down by 6.1% at 1,240.9 crore as against 1,322.2 crore in corresponding quarter, previous fiscal. EBIT margins for agri machinery business stood at 15.1% as against 20% last year in Q2 and 15.6% in Q1, adversely impacted by steep inflation in commodity prices and lower volumes. As we enter the festive season, overall whole sentiments are positive on account of good rainfall, expected good yield and crop production, higher crop MSPs and better retail finance availability. For whole full year we are projecting industry to be around +/- 2%-3% of last year's numbers. Inflation continues unabated and is putting a pressure on our margins.

Coming to the construction equipment business, our served industry comprises backhoe loaders pick and carry cranes and compactors went down by 15% in Q2 led by de-growth and backhoe

loader industry by 22% on account of BSIII to BSIV transition. Whereas compactors industry grew by 12% and crane industry has been the biggest gainer in Q2 with growth of 19% +, But growth continues more cost by sensitive hydra segment. Our total volumes manufactured, and traded products went up by 30.8% to 1,074 machines as against 821 machines last year same quarter. Our performance in crane, backhoe loaders is better than industry resulting in market share gain of 500 basis points plus in crane segment and 110 basis point backhoe loader segment.

Segment revenue went up by 58.4% at 249.2 crores as 156.9 crore in corresponding quarter previous fiscal. EBIT margin went up by 185 basis points at 3.6% as against 1.7% in corresponding quarter previous year. We are anticipating strong equipment demand in second half of FY22 starting from October 21 in line with the trend change during last fiscal year. The demand is also likely to get a boost from government push on infrastructure projects and due to long tail of projects under execution and substantial increase in new projects being awarded. our optimism for recovery in this segment remains intact. Also per day execution target on road projects in FY22 at 40 kilometers per day compared to last year 37 kilometers per day is expected. Equipment penetration further, equipment segment to go and needs and margins for the segments to improve further lead by our various operating matrices and breakeven point reduction. However, inflation continues to be an area of concern.

Coming to the railway equipment division. Revenue for the second quarter went up by 6.2% to our ever highest quarterly revenue of 170.2 crores as against 160.2 crores in corresponding quarter. Sales from new products went from 64% to total division sales as against 58% last year corresponding quarter. EBIT margin for the quarter ended September 2021 stood at 17.3% as against 20.3% in corresponding period last year and 14.6% in Q1. We are now witnessing good traction and tendering process, and order book for the division at the end of September 2021 was more than 310 crores. In FY 22 we expect railway equipment segment to go in mid-teens and margins for the segment are likely to be maintained between 16% to 18%. Now, I request the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will not begin the question-and-answer session. The first question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir, my question is on tractor volume guidance of plus or minus 2%, 3%. More or less, we are expecting flat volume for full year. So, first half growth of around 12%, 13% so, then balance period we are expecting decline in the range of 5% to 7% and can you give more details in terms of geography wise for us whether you expect growth or decline from our weaker markets or stronger markets. So, basically I want to understand how your market share would pan out based on the geographical distribution of growth or decline?

Shenu Agarwal: Mitul, Good Afternoon and thank you for the question. This is Shenu Agarwal. So, Mitul, yes quarter one was unprecedented growth of roughly 38%- 39%, but quarter two as you know we had had some industry declines. Quarter three and quarter four also we are expecting a decline

in the overall market. And the reason, we know that, firstly we are operating on a high base. And of course, there was a lot of pent up demand last year in quarter three and quarter four as well some of it. So, H2 therefore will be a slight decline, but overall, for the year, because this year is exactly not comparable with last year quarter-on-quarter because of various disruptions last year and this year, related to COVID and supply chain issues, but overall, for the year as Bharat said we are expecting the plus/minus 2% or 3% industry year-on-year. So that is our estimate for H2 in the whole year. Geographically, yes the market in South and West is growing much faster than the markets where we are strong, which is North, Central and some parts of Eastern India. While the average industry growth is roughly 10% in H1, but our strong markets, which is North and Central Eastern India were pretty much flat as compared to last year, I'm talking about H1.

While market in where we are relatively weaker, they grew by roughly 21%. And, the reason this is not the first time this is happening, this happens once in a while that South and West grow stronger and we know the reasons why it happens. This time specifically, it is just because the way monsoon has panned out in last 18 months like last two monsoons have been quite good in the South and West and that is why we are seeing an upsurge in demand there. While in the North we have had some issues with the rainfall. North and Central, like Bharat explained in July which was kind of peak sowing season when the rains are required, we had a kind of hiatus in the monsoon for about three weeks and similarly, some late rainfall has put some problems in terms of delaying the harvest and all so some damage to the crops. So, that is how the geographical spread is right now, which of course is not favoring us at the moment.

