



October 30, 2020

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 051 BSE – 500495	National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400 051 NSE – ESCORTS	Delhi Stock Exchange Limited DSE House, 3/1, Asaf Ali Road, New Delhi – 110 002 DSE – 00012
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Subject: Credit Rating by CRISIL

Dear Sir,

In compliance of Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that M/s Crisil Limited has renewed our rating with upward revision in outlook to “Positive” from “Stable” and reaffirmed the credit ratings as follows:

Product	Rating	Limits
Long-Term rating	CRISIL AA- with positive outlook	Rs. 1000 cr.
Short-Term rating	CRISIL A1+	
Commercial Paper Rating	CRISIL A1+	Rs. 100 cr.

The copy of the published rating is available on the website of CRISIL at the following link:

<https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Escorts Limited October 29 2020 RR.html>

The above is for your information and records.

Thanking you.

Yours faithfully,
For **Escorts Limited**

Satyendra Chauhan
Company Secretary & Compliance Officer

ESCORTS LIMITED

Corporate Secretarial & Law

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Corporate Identification Number - L74899HR1944PLC039088

Ratings

Rating Rationale

October 29, 2020 | Mumbai

Escorts Limited

Rating outlook revised to 'Positive'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL AA-/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.100 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the long-term bank facilities of Escorts Limited (Escorts) to **'Positive'** from **'Stable'** while reaffirming the rating at **'CRISIL AA-'**. The short term rating and commercial paper programme has been reaffirmed at **'CRISIL A1+'**.

The rating action follows better than expected demand for tractors in the domestic market in the current fiscal, from markets across India, which will translate into good revenue growth of 8-9% for Escorts' tractor division (77% of revenues) in the current fiscal. This is in contrast to almost flattish growth in tractor revenues anticipated earlier. The company's domestic market share increased to 11.6% in fiscal 2020 from 10.8% in fiscal 2018. Escorts continues to remain the fourth largest player in the domestic tractor market in the current fiscal. While the company's construction equipment (CE) business segment (15% of revenue) is expected to witness revenue decline in fiscal 2021 due to covid impact in the first and second quarters, the railway equipment segment (8% of revenues) is expected to register flattish sales, supported by healthy order book of Rs.480 crores as on June, 30, 2020. Overall, Escorts revenues are expected to register 5-6% growth in fiscal 2021, and 8-10% over the medium term, with steady growth across business segments.

Performance of Escorts' tractor business is closely correlated to economic activity in rural markets and its performance has benefitted from higher rural demand for tractors. The rural demand continues to remain positive led by lower base of last year, pent-up demand from Covid-19 related lockdowns, timely and widespread monsoon, record Rabi crop production, early Kharif sowing and good availability of retail finance. That said, material increase in covid-19 afflictions in rural markets and its impact on economic activity, and tractor demand will remain a key monitorable.

Operating margins are expected to range between 11-12% (10.9% in fiscal 2020), as a result of favourable product mix and cost control measures taken by the company, and notwithstanding weak profitability of the CE business. Thus, cash accruals are expected to remain healthy at Rs 500-600 crore during fiscal 2021, and improve over the medium term.

Complementing its healthy business risk profile, is the company's strong and improving financial risk profile. Escorts has generated healthy annual accruals in the recent past and prudently funded its capital expenditure leading to low debt on its balance sheet. The recent preferential allotment of equity to Kubota Corporation (Kubota), has further solidified Escorts' financial risk profile and also bolstered its liquidity position considerably (cash surplus is over Rs.2000 crores currently). Future capital spend, barring any large acquisitions, is expected to be moderate at between Rs.200-250 crores per annum, and met largely from internal accruals and cash surpluses, obviating the need for material debt addition. Therefore, strong debt protection metrics are expected to be sustained.

The ratings continue to factor in Escorts' healthy business risk profile, backed by an established and improving market position in the tractor segment, diversified revenue profile, and healthy operating efficiency. The ratings also factor in its strong financial risk profile and robust liquidity. These strengths are partially offset by high dependence on the cyclical tractor industry, limited presence in West and South India, modest performance of the CE segment, and exposure to volatility in raw material prices.

