



Ref /EL/SEC/DISC//2018

Date: December 13, 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: India Ratings Upgrades Escorts to 'IND AA-'/Positive

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 India Ratings & Research, a Fitch Group Company (Ind- Ra) has upgraded and assigned the **Long term Issuer rating** to '**IND AA- Positive** from '**IND A+**'. A copy of letter dated December 13, 2018, released today by rating agency 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

Copy To:

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ESCORTS LIMITED

Corporate Secretarial & Law

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Corporate Identification Number - L74899HR1944PLC039088

India Ratings Upgrades Escorts to 'IND AA-' /Positive; Rates Additional Proposed Bank Loans

Ind-Ra-New Delhi-13 December 2018: India Ratings and Research (Ind-Ra) has upgraded Escorts Limited's Long-Term Issuer Rating to 'IND AA-' from 'IND A+'. The Outlook is Positive. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Fund-based working capital limits	-	-	-	INR3,090 (reduced from INR4,340)	IND AA-/Positive/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR3,210 (reduced from INR3,980)	IND AA-/Positive/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Term loan	-	-	June 2019	INR200 (reduced from INR1,763)	IND AA-/Positive	Upgraded
Proposed fund-based working capital limits*	-	-	-	INR1,160	Provisional IND AA-/Positive/Provisional IND A1+	Assigned
Proposed non-fund-based working capital limits*	-	-	-	INR790	Provisional IND AA-/Positive/Provisional IND A1+	Assigned

*The ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facilities by Escorts to the satisfaction of Ind-Ra.

The upgrade reflects a significant improvement in Escort's revenue and profitability during FY18-1HFY19, and substantial deleveraging leading to a net cash position. The Positive Outlook reflects Ind-Ra's expectation of a year-on-year improvement in profitability in FY19 and beyond.

KEY RATING DRIVERS

Recovery in Tractor Volumes: Escorts' tractor volumes continued to increase for the third consecutive year in 1HFY19 at 20.1% yoy to 45,533 units (FY18: 80,417 units, FY17: 63,786 units). This was owing to a strong pent-up demand in the domestic tractor industry, coupled with good monsoon and improved kharif production. Consequently, revenue grew 22% yoy to INR50.0 billion in FY18 (FY17: INR40.9 billion, FY16: INR33.7 billion) and 23.6% yoy to INR29.1 billion in 1HFY19. Considering the government's thrust on promoting agricultural mechanisation and normal monsoon in Escorts's key markets of North and Central zone, Ind-Ra expects the growth trajectory to continue in FY19, albeit at a slower rate.

Significant Improvement in EBITDA Margins: During FY18, EBITDA margins expanded to 11.2% (FY17: 7.9%; FY16: 5.3%) and improved further to 11.8% in 1HFY19 (1HFY18:10.1%), on account of numerous cost rationalisation measures undertaken by the company across various segments to reduce material consumption and labour costs, and improve supply chain efficiency. The increased sales volume also enabled better operating leverage. Agri-machinery segment EBIT margins improved to 13.5% in FY18 (FY17: 9.9%, FY16: 7.6%) and railway equipment segment margins to 13.9% (12.6%, 19.9%). Construction equipment segment posted positive results with EBIT margin of 1.9% as against losses in the previous years. The company continues to focus on improving its cost structure, which is likely to boost EBITDA margins in FY19 and beyond. This also remains a key monitorable for the ratings.

Robust Credit Metrics: At FYE18, the company reported negative net debt of INR6.1 billion (FY17: positive INR0.02 billion), primarily driven by a substantial reduction in debt on account of continuous improvement in profitability.

Interest coverage (operating EBITDA/gross interest expense) improved substantially to 19.5x in FY18 (FY17: 10.4x, FY16: 3.6x) in line with Ind-Ra's expectations. The company plans to incur capex of INR2.5 billion-3.0 billion, each, in FY19 and FY20 to increase its production capacity in the tractors segment, which is likely to be funded from internal cash accruals. Thus, Ind-Ra expects the credit metrics to remain at current levels in FY19-FY20.

Modest Increase in Market Share: Escorts is the fourth-largest tractor manufacturer in India with a market share of 10%-11% (FY18: 11%, FY17: 10.8%, FY16: 10.3%). The company regained the market share in 31-40 horse power (HP) and greater than 50 HP segments, driven by new product launches in the higher HP denomination. Though its market share dropped marginally in 41-50 HP segment, the company aims at increasing its market share through new product offering in agri-machinery across all industry segments and aggressively expanding its distribution network by focusing on deeper penetration in its opportunity markets of South and West. Continuing its bid to increase market share in the domestic opportunity markets and exports, the company entered a 40:60 manufacturing joint venture with Japan-based Kubota Corporation, with an initial annual manufacturing capacity of 50,000 tractors.