As far as market share is concerned Mitul, of course Escorts is a very unique company or a brand in the sense that we have uneven distribution of market shares. Traditionally, we are very, very strong in certain parts or certain states of the country where market share is above 15%, 16%. And in some of the areas we are still very very weak. Although we are trying to change that situation in the last few years and hopefully in future we will be successful in changing that situation. But right now, of course we are in that situation. And therefore, whenever South and West markets grow more than North, Central and East, our overall market share does not look very bright. And therefore, our request always is to look at state wise market shares. And not just all India market share, and I'm happy to say that if you look at state wise market shares for H1 and compare it with H1 of last fiscal year, then out of 16 or 17 major states, our market share for us in 13 out of 16 states.

Mitul Shah:

Again the question on the second half indication, that as we know that last year October retail was somewhere around 1,55,000 this time it would be at the max 120 kind of a number? Sir, my question is again on the second half projections. The core example, this October last year retail was somewhere around 1,55,000, this year we expect roughly 115 to 120 possibly. So, even if I assume some inventory correction and also a number of really 100 to 105 it is almost 10% decline for October on a very higher base number. Q4 as we know that last year Q4 was almost 20% higher than the past few years average. So, they're also double digit decline is very much

possible, inventory in the system is also quite high, particularly for us our growing market, our stronger market of UP, Bihar declining by 30%, 40% in this month. So in this situation, if I will to this calculation, industry number comes roughly minus 5% or even slightly higher decline. So that's I'm not able to understand in what case it can be like a plus or minus 2% or a plus 2%, 3% growth?

Shenu Agarwal:

Okay, Mitul this is Shenu again. So, see there are a couple of things which remain to be seen in the market. So, your estimates are more or less okay for October, but we have to keep in mind that because this was a very, very typical year because the sowing and harvesting cycle has been delayed this year quite a lot right. So, when there was a peak time of sowing at that time, we did not get much rainfall and therefore the entire sowing cycle got delayed, which had a bearing on the harvesting also, a delay in harvesting. Now as we speak, normally Navaratri to Dussehra is a great period for tractor industry. But as you said, the Navaratri to Dussehra period was not as bright as it would normally be and the main reason for that was, his whole disturbance in the cycle of sowing and harvesting of the Rabi crop.

Now, of course, there has been some damage because it's a late monsoons but the situation is still on the ground is very positive. So, let us not, I would suggest let us not think that everything is gone, because we are seeing still a positive sentiment on the ground. We are still seeing a lot of customers who have not come out so far because of delay, but they would come out in November. And right now, Escorts and almost the entire industry is hoping that November should be a very, very good November starting from Dhanteras. So we still maintain that we might end up with clock minus 2% to 3% from the last year base.

Mitul Shah:

Thank you sir. Sir just last thing on the construction equipment side can you share new breakeven point after this price increase and product mix change, and what would be the likely margins in next one or two year?

Ajay Mandahr:

Bharat you will take this question?

Bharat Madan:

Sure. So, the breakeven obviously inflation has been one of the concern otherwise, we are coming to quite low number on the breakeven. But with obviously inflation, some changes happen. So we still expect having around 250 machines a month, is an average. But it all also depends on what makes you sell in those machines. But this is a sort of number, which will be there for the future breakeven number, and we expect the segment margin, on a full year basis within the range of 4% to 5% on the full year basis, so which means normally in takes last six months, the margins are better, where you see very good volume traction happening in the later part of the year, in second half where you have 6% to 7%, this margin coming in to be with the total and average.

Moderator:

Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswald Financial Services. Please go ahead.

Jinesh Gandhi: My question pertains to tractors. So when you're saying plus, minus 2%, 3% growth outlook for tractors. This is after factoring in for any recovery in the non-farm sales for tractors, but that is also under pressure?

Shenu Agarwal: Jinesh, you were talking about non-farm sales right?

Jinesh Gandhi: Right.