Analytical Approach

CRISIL has combined the business and financial risk profiles of Escorts and all its subsidiaries and proportionately consolidated JVs to the extent of its shareholding in these entities. All these entities, collectively referred to as Escorts, have significant business and financial linkages and common management.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* **Healthy market position in the tractor industry**

Escorts is the fourth largest player in the tractor segment in India (after Mahindra & Mahindra Ltd [CRISIL AAA/Stable/CRISIL A1+], Tractors and Farm Equipment Ltd [CRISIL AA+/Stable/CRISIL A1+], and Interational Tractors Ltd), backed by an established legacy of 70 years and domestic market share of 11.6% during fiscal 2020. It offers a wide range of tractors primarily under the Farmtrac and Powertrac brands. Escorts also sells 10-15 horse power tractors under the Steeltrac brand through its JV with the Rajkot-based Amul group.

Revamping of the product portfolio over the past three fiscals, healthy financing tie-ups, and an increasing dealer network have helped improve market share in West India (11.1% in fiscal 2020 against 9.1% in fiscal 2018) and sustain the share in other geographies. Products introduced to serve local needs in opportunity markets, such as West and South India, and improving dealer and financing penetration should help increase diversity in revenue and add to the market share over the medium term.

In March 2020, Escorts announced acquisition of 40% stake through preferential issue in Kubota Agri Machinery India Pvt. Ltd ('KAI'), the marketing and sales venture of Kubota in India for a cash consideration of Rs 90 crore (completed in October 2020), while the existing 40:60 joint venture of Escorts with Kubota, Escorts Kubota India Pvt Ltd will continue to operate as planned earlier. Trial runs at the JV have commenced, and commercial production is expected by end of March 2021. With increased collaboration of Escorts with the Kubota Group, the market position of Escorts in the high-end value utility tractor range is likely to benefit in both the domestic and exports markets.

While the company has ~11-12% market share in the domestic tractor market, and a reasonable market share in Eastern, northern and western markets in India, it has relatively modest presence in the southern states, which are witnessing better growth than Escorts' main markets. Therefore, its market share has witnessed nominal gains only in the recent past. Enhancing the distribution network and market share in both the Southern and Western markets (biggest market for tractors), could lead to faster increase in Escorts' market position in the tractor segment.

*** Diversified revenue profile**

While tractors is the mainstay for revenues and will continue to drive growth, the construction equipment and railway equipment business also contributed 15% and 8% to total revenue in fiscal 2020, adding diversity to revenues.

Product portfolio in the CE segment comprises earth moving, material-handling, and road-construction equipment. The diverse product range has resulted in compound annual growth rate (CAGR) of 11.7% during the three fiscals through 2020. Moreover, the second largest position in the pick-and-carry crane segment and increasing tie-ups improving product portfolio should drive revenue growth over the medium term. Further, with the JV of Escorts with the Tadano group to manufacture rough terrain cranes and truck mounted cranes, the market position of Escorts in rough terrain cranes segment is likely to improve.

Revenue in the railway equipment business, the most profitable segment, is derived from sales of brakes, suspensions, and couplers. This segment's revenues registered a CAGR of 18% in the three fiscals through 2020. Substantial order book of over Rs 480 crore as on June 30, 2020, provides strong revenue visibility.

*** Healthy operating efficiency**

Operating margin has consistently improved to 10.9% in fiscal 2020 from 6.9% in fiscal 2017, driven by the cost reduction initiatives undertaken over the past three fiscals, benefits derived from operating leverage, and exit from the loss-making automotive (auto) component business. Reduction in raw material cost, due to value engineering and lowering employee cost, should help sustain the margins.

Small but gradual improvement in performance of CE division has also benefitted margins. However, in the first three months of fiscal 2021, the margins of CE segment and railways segment were both impacted. Despite this, overall operating profitability in the first three months improved to 11.2% from 9.9% last year due to favourable product mix in tractors division and cost control measures taken across segments. Operating profitability is expected to remain at 11-12% over the medium term.

*** Strong financial risk profile, supported by robust liquidity**

Financial risk profile is marked by sizeable net worth (estimated to be over Rs 3000 crore for fiscal 2021), low debt and comfortable debt protection metrics. Cash accrual is expected to remain comfortable at Rs 500-600 crore, and should be more than sufficient to meet modest capex of Rs 200-250 crore in fiscal 2021.

