ESCORTS

Ref /EL/SEC/DISC/2018

Date: July 20, 2018

The Manager
Listing Department
National Stock Exchange of India Limited
5th Floor Exchange Plaza
Bandra Kurla Complex, Bandra East
Mumbai -400051

NSE Code: Escorts
BSE Code: 500495
DSE Code: 00012

Dear Sir

Sub: Upgrade of Credit Rating by ICRA

In compliance of the *Regulation 30 (6)* of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that M/s ICRA Limited (ICRA) has upgraded the long-term rating from **"A+" to "AA-"** and affirmed the short-term rating to **A1+.**

A copy of ICRA letter dated July 19, 2018, released today is annexed herewith for your reference and record.

This is for your information & record.

Thanking you,

Yours Faithfully
For **ESCORTS LIMITED**

Ajay Sharma
Group General Counsel
& Company Secretary

Encl: As Above
Copy To:

The Manager Listing Department BSE Limited 25th Floor P J Towers Dalal Street Fort **Mumbai -400001**	The Manager Listing Department The Delhi Stock exchange Association Limited DSE House, 3/1 Asaf Ali Road **New Delhi -110002**

ICRA

Escorts Limited

July 19, 2018

Escorts Limited: Long-term rating upgraded to [ICRA]AA-; short-term rating of [ICRA]A1+ reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	176.3	41.0	Rating upgraded from [ICRA]A+ (positive) to [ICRA]AA-(stable)
Fund-based – Working Capital Facilities	434.0	425.0	Rating upgraded from [ICRA]A+ (positive)/[ICRA]A1+ to [ICRA]AA-(stable)/[ICRA]A1+
Non-fund Based – Working Capital Facilities	398.0	400.0	[ICRA]A1+ reaffirmed
Unallocated	119.2	0.0	-
Total	**1127.5**	**866.0**	
Commercial Paper	100.0	100.0	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the bank facilities of Escorts Limited (Escorts) from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is Stable[1]. ICRA has also reaffirmed a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the company's bank facilities and the Rs. 100.0-crore[2] commercial paper programme. The total rated amount of bank facilities has been reduced to Rs. 866.0 crore from Rs. 1,127.5 crore.

Rationale

The rating upgrade takes into account the strong operational performance of Escorts, reflected in robust volume and profitability expansion in its key business divisions of agri-machinery and construction equipment. While a continuation of favourable farm sentiments on the back of consecutive normal south west monsoons and various Government support programmes supported a robust volume growth in the agri-machinery division (~26% in FY2018), the construction equipment division volumes benefitted from a pick-up in investments in roads and select infrastructure segments. Buoyed by the increased scale of operations and the consequent benefits from scale, Escorts has been able to achieve a healthy improvement in operating profit margins (expansion of ~340 basis points in FY2018) and return indicators (RoCE of ~26.3% in FY2018). The various cost efficiency measures undertaken by the company over the past

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

two years have also contributed to the margin expansion and underpin ICRA's belief that the company will sustain strong profitability metrics, going forward.

The rating upgrade also favourably factors in a further improvement in the company's financial risk profile in FY2018. The strong cash accruals on the back of an improved operating performance have helped Escorts become nearly debt free; additionally, the company has substantial cash and liquid investments (~Rs. 800 crore as of March 31, 2018), which provide comfort. Despite capital expenditure plans of around ~Rs. 500-550 crore over the next two years towards new product development and capacity expansion, the company's expected healthy cash accruals and available cash balances are expected to help keep its dependence on external borrowings to a minimum.

ICRA notes the inherent cyclicality in both the tractor and construction equipment sectors, which remain the company's key business segments. However, the ratings assigned continue to take comfort from the company's established market presence and strong brand franchise. Escorts continues to be a leading tractor manufacturer in the country, aided by an well entrenched dealer network, financing tie-ups, regular product launches/refreshes and targeted marketing efforts. While the company's market share in the southern and western markets in India continues to remain weak (3.7% and 6.4% in FY2018, respectively), a healthy demand outlook for tractors, coupled with the company's efforts to further expand its dealership network in these regions, are likely to support volume growth over the medium term. Although the division derives modest volumes from exports, expansion in international markets has been a focus area identified by the management and provides opportunities for growth over the medium term. Escort's ability to strengthen its market position in the domestic market, especially in southern and western India, and expand its presence in the exports market, remains to be seen and would remain a key rating sensitivity, going forward.