Shenu Agarwal: So, the non-farm sales was quite subdued last year as we all know. And last year those was primarily because of upsurge in the demand from the agri, pure agri sector, or kind of mix sector. So, this year, of course that situation is improving now, and we are seeing the non-farm sales also coming up. So, it has not reached to its normal level of course, because still in many areas we have certain issues. But, that situation will dramatically improve in the next six months or second half of the year.

Jinesh Gandhi: Okay, that's interesting. And the second question is on the inventory. So, you mentioned we have more inventory than the industry, can you quantify what could be inventory level for us and industry?

Shenu Agarwal: I will try to give a specific number but normally as you know Escorts maintains monthly which is lower than the industry average, and that is the trend that has continued even now.

Jinesh Gandhi: Sorry, Escorts would it be difficult to share inventory for your network,?

Shenu Agarwal: So, Jinesh right now we are in the middle of the peak season and of course, in the middle of the peak season the inventories are high. For example, on 2nd we have a huge festival which is like the biggest day in the tractor industry. So, even if I give you a number that is not going to be representative of the real situation, but I can tell you that by end of November, we will be back to our normal inventory levels of roughly between 25 to 30 days.

Jinesh Gandhi: Okay. So currently we are well stocked for any pickup during Diwali and Dhanteras that would be fair to say, we would not lose out because of the inventory issues?

Shenu Agarwal: Yes. Now this year we have made sure that we have enough stocks, of course not old stock but we have enough stock because normally because of our earlier constraints on capacities, et cetera we tend to lose out on these peak days. But this time, we are not in that situation. So we are well stocked but not overly stock. As I said, of course we have raised the stock levels, but those are not representative of the normal situation. As soon as we are out of Diwali our stocks will be back to normal.

Jinesh Gandhi: Sure. And my third question is regarding railways. So considering last 12 to 18 months have been fairly subdued for railways because of COVID related impacts, probably it's fair to say now we are seeing normalization of activity, even in that business?

- Ankur Dev:** Hi, good evening, Ankur Dev here. So, I would say that the tender have started coming up, and it is better than last year. But it has still not reached the pre COVID level, but certainly things are improving in the last 18 months, I would say, the coaches, the trains are now running at around 90% capacity. And in terms of passengers, it is hovering around 60% to 70%. So things are improving, but still to catch the pre COVID scenario.
- Jinesh Gandhi:** Okay, so we still maintain that 15% kind of growth mix during this year and next year?
- Ankur Dev:** Yes, we are expecting that kind of growth.
- Jinesh Gandhi:** Perfect and last question on CAPEX. So, Mr. Madan if you can touch upon that what kind of CAPEX we expect, first half is about 77, 78 crores. Full year we still maintain about 200 to 250 crores considering we are already 90% utilization in tractors?
- Bharat Madan:** Hi, Jinesh. So, we expect that it will be roughly around 250 crores this year. But let's see adding a thing, the initial two months in this year obviously was a dampener the spend couldn't happen because the second wave of COVID. So hoping everything remains normal, so we are expecting it will still be in that range +250.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.
- Gunjan Prithyani:** I have just a follow up firstly, on the demand side. So, if I understand right, what you're essentially suggesting is that it's high base, and some delay in the monsoons that's the reason for the slight shrink that you're calling in the industry growth, but generally the sentiment that we are picking up on the rural has been pretty underwhelming, so I'm just trying to understand is it just high base or you're seeing some turn in the sentiment on the ground, on the farm side, so, if you can share some thoughts around it, it will help us.
- Shenu Agarwal:** Gunjan, this is Shenu. Gunjan see, I think this year when we compare quarter-to-quarter as I was telling Mitul, we have to just keep in mind that they are not exactly comparable, because there have been very uneven or usual circumstances last year, and some this year too. And therefore, we have to see the situation in that context. So for example, like last fiscal year, quarter one was a de-growth was a pretty high de-growth and therefore, we were working on a very, very low base, while this year, there was very, very positive growth numbers, but then again, those were on last year's low base. Now, last year, low base in quarter one resulted in a pent up demand quarter two, quarter three and even quarter four and quarter two and quarter three also witnessed some of the supply chain challenges. So, therefore we are working on a very, very high base in quarter three and four and quarter two as well. And therefore, it is very, very normal to see this negative growth in these quarters. Now, so, when we see that in that context, it is really not a reflection of the rural sentiments perse in our opinion. So, you know that last year was a peak industry in tractors gross 900,000 and that was roughly like 27% growth over the previous year. So we are like at, comparing it against that. So having said that, I would say that yes, there in

July, August and September, there was a dent in sentiments in the rural India especially North, Center and East. And the reason for that was on even monsoon this year. At some point of time we were like all very, very worried that we will have a drought this year. But fortunately, the monsoons recovered and then we had good rains in mid to late September, although they created a little bit of delay in the whole cropping cycle. But now the sentiments I feel are back, and we are witnessing those on the ground, people are very, very optimistic about the next crop now, because reservoir levels are up, retail financing is very, very much available and NPA situation is not bad at all. So we don't think there is anything fundamentally wrong with the rural economy right now.

