



Date: 15 July 2020

To,  
The Board of Directors  
Escorts Limited,  
15/5, Mathura Road,  
Faridabad, Haryana-121003

**Subject: Report on fair value per equity share of Escorts Limited for the purpose of proposed reduction of share capital by way of cancellation of equity shares held by Escorts Benefit and Welfare Trust.**

Dear Sir/ Madam,

We refer to the engagement letter and discussions undertaken with the Management of Escorts Limited ('EL' or 'the Company'), wherein the Management of EL has requested N S KUMAR & CO., Chartered Accountants ('NSK') to determine fair value of equity share of the Company for the purpose of proposed reduction of share capital by way of cancellation of equity shares held by Escorts Benefit and Welfare Trust ('EBWT') as required under relevant Securities Exchange Board of India ('SEBI') guidelines with respect to reduction of share capital.

Please find enclosed the report (comprising 10 pages including annexure) detailing our recommendation of fair value per equity share of the Company for the proposed reduction of share capital, the methodologies employed and the assumptions used in our analysis.

This report sets out our scope of work, background, source of information, procedures performed by us and our opinion on the fair value per equity share of the Company.

#### **SCOPE AND PURPOSE OF THIS REPORT**

Escorts Limited ('EL' or 'the Company') was incorporated in the year 1944 and is primarily engaged in the business of automotive engineering and operates in the sectors of agri-machinery, construction and material handling equipment and railway equipment. The equity shares of EL are listed on National Stock Exchange of India Limited ('NSE'), BSE Limited ('BSE') and Delhi Stock Exchange Limited ('DSE').

We understand that the Management of the EL (hereinafter referred to as 'the Management') is contemplating a proposal entailing reduction of share capital of the Company in accordance with the provisions of Sections 66 read with section 52 of the Companies Act, 2013 or any statutory modifications, re-enactment or amendments thereof for the time being in force ("the Act") read with National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016 ("the Rules"), as amended from time to time and all other applicable provisions, if any, of the Act and any other applicable law for the time being in force including the applicable provisions of the Securities Exchange Board of India ('SEBI') Guidelines and the rules framed therein with respect to the reduction of share capital and in a manner provided in the Scheme of Reduction of Share Capital ('the Scheme') (hereinafter referred to as 'proposed reduction').

Though as a part of the Scheme, the capital reduction is proposed to be undertaken at NIL consideration, fair valuation of the equity share is required to be undertaken by a Chartered Accountant under the relevant SEBI regulations.

It is in this regard, the Management has requested NSK to submit a report recommending the fair value per equity share of EL for the proposed reduction as at the report date ('Valuation Date'). We have undertaken our valuation analysis based on data available and provided up to the Valuation Date.

The scope of our services is to determine the fair value per equity share as at the Valuation Date using internationally accepted valuation methodologies as may be applicable to the subject case and report on the same in accordance with generally accepted professional standards including in compliance with the ICAI Valuation Standards, 2018 issued by the Institute of Chartered Accountants of India (ICAI) and applicable SEBI Guidelines as may be applicable to listed entities.

This report is our deliverable for the said engagement and is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality and in conjunction with the relevant documents referred to therein.

#### **SOURCES OF INFORMATION**

In connection with the preparation of this report, we have used and relied on the following source of information:

- Audited standalone and consolidated financial results of EL for the quarter ended 31 March 2020 and the year ended 31 March 2020;
- Shareholding pattern of Company as at 31 March 2020;
- Draft scheme for reduction of share capital;
- Information available in public domain and databases such as NSE and BSE; and
- Such other information and documents as provided by the Management for the purposes of this engagement.

We have also considered/ obtained such other analysis, review, explanations and information considered reasonably necessary for our exercise, from the Management.

Besides the above listing, there may be other information provided by the Management which may not have been perused by us in detail, if not considered relevant for our defined scope.

#### **PROCEDURES ADOPTED**

Procedures used in our analysis included such substantive steps as we considered necessary under the circumstances, including, but not necessarily limited to the following:

- Reviewed the draft scheme for reduction of share capital;
- Review of data available in public domain including share price of the Company;
- Selection of appropriate internationally accepted valuation methodology / (ies) after analysis of the current business operations and future plans;
- Arrived at the valuation of the Company using the method/(s) considered appropriate; and
- Determined the fair value per equity share.

