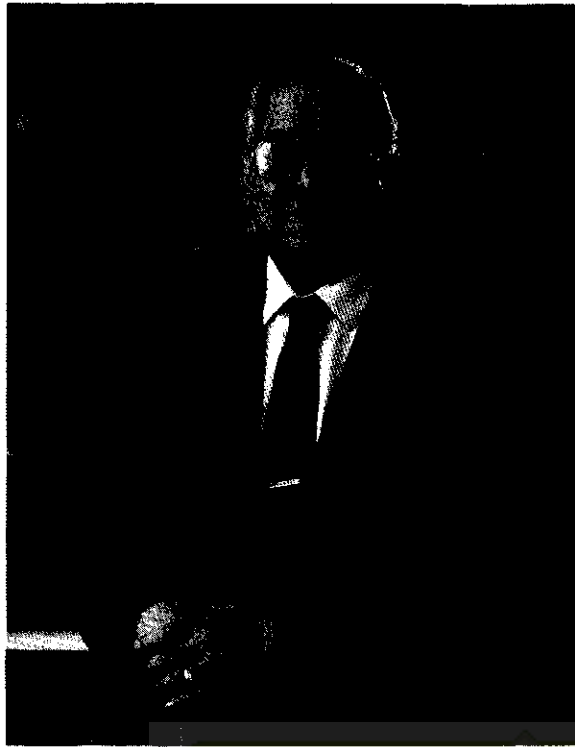


REALISING THE VISION



Remembering a man who not only witnessed change but helped create it



It was a tragic moment for all of us when our Chairman Emeritus, Mr. H. P. Nanda, passed away on April 13, 1999.

For five decades, he steered the company into building what is today one of the largest engineering conglomerates in the country. This is a testimony to his business acumen and exemplary leadership qualities. As captain of the ship, he always led from the front and his hand was wise and rock-steady at the helm. Right from 1959, when Escorts went public, Mr. Nanda had kept shareholders' interests close to his heart. Despite his lifelong position as the head of the company, he

never lost his empathy in developing a personal rapport with you all. In fact, he considered you as a part of his extended Escorts family. When, in the eighties, Mr. Nanda faced the biggest challenge of his life, it was you shareholders who rose to the occasion and returned his love and respect in ample measure by wholeheartedly supporting him to repulse the hostile takeover bid; a moment he always cherished from the core of his heart. But for this, the events as they unfolded could have taken a different shape. There are few parallels in corporate history of shareholders displaying such unstinting support, loyalty and steadfastness to a Company in its hour of crisis.

While Mr. H. P. Nanda is no more, he will, in perpetuity, remain our inspiration. On a personal note, I would like to assure you that we will continue to abide by his values and uphold your interests in pursuance of our business philosophy. I look forward to your continued support and guidance in steering Escorts to greater heights of excellence.

Rajan Nanda
Chairman



Dear Shareholder,

The ongoing turbulence in the world of economy had led frontrunning business houses, across the world, to restructure their scope of activities. Escorts responded to the challenge by redefining its core competencies, and unleashing a major restructuring drive. And in the process, has emerged a stronger entity, weaving together several diverse businesses with a greater clarity of vision.

The past three years have been dedicated to reposition each business in accordance with the needs of the markets. Business processes have been restructured to suit the requirements of customers, and to optimise returns to the shareholder. I am pleased to inform you that substantial financial benefits will accrue to you as a result of the restructuring process. Most significantly, The Escorts Group has striven hard to build up a fully empowered team of professionals.

We have taken the following steps to achieve optimal business strategies :

- Technology upgradation to attain international standards. The purpose is to strengthen ourselves, in order to take on foreign competitors in the future. The company is now equipped to deliver products of international quality to customers,
- An enriched in-house R & D infrastructure, fully equipped with advanced hardware and software to design, develop and test modern farm machines,
- A joint venture with a US-based company for manufacturing and marketing tractors and
- Optimisation of production efficiency, reducing costs, containing employment and introduction of new labour and production practices by entering into long-term labour agreements with workers and unions. As a result, your company's productivity would grow significantly with reduced employee numbers.

While these targets have been met successfully, the company is convinced this is only the beginning. It is determined to continue with the process of restructuring in a bid to consolidate its position in the corporate world.

The most challenging element of the restructuring process was achieving a

change in the labour practices. Through protracted negotiations with workers, who were on strike for 70 days, we reached a long-term settlement. The agreement encompasses new industrial engineering norms and productivity levels commensurate with machine output standards and working hours. This settlement is an instrument for cultural transformation which will afford the company greater operational flexibility in resource utilisation and higher productivity. The 70-day long strike led to loss in production and sales causing a drop in the turnover and operating profits in 1998-1999. However, the future gains to be made from the negotiated settlement, especially in the context of an impending economic upswing, will more than offset any minor losses suffered by the company.

We are now ready to attack the markets with new vigour. The products have been repositioned to match market requirements. We have enhanced our understanding of the markets through intensive research and have rationalised the supply chain to increase market penetration.