In July 2020, Escorts issued new equity shares to Kubota on a preferential allotment basis pursuant to which Kubota held 9.1% of Escorts' paid up share capital. The total amount of investment was ~16 billion yen (Rs.1042 crore). Subsequent to the preferential allotment to Kubota, Escorts is in the process of reducing its share capital from the shares held by the Escorts Benefit and Welfare Trust of such number of equity shares as are being issued to Kubota under the preferential allotment. Post the capital reduction, Kubota's stake in Escorts will increase to 10%. The equity infusion by Kubota has strengthened the financial risk and liquidity profile of Escorts. The company has cash surplus of ~ Rs 2000 crore currently and its utilisation of fund based working capital lines is also minimal. Going forward, liquidity should remain robust.

In the recent past, Escorts has been on the lookout for acquisitions to enhance its product offering across segments, and mainly in the railway equipment division. Mid-sized bolt on acquisitions are a possibility, but can be accommodated without impacting the financial risk profile, given robust liquidity. The company is in the process of drawing up its medium term plans for investments in various businesses, including enhancing collaboration with Kubota. Given that even within the tractor segment, the company is operating at almost optimal utilisation, it is possible that Escorts could undertake material investments for enhancing its product profile. The same, along with utilisation of proceeds received will be a monitorable.

Weaknesses*** High dependence on the cyclical domestic tractor market and limited presence in South and West India**

About 96% of Escorts tractor sale volumes are derived from the domestic market. Demand for tractors in India is determined by multiple variables, such as monsoon, crop prices, and availability of finance. For instance, operating performance was constrained in fiscals 2015 and 2016 due to a slowdown in the tractor industry, leading to a fiscal-on-fiscal volume decline of 13.3% and 13.7%, respectively. Furthermore, the group has limited presence in its opportunity markets. However, with increasing dealer network, the company was able to gain market share during cyclical downturns.

*** Modest performance of the CE segment**

The CE segment was loss making in the recent past due to high fixed costs and cyclical nature of the business. However, Earnings before interest and tax (EBIT) margins improved to 3.6% in fiscal 2020, from a negative 2.3% in fiscal 2017. The turnaround was led by a change in the product mix (increasing proportion of higher tonnage equipment) and cost rationalisation initiatives with vendor rationalisation and price renegotiation.

Both revenues and EBIT margins have been impacted materially in the first half of fiscal 2021, due to Covid. Given high input costs, and considerably fixed-cost intensive nature of operations, margins will remain vulnerable to intense competition and economic slowdown. Furthermore, despite the turnaround and improvement in profitability in fiscal 2020, the operating margin is still lower than that of peers (6-8%).

Exposure to volatility in raw material prices:

The price of the main input (steel) is volatile. Operating profitability is also constrained by the limited ability to pass on any increase in raw material costs to customers in a timely manner, given the competitive nature of various business segments. The railway equipment business is also largely tender based, limiting the scope to pass on sizeable cost changes, unless specifically covered in contracts.

Liquidity Strong

Liquidity is likely to remain healthy driven by expected healthy annual cash accruals of Rs. 500-600 crore and cash and equivalents of over Rs 2000 crore as on date. The firm also has minimal average bank limit utilisation of 2% (limit of Rs 339 crore for 11 months ended September 2020). The company has minimal dependence on external debt. CRISIL expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental capex and working capital requirements.

Outlook: Positive

CRISIL believes Escorts will continue to benefit from the improving market position in the agricultural equipment and performance of CE segment over the medium term, while maintaining its strong financial risk profile and robust liquidity.

Rating Sensitivity Factors**Upward Factors**

- * Sustained increase in scale of operations, across divisions, and operating profitability maintained at 11-12%
- * Gradual improvement in market share in tractor segment, especially in southern and western markets
- * Sustenance of strong financial risk profile and robust liquidity

Downward Factors

- * Lower than anticipated business performance, leading to dip in operating profitability to below 7-8%
- * Sizeable, debt-funding capex or acquisition, materially impacting key debt metrics
- * Material reduction in liquidity surplus (below Rs.500 crores).