Comfortable Liquidity: Escorts liquidity is supported by cash and equivalents of INR6.6 billion at FYE18, positive cash flow from operations over FY16-FY18 and minimal debt repayment schedule. Cash flow from operations has been on an increasing trend since FY16 (FY18: INR4.8 billion; FY17: INR3.2 billion, FY16: INR2.0 billion). The company has INR72.5 million of debt repayment scheduled for FY20. Of the total fund-based and non-fund-based limits of INR3.1 billion and INR3.2 billion respectively, around INR2.0 billion and INR1.5 billion remained unutilised as of November 2018, respectively. Its average peak utilisation of the fund-based and non-fund-based limits was 23% and 46%, respectively, over the 12 months ended November 2018.

Increased Contribution from Non-Agri Businesses: Revenue contribution from its non-agri divisions (construction equipment and railway equipment) has been on an increasing trend since FY14. Both divisions together contributed around 21% to the total revenue in FY18 (FY14: 15.5%). In FY18, the construction equipment and railway equipment segments grew 35% yoy to INR7.8 billion and 18% yoy to INR2.9 billion, respectively. Ind-Ra expects revenue from these segments to benefit in FY19 and beyond, owing to the government's thrust on infrastructure development, and modernisation and upgradation of railways. Escorts entered an exclusive distribution agreement with Doosan Infracore Co. Ltd. and announced a joint venture with Tadano group, Japan to further boost its offerings in the construction equipment segment.

Highly Cyclical Industry: The tractor industry volume growth has been volatile as demand has a strong correlation with domestic agriculture sector output, which depends upon monsoon and crop prices, among other factors. The industry witnessed a decline in volumes of around 9% yoy in FY16 and 10% yoy in FY15, thereafter growing 16% yoy in FY17 and 21% yoy in FY18. Ind-Ra expects the industry volume could decline in FY20-FY21. This makes Escorts' revenue highly volatile. Further, the company's presence in the construction industry, which is also cyclical and dependent on government policies regarding infrastructure development, could impact its credit profile. However, on account of Escorts' several cost restructuring initiatives, new product launches and the negative working capital cycle in the industry, Ind-Ra expects the company to maintain its credit profile through the industry cycle.

Limited Presence in Southern/Western Markets: Escorts has a network of more than 800 dealers and 1,100 distribution outlets, especially in Northern India with a limited presence in the southern and western regions of the country. Therefore, it is looking at increasing channel partners in these regions, particularly in the orchards and rice belts, to increase its market share. The company is also building up a portfolio of high HP engines to expand its export revenue.

RATING SENSITIVITIES

Positive: A sustained improvement in the operating profitability and a further increase in the market share, while maintaining the current credit metrics (net cash position) could lead to a positive rating action.

Negative: Higher-than-expected decline in volumes or margins and/or a decline in market share or any significant debt-led capex leading to deterioration in the credit metrics from the current levels could lead to the Outlook being revised to Stable.

RATING CRITERIA

'Corporate Rating Methodology', dated 4 January 2017 is available at www.indiaratings.co.in.

COMPANY PROFILE

Escorts operates in three operating segment: agriculture machinery with an annual installed capacity of 100,000 tractors (76% of 1H FY19 revenue), construction equipment (17%), and railway products (7%). The company offers a wide range of tractors under Farmtrac (premium) and Powertrac (mass segment) brands. It has six plants in Faridabad (Haryana) and a plant in Poland (with an annual installed capacity of 2,500 tractors).

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	49,951	40,932
EBITDA (INR million)	5,572	3,237
EBITDA margin (%)	11.2	7.9
Interest coverage (x)	19.5	10.4
Net leverage (x)	-1.1	0.0
Source: Company		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	30 November 2017	10 November 2016	15 October 2015
Issuer rating	Long-term	-	IND AA-/Positive	IND A+/Positive	IND A/Stable	IND A-/Stable
Fund-based working capital limits	Long-term/Short-term	INR4,250	IND AA-/Positive/IND A1+	IND A+/Positive/IND A1+	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Non-fund-based working capital limits	Long-term/Short-term	INR4,000	IND AA-/Positive/IND A1+	IND A+/Positive/IND A1+	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Term loan	Long-term	INR200	IND AA-/Positive	IND A+/Positive	IND A/Stable	IND A-/Stable

LEVEL OF THE INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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