Gunjan Prithyani: Okay, got it that's helpful. The other question that I had was on the margin, we've gotten to about 15% EBIT and our guidance from what I recall, has been more like high teens. How should we think about margins, what is the kind of under recovery that is there in terms of commodity and is there any pricing action on the anvil?

Bharat Madan: So, Gunjan on this, see the margin has been under pressure because of the inflation, which is continuing on the commodity side. So, there are two reasons. One is the drag which has been there, and the lag effect of passing on the inflation to the market. So, we're still carrying some impact which has not yet passed on and maybe Shenu will take you on this proposed pricing action what we are anticipating for this quarter, to pass on that impact which also is close to 2% to 3% impact which is because of the lag. Secondary one is if the inflation passed on the market, that also has a numerator denominator impact, so thus whatever inflation I will actually happen in actually demand, that much has been forced into the market. So, that also basically margin by about 2%, 2.5%. So both took together, there's an impact of what 4% to 5% sort of impact on the margin compared to last year. Some of the impact has been offset to the high volume base and some cost initiative company was taking but still and that's a worrying factor right now. So, in the high volumes I am not really looking at the kind of margin which we expected, but we expect once this price correction happens and we're able to pass it on to the market, depending on how the competition reacts to this, and at what time we pass it on, may end of quarter when we exit the year margin should be back to the normal level. And I am hoping that inflation will stabilize by that time.

Gunjan Prithyani: So under recovery is about 300?

Shenu Agarwal: Yes. So, as far as the price increases are concerned you know that this is a very, very unusual environment we are in right now, our industry is not used to a quarterly price hike and especially of this quantum that we have done so far, we have increased prices in November last year, then again in April and then again in July this year. And of course the way the inflation is panning out, we should have taken a price increase in October. Now, this October and November period is going to siding with the peak demand time and therefore, we decided that we will wait for the price increase until the season, the peak demand is over, the peak season is over. So very, very clear that there will be a significant price hike of the 3% to 4% as soon as the season is over, we

are just waiting and watching as to, as I said there is a delay in this. So normally the season would kind of taper by end of Diwali but I think this will continue for a few more weeks this time. And as soon as our peak demand is over, then we will take the price hike.

Moderator: Thank you. The next question is from the line of the Avadhoot Joshi from New Berry Capital. Please go ahead.

Avadhoot Joshi: I have just one question about the capital reduction, the case hearing was going on into the NCLT and it was supposed to be heard today. I would like to know what was the outcome or what happened to that?

Bharat Madan: See, what we came to know even though we have not got the certified copy right now for the order but we came to know the reduction has been approved, by the NCLT, but the orders have been reserved. So, until we get a certified copy of the order in our hand, we can't really confirm the fact, but this is the situation as of today, the fact which was brought to our knowledge.

Moderator: Thank you. The next question is from the line of Mihir Jhaveri from Avendus. Please go ahead.

Mihir Jhaveri: Sir, just have one question on the Kubota, we keep hearing about the Kubota investments and companies in the last two months, will the management provide some inputs on this or how do we look at it, sir is it happening or categorically denied, what's the stance of the management, that's my only question.

Bharat Madan: See, we already responded to the stock exchanges on this, which we have said so we don't comment as a policy on this speculation. So until something concrete is there, there's no point in discussing those issues.

Moderator: Thank you. The next question is from the line of Nitij Mangal from Jefferies. Please go ahead.

Nitij Mangal: Could you share some light on how you think FY23 can pan out on the tractor industry side and can it be under 10%, 12% kind of a growth here or where do you think FY23 will be under pressure as well?