The impact of any inorganic growth steps undertaken by the company, on the credit profile of the company, would continue to be monitored. Further, ICRA notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. Any deviation from the above, which has the effect of exerting pressure on the asset-liability position of the company, would be a rating sensitivity.

Outlook: Stable

The stable outlook on the long-term rating reflects ICRA's expectation that Escorts would be able to report a healthy revenue and earnings growth over the medium term, benefitting from the Government's plans to increase farm income and promote infrastructure investment. The outlook may be revised to Positive if the company's efforts to expand its dealership network in India's southern and western regions aid it in gaining healthy market share in the domestic market, or the company records a healthier than expected improvement in its operating performance. The outlook may be revised to Negative if the company is not able to sustain the improvement in operating profitability demonstrated over the past two years, leading to deterioration in the company's return indicators. Furthermore, an adverse impact of any acquisitions undertaken by the company on its financial risk profile, could also trigger a revision in outlook.

Key rating drivers

Credit strengths

Strong brand franchise, vast dealer network and established track record of the company in the agri-machinery business – Escorts is one of the leading tractor manufacturers in the country, aided by an established dealer network, healthy financing tie-ups, regular product launches/refreshes and targeted marketing efforts. The company has an installed capacity of 100,000 tractors/year. The agri-machinery division offers a wide range of tractors, primarily under the two brands, Farmtrac and Powertrac. Escorts also sells a low HP tractor (10-15 HP) through a joint venture (JV) with the Rajkot-based Adico Group (under the Steeltrac brand). Over the past two fiscals, the company's agri-machinery division has recorded a healthy growth in revenues and profits, largely benefitting from an improved industry demand driven by favourable farm sentiments. Buoyed by the growth, the company has plans to increase its manufacturing capacity in a phased manner over the next two fiscals.

Presence in multiple product segments like agri-machinery, construction equipment and railway equipment – Escorts has a presence across various product segments. These include tractors and agri-machinery manufactured and marketed by its agri-machinery division (EAM); construction equipment such as cranes, compactors and back hoe loaders by its construction equipment division (ECE); and equipment for railways (shock absorbers for railway coaches, centre buffer couplers and brake systems) by its railway equipment division. Although the EAM division drives its revenues and profits, the company's presence in other businesses provides avenues for growth.

Sustainable improvement in cost structure driven by cost rationalisation initiatives across various divisions – Escorts has been focused on improving profitability and has implemented various cost rationalisation exercises over the past few years. Raw material costs have been reduced across divisions through vendor consolidation, price renegotiation, product re-designing and other VA-VE efforts. The company's operating profit margins have improved significantly over the past two years, benefitting from economies of scale and savings on account of various cost reduction measures.

Strong financial risk profile characterised by negligible debt, healthy cash balances and strong liquidity profile – The capital structure of the company remains healthy, characterised by low debt, healthy debt coverage indicators and significant cash and bank balances (~Rs. 800 crore as on March 31, 2018). Going forward, while Escorts has capex plans (~Rs. 500-550 crore over the next two fiscals) towards new product development and capacity expansion, the same are likely to be funded through existing cash balances and future cash accruals, keeping the credit profile strong.

Credit challenges

Agri-machinery and construction equipment divisions remain exposed to cyclicality – The company's leading business divisions—agri-machinery and construction equipment, remain inherently cyclical in nature. While the agri-machinery division remains exposed to fluctuations in demand scenario with sensitivity to monsoons and farmer sentiments, the construction equipment business growth remains strongly correlated to the level of economic activity in the country. The Government of India (GoI), however, remains committed towards rural development and agri-mechanisation, while also focusing on improving the infrastructure in the country with enhanced budgetary allocations. Continued Government focus is likely to aid growth in industry volumes across both sectors over the medium to long-term.

Market presence of the agri-machinery division in southern and western India continues to remain weak – The agri-machinery division's presence in the western and southern regions continues to remain weak, which has limited the company's market share gain prospects over the past few years. The division has identified various markets in the country's western and southern regions, where the division would be ramping up its management interaction efforts as well as dealership penetration to gain market share. Its ability to gain market share in these markets remains critical, given their high growth potential.