#### **SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS**

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us.

This report, its contents and the results herein are specific and subject to:

- the purpose of the valuation agreed as per the terms of the engagement;
- the date of this report;



- shareholding pattern of the Company;
- market price of the share of EL quoted on NSE and BSE; and
- data detailed in the section - Sources of Information

A value analysis of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular. It is based on information made available to us as of the date of this report, events occurring after that date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The ultimate analysis will have to be tempered by the exercise of judicious discretion by the valuer and judgment taking into account the relevant factors. There will always be several factors e.g. Management capability, present and prospective yield on comparable securities, market sentiment etc., which are not evident on the face of the financial statement, but which will strongly influence the worth of a share.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the Management till the date of this report and other sources, and the said recommendation(s) shall be considered to be in the nature of non-binding advice (our recommendation should not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors).

The determination of fair value is not a precise science and the conclusions arrived at in many cases, will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single fair value. While we have provided our recommendation of the fair value of equity share based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion.

The final responsibility for the determination of the fair value per equity share at which the proposed reduction shall take place will be with the Board of Directors of the Company, who should take into account other factors such as their own assessment of the proposed transaction and input of other advisors.

In the course of our analysis, we were provided with both written and verbal information, including market, technical, financial and operating data including information as detailed in the section – Sources of Information.

In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification of

- the accuracy of information that was publicly available which formed a substantial basis for the report; and
- the accuracy of information made available to us by the Management.

We have not carried out a due diligence or audit or review of the Company for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided.

We are not legal or regulatory advisors with respect to legal and regulatory matters for the proposed reduction. We do not express any form of assurance that the financial information or other information as prepared and provided by the Company is accurate. Also, with respect to explanations and information sought from the Management, we have been given to understand that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt.

Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness. Our conclusions are based on these assumptions and information given by/ on behalf of the Management. The Management has indicated to us that they have understood any omissions, inaccuracies or misstatements may materially affect our recommendation. Accordingly, we assume no responsibility for any errors in the information furnished by the Management and their impact on the report. Also, we assume no responsibility for technical information (if any) furnished by the Management. However, nothing has come to our attention to indicate that the information provided was materially misstated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

The report assumes that the Management complies fully with relevant laws and regulations applicable in all its areas of operations and that the Company will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this report has given no consideration on to matters of a legal nature, including issues of legal title and compliance with local laws and litigation and other contingent liabilities that are not recorded in the audited financial results of the Company.

This report does not look into the business/ commercial reasons behind the proposed reduction nor the likely benefits arising out of the same. Similarly, the report does not address the relative merits of the proposed transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available. This report is restricted to recommendation of fair value of equity share only.

The fee for the Engagement is not contingent upon the results reported.

We owe responsibility only to the Board of Directors of EL who have appointed us, and nobody else. We do not accept any liability to any third party in relation to the issue of this report. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or wilful default on the part of the Company, their directors, employees or agents. It is understood that this analysis does not represent a fairness opinion.

This valuation report is subject to the laws of India.

Neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the purpose of determining the fair value of equity share for the proposed reduction and relevant filing with regulatory authorities in this regard, without our prior written consent.

In addition, this report does not in any manner address the prices at which equity shares of EL shall trade following announcements of the proposed reduction. Our report and the opinion/ valuation analysis contained herein is not to be construed as advice relating to investing in, purchasing, selling or otherwise dealing in securities or as providing management services or carrying out management functions.



## COMPANY AND TRANSACTION OVERVIEW

### Company Overview

Escorts Limited ('EL' or 'the Company') is primarily engaged in the business of manufacturing agricultural machinery, auto suspension and ancillary products, and railway equipment.

The Company operates through the following segments:

- 1) **Agri Machinery Products** segment manufactures tractors, lubricants, engine and gensets, and provides crop solutions.
- 2) **Construction Equipment** segment manufactures and markets a diverse range of construction and material handling equipment like cranes, loaders, vibratory rollers and forklifts.
- 3) **Railway Equipment** segment manufactures railway components, which includes brakes and brake systems, couplers, rail fastening systems and automatic twist locks.