Shenu Agarwal: Hi, Nitij this is Shenu Agarwal. slightly premature to answer that question. Let us see how the rest of the year pans out, but broadly speaking, as I was telling Gunjan and the Mitul earlier, that we think that fundamentally the rural economy is fine. There were some hitters in between and maybe people are carrying that perceptions, from July, August, and September. But we think that sentiments are fine. We think most of the macro drivers for rural economy are in place right now. The monsoons have been good, the monsoon last year had been good. So we have like two or three years of good monsoon now. And reservoir levels, which were dipping earlier in the year are now back to like, all-time high. There is no problem with retail financing. We have been talking to all banks and NBFCs, and they are very, very aggressive in the market right now. So we don't see any fundamental issues with the industry. And we know fundamentally India is far

away from saturation levels, in terms of tractorization. So, things look bright, but as I said, maybe four or five months later, we will like to make a confirm estimate on next year, industry level.

Nitij Mangal: Sure, thank you. And my second question is, what kind of discounting trend are you seeing in that because I believe last year discounting was very, very low, because the top players was supply constrained, how is that changing now?

Shenu Agarwal: So, there has been some increase, we are back to kind of close to normal, because right now there is no constraint on supplies, the industry is good. And therefore people are gunning for market shares more penetration. So very close to normal, not anything dramatically looking.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: My first question is on the quantum of price hike that we have taken in the tractor segment if you can tell how much it was in the last three times?

Shenu Agarwal: Yes, Nirmal so it has been roughly 7% to 8% that we have already taken so far, including all the three previous hikes starting November last year.

Nirmal Bari: Okay and this 2.5% to 3% that we are expecting to take going forward that would suffice for whatever the cost inflation has been so far?

Shenu Agarwal: Yes, so we are hoping to take roughly 3% to 4% now which will, I think be the biggest price hike so far out of the last three and this one, and it will more or less cover inflation that we estimate up to Q3. But there are some signs that there will be some small inflation that may happen Q4 as well. So that could still remain to be seen, if it happens in Q4, but right now the estimate is it would be small.

Nirmal Bari: Okay. And a couple of clarifications from the presentation. So we are saying that capacity utilization in tractors is at (+90%). So our capacity if I remember, it's around 1,20,000 from our own plants, and then we have about 30,000 capacity from the joint venture plant, while our manufacturing in the current quarter was about 21,000 tractors only so it doesn't match with the 90% numbers. So, are we excluding?

Bharat Madan: 21,000 is the sales number, which is, so what you're looking at is the sales number, not the production numbers. When you look at the utilization and capacity, which is based on production number. So, as you know there is an inventory buildup, which has happened in this quarter for the festive season. So when you reflected the capacity, they're talking about only the standalone Escorts Limited capacity, not counting the JV capacity into this. So, it's basically based on 120,000 capacity, which is for the company, for Escorts. And this is based on the production number utilization, not based on the sales numbers.

Nirmal Bari: Okay. And for the 30,000 capacity that we have in the JV, would we start utilizing that going forward ?

Shenu Agarwal: We have plans to start utilizing that hopefully from next quarter, which is quarter four of this fiscal.

Nirmal Bari: Okay. And the ratio of less than 40 HP to more than 40 HP is 40:60. Is that correct, so less than 40 HP forms 40% of the total volume for us?

Shenu Agarwal: Yes, that is right so, Bharat mentioned in his opening comments, that two years ago, we were roughly 47% in greater than 40% HP, while industry was roughly 54%. But now in H1 of the fiscal year we are at 61%, which is almost same as industry. So we have really caught up on HP sales in the last two years.

Nirmal Bari: Okay. And one last question on the railways division. So there, you said that the tendering activity has picked up but our overall order book has come down, because since we have also recorded good revenues, so is the tendering activity sufficient that the order book going forward, we'll start seeing growth as well. To keep in line with our target of growth.

Ankur Dev: So we expect as the tendering process is increased in Q2, it will further increase in Q3 and further in Q4. So, we are quite hopeful that we will be able to achieve this kind of growth, because even with the highest ever quarterly, our order book is almost equal to Q1 and we hope that we will be able to achieve this growth.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: I have a couple of questions. One is, when I look at your P&L, there is an inventory adjustment of about 350 crores that's because your production this quarter was much higher compared to the scale and 350 crores is a fairly big number. So, I wanted to understand how much did this adjustment benefit gross margin in this quarter?

Bharat Madan: Your voice was a bit unclear can you please repeat your query?

Joseph George: Yes, I will just repeat it, so when I look at your P&L, there is an inventory adjustment of close to 350 crores, which is a fairly significant number in the context of 1600 crores that, it's because this quarterly production was much higher than sales. And typically when this happened the sensor on the gross margin has indicated in the past so I want to understand in this quarter how much with gross margin benefit because of this?