Limited market share in the highly competitive construction equipment sector – The company's product range in the construction equipment segment (slew cranes, compactors and backhoe loaders) remains limited, constraining the company's growth prospects in the construction equipment sector. While a healthy growth in volumes in FY2018 helped the division report a profit at the PBIT level, the division's ability to increase its scale of operations for it to contribute in a meaningful manner to the company's profitability remains to be seen.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Tractor Manufacturers

About the company:

Escorts Limited (Escorts) was incorporated as Escorts (Agents) Private Limited (EAPL) in Lahore in 1944. EAPL was converted into a public limited company and renamed as Escorts Limited (Escorts) in January 1960. The company started off by manufacturing tractors under the Escorts brand name in the 25-40 horsepower (HP) range. In 1969, the company promoted Escorts Tractors Limited (ETL) as a joint venture with Ford Motor Company (FMC), USA, for the manufacturing of the Ford Series of tractors in the 40-50 HP range. Escorts acquired the entire equity stake of ETL in August 1995, making ETL its subsidiary (subsequently merged with agri-machinery division).

Over the years, the company diversified into other products to emerge as a multi-business entity with interests in agri-machinery, automotive components, railway equipment, industrial and construction equipment, and telecommunication equipment and services. However, some of its non-core businesses, such as telecommunications, healthcare, software and its JV stake with Carraro were divested during the mid-2000s.

At present, Escorts is engaged in three major segments - its agri-machinery division (EAM) engaged in manufacturing tractors; the construction equipment division (ECE) engaged in manufacturing and trading in construction equipment products; and its railway equipment division (RED) comprising shock absorbers for railway coaches, centre buffer couplers and brake systems. In December 2016, the company sold off its auto product assets, leading to the closure of the division. The company has six manufacturing facilities in Faridabad (Haryana) and one manufacturing facility each in Rudrapur (Uttarakhand) and Poland.

Key financial indicators– Consolidated

	FY2017 (Audited)	FY2018 (Published)
Operating Income (Rs. crore)	4,145.3	5,059.3
PAT (Rs. crore)	130.8	347.0
OPBDIT/OI (%)	7.5%	10.9%
RoCE (%)	13.1%	26.3%
Total Debt/TNW (times)	0.2	0.0
Total Debt/OPBDIT (times)	0.9	0.1
Interest Coverage (times)	9.6	18.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017		Date &Rating in FY2016
					July 2018	November 2017	March 2017	October 2016	March 2016
1	Term Loans	Long Term	41.0	**41.0**	**[ICRA]AA- (stable)**	**[ICRA]A+ (positive)**	**[ICRA]A (positive)**	**[ICRA]A- (stable)**	**[ICRA]A- (stable)**
2	Fund-based- Working Capital Facilities	Long Term/ Short Term	425.0	-	**[ICRA]AA- (stable)/ [ICRA]A1+**	**[ICRA]A+ (positive)/ [ICRA]A1+**	**[ICRA]A (positive)/ [ICRA]A1**	**[ICRA]A- (stable)/ [ICRA]A1**	**[ICRA]A- (stable)/ [ICRA]A1**
3	Non-fund based- Working Capital Facilities	Short Term	400.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
4	Unallocated Limits	Long Term/ Short Term	0.0	-	**[ICRA]AA- (stable)/ [ICRA]A1+**	**[ICRA]A+ (positive)/ [ICRA]A1+**	**[ICRA]A (positive)/ [ICRA]A1**	**[ICRA]A- (stable)/ [ICRA]A1**	**[ICRA]A- (stable)/ [ICRA]A1**
5	Commercial Paper	Short Term	100.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan - 1	April 2013	-	July 2018	8.75	[ICRA]AA- (stable)
NA	Term Loan – 2	August 2015	-	September 2019	32.25	[ICRA]AA- (stable)
NA	Fund-based- Working Capital Facilities	-	-	-	425.0	[ICRA]AA- (stable)/[ICRA]A1+
NA	Non-fund based- Working Capital Facilities	-	-	-	400.0	[ICRA]A1+
NA	Commercial Paper	-	-	-	100.0	[ICRA]A1+

Source: Escorts Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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