



ESCORTS

Ref /EL/SEC/DISC//2018

Date: October 5, 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: 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 reaffirmed and assigned the **Long-term rating** to **AA-** and **Short-term rating** to **A1+** in respect of Bank facilities for Rs.866 crore & Rs.150 crore for Commercial Papers of the Company. A copy of ICRA letter dated October 4, 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

Copy To:

The Manager Listing Department BSE Limited 25 th 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
--	---

ESCORTS LIMITED

Corporate Secretarial & Law

Registered Office : 15/5, Mathura Road, Faridabad - 121 003, Haryana, India

Phone : +91- 129-2250222, Fax : +91-129-2250060

E-mail : corpsl@escorts.co.in, Website : www.escortsgroup.com

Corporate Identification Number - L74899HR1944PLC039088

Escorts Limited

October 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	41.0	25.9	[ICRA]AA-(stable) reaffirmed
Fund-based – Working Capital Facilities	425.0	425.0	[ICRA]AA-(stable)/[ICRA]A1+ reaffirmed
Non-fund Based – Working Capital Facilities	400.0	400.0	[ICRA]A1+ reaffirmed
Unallocated	0.0	15.1	[ICRA]AA-(stable)/[ICRA]A1+ reaffirmed
Total	866.0	866.0	
Commercial Paper	100.0	150.0	[ICRA]A1+ assigned/Outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the bank facilities of Escorts Limited (Escorts). The outlook on the long-term rating is Stable¹. ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the company's enhanced commercial paper programme (rated amount enhanced from Rs. 100.0 crore to Rs. 150.0 crore). The total rated amount of bank facilities is Rs. 866.0 crore².

Rationale

The ratings take 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 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 ratings also favourably factor in the company's strong financial risk profile. 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. 816.0 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.

¹For 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

ICRA notes the inherent cyclical nature 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