Bharat Madan: The better absorption was overhead. So, this will be close to 25 to 30 crores.

Joseph George: So, 25 to 30 crores of gross margin benefit because of the overheads.

- Bharat Madan:** Yes, that's right.
- Joseph George:** Understood. And sir, second question was in the context of Q3, do you expect further RM pressure in Q3? So, are you seeing an increase in the raw material basket going to Q3 compared to Q2?
- Shenu Agarwal:** Joseph, I'm not sure if I heard you right, but are you asking about any further impact on raw material inflation?
- Joseph George:** That is correct. Are you seeing any further inflation impact in 3Q compared to 2Q?
- Shenu Agarwal:** Bharat I cannot hear him well, if you can, can you answer him?
- Bharat Madan:** I believe what he is asking is, is there any further inflation which may come after Q2. Right, Joseph?
- Joseph George:** Correct.
- Shenu Agarwal:** So, as I explained that there will be some inflation that is expected in Q3, although not to the levels of inflation that we have seen Q1 and Q2. So it is right now kind of tapping down and we are also expecting some increase in Q3 as well, which we will pass on in Q4. Right now, our estimate is that it will be an insignificant amount, but you know we have always been proved wrong on estimating inflation. So let us just see how it goes.
- Moderator:** Thank you. The next question is from the line of Kishan Gupta from CD Equisearch Private Limited. Please go ahead.
- Kishan Gupta:** Yes. Hi, Good Evening. So essentially, I want to understand, like, what does the management rationale of housing these three businesses in one company, because they are basically unrelated.
- Bharat Madan:** This is the legacy I think what Company has. So, between construction equipment and tractor business, there's still a backend which is common. So, operation wise there is a lot of commonality which exists including the use of some of the aggregates, like the engines and transmission. On the railway we do agree, I think that is the business where the synergies at least with the other two business are not related, but that has been the legacy what the Company has so we had multiple businesses at one time within this entity. And as you know, we also exited from our other non-core businesses including the auto component business, which was there in this company. So right now, we are left with these three businesses and between construction equipment and tractors there is a still a lot of synergies especially on the backend side with operation wise many commonalities, which were there including aggregates which are being used like engine and transmission. On the railway side yes, we do agree and the synergies between the existing two businesses and that business is not much, but since the scale of the business is not very high so that's why this was containing to be under this Company. I think

once we really reach the levels what we are aspiring for maybe we can actually explore and if there's a merit in considering whether we can house this under the separate subsidiary, but as of now, the scale is low, but yes, the way we are looking at this business for railway looks like that's the one possibility which happen.

Joseph George: The concern is like essentially because the valuations tend to improve when you have more focused businesses So, can we expect this sometime maybe in the near future medium term hiving off?

Bharat Madan: We are unable to put a timeline to that difficult to put a timeline, like you said, for separating a business, there should also be a reasonable scale for that business to grow. And also, I think in the past, since some of the business were actually loss-making, so tax perspective wise, it was making sense to continue in the same entity and land and construction segment. Now the margins are not very high, so they're still in the single digit range now. So I think when the scale improves and the margin is reasonable, they,

Moderator: Now, the next question is from the line of Abhishek Jain from Dolat Capital, please go ahead.

Abhishek Jain: What is the outlook for the export side? What is the medium-term volume target? And are you looking for some contract manufacturing opportunities as well?

Shenu Agarwal: We are not looking at any contract manufacturing opportunity as such. But you know that we have we have a partnership with Kubota now since last few quarters. And we do intend to utilize Kubota's global network to enhance our exports volume. So some of our products would be going to their network and that is one area or one layer of growth for exports, at exports overall we are very optimistic. As you have seen in last 3-4 years, we have been able to scale our volume substantially, and we still are not among the top exporters out of India. So, there is still a lot of headroom available. You know, we have been investing huge amounts of money in R&D to develop new products specifically for the export markets and many of those are out in the market now, and many more to add to. And overall we are optimistic on exports.

Moderator: Thank you. The next question is from the line Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: So my question is on market share. So, you know, earlier, as in, you know, at the start of the year, you're guiding for, you know, some gains in market share or, you know, something that you had lost last year because of supply chain issues now on the contrary first half, because of north being in a more subdued or we actually have lost market share So, you know, the recovery that you're talking about, or you're seeing, is it kind of more tilted towards North and East and all. And should we think that we are kind of looking to gain a hundred basis points or more of market share in the latter half of the year.