The issued, subscribed and outstanding equity share capital of EL as at the report date consists of 1,22,576,878 equity shares of face value of INR 10 each fully paid up. The equity shareholding pattern of EL as at 31 March 2020 is as follows:

| Shareholder                 | Number of shares<br>(Face value INR 10 each) | Percentage<br>% |
|-----------------------------|--|-----------------|
| Promoter and Promoter Group | 49,333,680                                   | 40.2%           |
| Public                      | 70,168,686                                   | 57.2%           |
| Non Promoter and Non Public | 3,074,512                                    | 2.5%            |
| <b>Total</b>                | <b>122,576,878</b>                           | <b>100.0%</b>   |

Source: BSE filings

The non promoter and non public shares pertain to equity shares held by the Employee Benefit Trust.

### Transaction overview

Escorts Benefit and Welfare Trust ('EBWT') was settled on 14 February 2012, for the exclusive benefit of Escorts Limited. EBWT holds 37,300,031 equity shares of the Company.

On March 20, 2020, the Board of Directors of Escorts Limited inter alia has approved the preferential allotment of 12,257,688 equity shares of face value of INR 10/- each at INR 850/- per share to Kubota Corporation, Japan ("KBT"), subject to compliance with the provisions of Companies Act, 2013 and other applicable Law / Regulations.

Further, keeping in mind the interest of the stakeholders of the Company, in order to ensure that the total equity share capital of Escorts Limited remains unchanged even after the proposed preferential issue of equity shares to KBT, the Board of Directors of Escorts Limited on March 20, 2020 had also considered the cancellation of same number of equity shares held by EBWT in the Company and granted its in-principle approval for cancellation of 12,257,688 equity shares of INR 10/- each of Escorts Limited held by EBWT without payment of any consideration to EBWT, subject to the allotment of the equity shares to KBT.

## VALUATION APPROACHES

It should be understood that the valuation of any company or its assets is inherently subjective and is subject to uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to the industry performance and general business and economic conditions, many of which are beyond the control of the company. Further, this valuation will fluctuate with lapse of time, changing prevailing market conditions, the prospects, financial and otherwise of the company and other factors which generally influence the valuation of shares and companies.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although, different values may exist for different purpose, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

The following are commonly used and accepted methods for determining the value of the equity shares of a Company:

- Asset Approach – Net Asset Value method
- Market Approach:
  - a) Market Price method
  - b) Comparable Companies/ Transactions Multiple method
- Income Approach – Discounted cash flow method

For the proposed reduction, we have considered the following commonly used and accepted methods for determining the fair value of equity share, to the extent relevant and applicable:

### 1. Asset Approach - Net Asset Value Method ('NAV')

The asset-based value analysis technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This methodology is likely to be appropriate for business which derives value mainly from the underlying value of its assets rather than its earnings. This value analysis approach may also be used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominates earning capability. It is also used where the main strength of the business is its asset backing rather than its capacity or potential to earn profits.

*EL presently operates as a going concern and would continue to do so for the foreseeable future and NAV method does not value the future profit generating ability of the business, we have therefore not used this method to arrive at the fair value of equity shares of EL.*

### 2. Market Approach

#### a) Market Price Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the shares as quoted on the stock market



would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market.

*The equity shares of EL are listed on both NSE and BSE and have a quoted market price available with reasonable trade volume, we have therefore considered the market price method to value the equity shares of EL. For determining the market price, we have considered the higher of the following:*

- i) the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the valuation date; or*
  - ii) the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the valuation date.*
- b) Comparable Companies Multiples ('CCM') / Comparable Transactions Multiples ('CTM') method**

Under CCM, the value of shares/ business of a company is determined based on market multiples of publicly traded comparable companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. CCM applies multiples derived from similar or 'comparable' publicly traded companies. Although no two companies are entirely alike, the companies selected as comparable companies should be engaged in the same or a similar line of business as the subject company. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

Under CTM, the value of shares/ business of a company is determined based on market multiples of publicly disclosed transactions in the similar space as that of the subject company. Multiples are generally based on data from recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