About the Company

Mr H P Nanda started the Escorts group through Escorts Agents in 1944 in Lahore, and moved to Delhi after independence. Escorts Agents was converted into a public-limited company, named Escorts Agents Pvt Ltd. The company got its current name (Escorts) in January 1960. Escorts currently operates in three segments: tractors, CE and railway equipment. It had also diversified into other products, such as agricultural machinery, auto components, railway equipment, industrial and construction equipment, telecommunication equipment, healthcare, and software services. However, some of its non-core businesses, such as telecommunications (sold Escotel Communications in fiscal 2004), healthcare (sold Escorts Heart Institute & Research Centre in fiscal 2005), software (in fiscal 2005), and auto components (in fiscal 2017) have been divested. EL also merged Escorts Construction Equipment Ltd, Escotrac Finance and Investments Pvt Ltd, and Escorts Finance and Leasing Pvt Ltd with itself in 2012.

In 2018, Kubota and Escorts had set up a high-end tractor manufacturing capacity in Haryana through a 60: 40 joint venture, Escorts Kubota India Pvt Ltd. The manufacturing facility has an annual capacity of 50000 units per annum.

The company is managed by third-generation family member, Mr Nikhil Nanda, who is the Chairman and Managing Director. It has five manufacturing facilities in Faridabad (Haryana) and one Poland. Total annual capacity is 1.2 lakh tractors and 10,000 units in CE.

For the three months ended 30 June 2020, net profit was Rs 93 crore on revenue of Rs 1089 crore, against Rs 88 crore and Rs 1440 crore, respectively, in the corresponding period of the previous fiscal.

Key Financial Indicators (Consolidated)

Particulars	Unit	2020	2019
Revenue	Rs crore	5780	6255
Profit After Tax (PAT)	Rs crore	472	478
PAT Margin	%	8.2	7.6

Adjusted debt/adjusted networkth	Times	0.01	0.19
Interest coverage	Times	39.65	39.58

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure – Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating
NA	Working Capital Facility	NA	NA	NA	339	NA	CRISIL AA-/Positive
NA	Non-Fund Based Limit	NA	NA	NA	356	NA	CRISIL A1+
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	44	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	261	NA	CRISIL AA-/Positive
NA	Commercial Paper	NA	NA	7-365 days	100	Simple	CRISIL A1+

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Relationship	Extent of Consolidation
Escorts Finance Ltd	Subsidiary	Fully
Escorts Securities Limited	Subsidiary	Fully
Escorts Benefit and Welfare Trust	Subsidiary	Fully
Farmtrac Tractors Europe Spolka	Subsidiary	Fully
Escorts Crop Solutions Limited	Subsidiary	Fully
Escorts Benefit Trust	Subsidiary	Fully
Adico Escorts Agri Equipment Pvt Limited	Joint Venture	Proportionate (40%)
Tadano Escorts India Private Limited	Joint Venture	Proportionate (49%)
Escorts Kubato India Private Limited	Joint Venture	Proportionate (40%)

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.00	CRISIL A1+	30-03-20	CRISIL A1+	05-12-19	CRISIL A1+	17-12-18	CRISIL A1+		–	–
								16-11-18	CRISIL A1+			
Fund-based Bank Facilities	LT/ST	644.00	CRISIL AA-/Positive/CRISIL A1+	30-03-20	CRISIL AA-/Stable/CRISIL A1+	05-12-19	CRISIL AA-/Stable/CRISIL A1+	17-12-18	CRISIL AA-/Stable/CRISIL A1+		–	–
Non Fund-based Bank Facilities	LT/ST	356.00	CRISIL A1+	30-03-20	CRISIL A1+	05-12-19	CRISIL A1+	17-12-18	CRISIL A1+		–	–

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Non-Fund Based Limit	356	CRISIL A1+	Non-Fund Based Limit	341	CRISIL A1+
Proposed Long Term Bank Loan Facility	261	CRISIL AA-/Positive	Proposed Long Term Bank Loan Facility	261	CRISIL AA-/Stable
Proposed Short Term Bank Loan Facility	44	CRISIL A1+	Proposed Short Term Bank Loan Facility	59	CRISIL A1+
Working Capital Facility	339	CRISIL AA-/Positive	Working Capital Facility	339	CRISIL AA-/Stable
Total	1000	–	Total	1000	--

Links to related criteria[CRISILs Approach to Financial Ratios](#)[Rating criteria for manufacturing and service sector companies](#)[Rating Criteria for Tractor Industry](#)[CRISILs Criteria for Consolidation](#)[CRISILs Criteria for rating short term debt](#)**For further information contact:**

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