Shenu Agarwal: And as I was explaining earlier in the call, we are a very unique company in the way our market share are distributed in different parts of the country. I think there's like no one like us in terms

of that. So, we are very skewed in terms of market share penetration. Not Central and East we have markets or states where our market share is even more than 15% to 16%. And there are some areas in South and West where our market share is as low as 5% also. So, so that presents a little bit of a challenge to us. So whenever the market grown in our weaker areas, our all India or total market share does not look very good. So we are going through that phase in the last 18 months, and that was the reason or one of the reasons we lost like the last year also and that is the same reason that we have lost in H1 slightly again. Now the situation of course is going to correct itself and that I hope soon, and we would see it starts increasing, but if you really want to kind of make a judgment on our real market share growth or real growth as to our market penetration is concerned then I request you look at state wise data and then you'll see that out of 16 major states where tractor industries will rise, we have we have grown market share in 13 of those. Right. So the only three that we have lost is Maharashtra, Haryana and Punjab, and we know the reasons why. There is some restructuring that we are doing for example in Maharashtra we are separating our distribution now between Powertrac and Farmtrac brand. And whenever we do that we face a little bit of challenge in terms of maintaining market share. But that is kind good thing for us for future so Maharashtra would also be back on the track with other markets but we are growing in almost every state and we will continue to do that. As soon as the South and West situation normalizes then of course, so all India or overall market share will start looking good.

Ashish Jain: So my question was more in context of the growth optimism or at least in place in the next two, three months the festive season demand that we're talking about is that more tilted towards any specific region or region and should that make us be more optimistic about gaining market half of the year in the later half of the year or it is against Q1....

Shenu Agarwal: Ashish that is also true that these festivals are majorly North and Central India and Eastern India festivals and therefore if these festivals do well then the demand comes in this festive season, then we will be benefited because of a strong base in North, Central and East. So yes, that will change now with this festive season.

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

Chirag Jain: I have a follow-up question on the Kubota side. So two questions there. On this speculation of Kubota increasing stake how should we think at promoters holding in the company? Because it is a reasonable level of 36%, is promoter comfortable with 36% or they would like to have more because if Kubota has to buy more in the company somebody will have to sacrifice the holding either all of us as a shareholder or maybe promoter will have to dilute. So what will be the comfortable level of shareholding the promoter thinks for the business? That is my first question.

Bharat Madan: I did not understand your question. If you are saying is promoter is comfortable with the shareholding, the answer is yes.

- Chirag Jain:** They are okay with diluting the stake from hereon or not that is my question?
- Bharat Madan:** But I already mentioned that this is all the speculation, and we don't comment on the speculation. This has been going on for so many months and we have always clarified to the stock exchanges, so I am not giving any comment on this.
- Chirag Jain:** The second question was on technology side if you can share some update between you and Kubota, has there been any further discussions on how to integrate the technology or how to share the best practices if you can shed some light on that and when will you start implementing that in product development programs?
- Shenu Agarwal:** So, as we have been saying that a lot of things are in works with Kubota as far as joint technology and product development is concerned so that program, we are planning a few products that we will jointly developed for India and global markets. So as soon as we are ready with those plans, we would update you.
- Chirag Jain:** Generally, what is the development plan that you assume is it a three year cycle, or once you decide it could happen in the short span of 12 to 18 months. If you can just educate us on this then it will be helpful?
- Shenu Agarwal:** It varies, there is no standard answer to that. It clearly depends on what kind of products we want to make and whether we have existing aggregates that we can use for that. For example, like existing engine or existing transmission, if that is the case, then the product development cycle would be roughly between 12-18 months. But if we have to develop something from scratch then it would be more, it will be more like for the 36 to 40 months. But really, I mean, that is just a broad direction, it really depends on what kind of products do we want to make. Right. So, so broadly speaking then say major product changes will require three years and some minor product changes based on existing aggregates would require year or year and a half.
- Moderator:** Thank you, ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Bharat Madan:** Thank you ladies and gentlemen for being present on this call. For any feedback and/or queries please feel free to write into us @ investorrelation@escorts.co.in. Thank you very much & have a good day and stay safe and healthy.
- Moderator:** On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. And you may now disconnect your lines.