*We have not used this approach to value the equity shares of the Company, as there were no comparable companies/ transactions available.*

### **3. Income Approach – Discounted Cash Flow Method ('DCF')**

DCF method values a business based upon the available cash flow a prudent investor would expect the subject business to generate over a given period of time. This method is used to determine the present value of a business on a going concern assumption and recognizes the time value of money by discounting the free cash flows for the explicit forecast period and the perpetuity value at an appropriate discount factor. Free cash flows are the cash flows expected to be generated by the company that are available to equity shareholders of the company. The terminal value represents the total value of the available cash flow for all periods subsequent to the forecast period. The terminal value of the business at the end of the forecast period is estimated and discounted to its equivalent present value and added to the present value of the explicit forecast period cash flow to estimate the value of the business.

The projected free cash flows to capital providers over the explicit forecast period and terminal value are discounted using the weighted average cost of capital ('WACC'). The sum of the discounted value of such free cash flows to firm is the value of the business attributable to capital providers.

Using the DCF analysis involves determining the following:

**Estimating future cash flows:**

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of capital i.e. both debt and equity.

**Appropriate discount rate to be applied to cash flows i.e. the weighted average cost of capital ('WACC')**

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and lenders), weighted by their relative contribution to the total capital of a company/ business. The opportunity cost to the capital providers equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To arrive at the total value attributable to the equity shareholders of the business, value arrived after discounting free cash flows to firm by the DCF method for a company is adjusted for the value of loans, cash, inflow on exercise of options, non-operating assets/liabilities (e.g. fair value of investments, any contingent liabilities, etc.). The total value for equity shareholders is then divided by the total number of equity shares (on fully diluted basis) to arrive at the value per equity share of a company.

*EL is a listed company and information related to future financial projections are price sensitive, we were not provided with the projections of the Company by the Management and have therefore not used the DCF method to determine the fair value of the equity shares of EL.*

**RECOMMENDATION OF FAIR VALUE OF EQUITY SHARE FOR THE PROPOSED REDUCTION**

Though different values have been arrived at under Net Asset Value (NAV) Method and Market Price Method, for recommending the fair value of equity share for this purpose, it is necessary to give appropriate weights to the values arrived at under each approaches/ methods.

For valuing equity shares of EL, we have only used the Market Price Method. We have assigned weightage of NIL to the value derived under NAV Method and assigned full weightage to the value derived under Market Price Method, to arrive at the final fair value per equity share of EL.

Suitable rounding off have been carried out wherever necessary to arrive at the fair value per equity share. Refer Annexure 1 for value under each of the methods and the weightages attributed to the same.

In light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above we recommend the fair value per equity share to be **~INR 1,089.9 (One thousand eight nine rupees and ninty paise).**

Respectfully submitted,

N S KUMAR & CO.  
Chartered Accountants  
ICAI Firm Registration No. 139792W



Niranjana S Kumar  
Proprietor  
Membership No. 121635  
UDIN: 20121635AAAADD3915



Place: Pune  
Date: 15 July 2020



## Annexure 1:

Computation of fair value per equity share:

Amount in INR

| Valuation approach                              | Value per equity share | Weights | Weighted value per equity share |
|---|------------------------|---------|---------------------------------|
| Asset approach- NAV method*                     | 254.7                  | 0%      | -                               |
| Income approach - Discounted cash flow method** | NA                     | NA      | NA                              |
| Market approach- Market price method***         | 1,089.9                | 100%    | 1,089.9                         |
| <b>Fair value per equity share</b>              |                        |         | <b>1,089.9</b>                  |

*\*Value per equity share under the asset approach has been arrived at on the basis of the reported net worth of the Company as disclosed in the consolidated audited results for the quarter ended 31 March 2020. Since asset approach does not value the future profit generating potential of the Company, we have therefore not used this method.*

*\*\*EL is a listed company and information related to future financial projections are price sensitive. Hence, we were not provided with the projections of the Company by the Management and have not considered the DCF method to determine the fair value of the equity shares of EL.*

*\*\*\* The equity shares of EL are listed on both NSE and BSE and have a quoted market price available with reasonable trade volume, we have therefore considered the market price method to value the equity shares of EL. For determining the market price, we have considered the higher of the following:*

- a. the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the valuation date; or*
- b. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the valuation date.*

*Since the trading volume on NSE was higher during the twenty six weeks preceding the valuation date, we have considered the market prices quoted on NSE for two weeks and twenty six weeks preceding the valuation date, to arrive at the market price under the Market Approach.*

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## Annexure-2

### a) Calculation of market price per share:

| Amount in INR  |  | Amount         |
|--|--|----------------|
| Particulars  |  |                |
| i) Average of the weekly high and low of the volume weighted average price of the equity shares of the entity quoted on NSE during 26 weeks preceding the valuation date |  | 819.0          |
| ii) Average of the weekly high and low of the volume weighted average price of the equity shares of the entity quoted on NSE during 2 weeks preceding the valuation date |  | 1,089.9        |
| <b>Higher of the two considered for the purpose of valuation</b>   |  | <b>1,089.9</b> |

### b) Calculation of average of the weekly high and low of the volume weighted average price ('VWAP'):

| Amount in INR |           |           |         |         |         |
|---------------|-----------|-----------|---------|---------|---------|
| Week          | From date | To date   | VWAP    |         |         |
|               |           |           | High    | Low     | Average |
| 1             | 15-Jan-20 | 21-Jan-20 | 707.8   | 672.7   | 690.2   |
| 2             | 22-Jan-20 | 28-Jan-20 | 734.7   | 707.4   | 721.0   |
| 3             | 29-Jan-20 | 04-Feb-20 | 844.4   | 739.7   | 792.0   |
| 4             | 05-Feb-20 | 11-Feb-20 | 886.5   | 855.7   | 864.2   |
| 5             | 12-Feb-20 | 18-Feb-20 | 886.5   | 871.2   | 878.9   |
| 6             | 19-Feb-20 | 25-Feb-20 | 904.6   | 835.4   | 870.0   |
| 7             | 26-Feb-20 | 03-Mar-20 | 852.0   | 780.8   | 816.4   |
| 8             | 04-Mar-20 | 09-Mar-20 | 834.1   | 777.3   | 805.7   |
| 9             | 11-Mar-20 | 17-Mar-20 | 760.0   | 650.0   | 705.0   |
| 10            | 18-Mar-20 | 24-Mar-20 | 630.6   | 569.7   | 600.1   |
| 11            | 25-Mar-20 | 31-Mar-20 | 680.1   | 624.8   | 652.5   |
| 12            | 01-Apr-20 | 07-Apr-20 | 634.8   | 584.0   | 609.4   |
| 13            | 08-Apr-20 | 13-Apr-20 | 680.1   | 672.0   | 676.1   |
| 14            | 15-Apr-20 | 21-Apr-20 | 743.7   | 712.1   | 727.9   |
| 15            | 22-Apr-20 | 28-Apr-20 | 764.3   | 701.0   | 732.7   |
| 16            | 29-Apr-20 | 05-May-20 | 725.3   | 681.3   | 703.3   |
| 17            | 06-May-20 | 12-May-20 | 759.5   | 708.1   | 733.8   |
| 18            | 13-May-20 | 19-May-20 | 831.3   | 794.5   | 812.9   |
| 19            | 20-May-20 | 26-May-20 | 889.9   | 848.5   | 869.2   |
| 20            | 27-May-20 | 02-Jun-20 | 964.7   | 863.4   | 914.0   |
| 21            | 03-Jun-20 | 09-Jun-20 | 988.4   | 963.6   | 976.0   |
| 22            | 10-Jun-20 | 16-Jun-20 | 959.0   | 938.9   | 949.0   |
| 23            | 17-Jun-20 | 23-Jun-20 | 996.1   | 973.4   | 984.7   |
| 24            | 24-Jun-20 | 30-Jun-20 | 1,047.3 | 1,011.0 | 1,029.1 |
| 25            | 01-Jul-20 | 07-Jul-20 | 1,093.9 | 1,038.0 | 1,065.9 |
| 26            | 08-Jul-20 | 14-Jul-20 | 1,136.4 | 1,091.4 | 1,113.9 |