We are once again set to become market leaders in each of our product categories. The success of the new marketing strategy is already visible in the numbers achieved in the first quarter of the current year. Our market share of tractors during the first two months (April - May '99) has sharply increased to 20.5% against 15.1% during the first two months of last

year and 17.9% during 1998-99. The production and turnover figures of this quarter are sufficient to substantiate this claim. In fact, the higher productivity levels achieved through the labour settlement made last month, have permitted us to achieve higher production levels. As a result, we have been able to defer setting up a new production facility for tractors at Ranjangaon near Pune. This has decreased our costs by a substantial amount. Thus, the financial benefits of improved productivity are already visible.

AGRI MACHINERY

In the current fiscal, the tractor business is expected to grow by a robust 24 per cent. We expect to sell 56,000 tractors, which is nearly 11,000 more than the sales in the previous year. Our research capabilities and world class manufacturing facilities have enabled us to continuously upgrade our product and consolidate our presence in the market. Our confidence to maintain our growth rate, and even accelerate it, stems from our advanced manufacturing and marketing capabilities.

In 1998-99, Escorts entered into two new alliances : first with Carraro SpA of Italy to produce latest generation axles and transmissions at Ranjangaon near Pune which will start commercial production in July '99. During the very first year, we expect more than 50% production to be exported back to Europe. This manufacturing infrastructure has been created in a record time of 15 months. The other alliance is with

Long Agribusiness LLC of the USA which is a tractor distribution company. A separate joint venture has been formed with this company to undertake manufacturing and marketing of tractors in the USA. As part of this arrangement we have already exported nearly 800 tractors in 1998-99 and expect to double the same during the current year, based on actual market demand. Additionally, we will add two more Joint Ventures in Turkey and Poland. The Company's total tractor exports in 1998-99 stood at 1163.

Agri machinery has always been the key driver of our business. We are contemplating the manufacture of other agri machinery like bailers and transplanters. We are also very keen to participate in the management of agri business, should the government decide to privatise any of its public sector operations.

Over the years, we have made substantial investments in associated companies and subsidiaries. It gives me great pleasure to inform the shareholders that not only have these investments undergone substantial appreciation, the future prospects of these businesses are extremely bright.

BI-WHEELERS

Escorts Yamaha Motor Limited recently introduced high performance four stroke and two stroke motorcycles. These motorcycles, based on new and efficient technology, have been received very well

by the market. Their presence in substantial numbers on the Indian roads is evidence enough to justify this claim. The plant producing Rajdoot motorcycles is also being revamped completely. The existing plant machinery is being replaced by sophisticated Japanese technology and the process is likely to be completed before the end of the current fiscal. The new plant will roll out a new generation of motorcycles, which will help us improve our market share. Our equity partner, Yamaha Motor Company of Japan, is helping us expand our global frontiers with an increase in export of motorcycles to Latin America and other countries.

CONSTRUCTION MACHINERY

Road construction has been accorded a priority status by the Indian government. We expect major activity in this sphere. Accordingly, we have geared up to meet demand that arises from this activity. We have enhanced considerably the product range offered by our construction & material handling equipment business. With the economy poised for a revival, our companies, Escorts Construction Equipment Limited and Escorts JCB Limited, are likely to benefit substantially.

To provide Escorts JCB Limited with unhindered access to technology and entire range of products available with our equity and technology partner, JC Bamford Excavators Limited of the UK, we have divested a part of our 60% stake to them

and reduced our ownership to 40%. Not only will this arrangement enhance our strength in India, but will also provide a low cost base to our foreign partner for supply to the Asian markets. Our equity participation to the extent of 40 per cent in this venture will help us reap rich gains from this investment. This divestment has been made at a substantial gain to Escorts.

AUTO COMPONENTS

Even though the auto and auto-components industry continues to be in recession in India, we have managed to buck the trend by gaining access to the international markets through our joint venture partners. Moreover, with our joint ventures in place, we are in a position of great strength to take advantage of the expected economic turnaround.

SERVICES

To maintain a return on capital, we have made large investments in the more rapidly growing services sector. In fact, our largest investment has been made in the business of cellular telephony with the setting up of Escotel Mobile Communications Limited. The company is all set to achieve break-even level of operations during the current year and report cash profits by the year 2000-2001.

Although, the current controversy surrounding the New Telecom Policy has undermined the true value of this investment in the financial community, the

likely direction this policy will provide the industry in the future will give Escotel the necessary leverage to consolidate its position. Entry fee and revenue sharing arrangements that are expected to replace the existing licence fee structure will improve the profitability of Escotel substantially, and help it achieve its standing in the financial community.

Escotel's inherent strength is quite evident from the fact that it has been able to negotiate new loan packages without any guarantees from Escorts. It had negotiated its earlier loans against bank guarantees provided by Escorts. Thus, Escorts' bank guarantees beyond Rs. 400 crores have been released and Escotel is likely to start contributing to the profits of your company.

Our other company in the services sector, Escorts Finance Limited involved in the business of financial services, has been able to record profits even while other non-banking financial companies are closing down. We expect Escorts Finance Limited to grow substantially in the future and lead to an appreciation of this strategic investment.

INVESTMENTS - APPRECIATION PROSPECTS

Our investments in other companies before the commencement of the restructuring process was about Rs. 45 crores. This has grown to over

Rs. 400 crores now. All these new investments have been strategically made at a time when the economy has been in a recessionary phase. Thus, we have been able to acquire them at extremely attractive valuations. In fact, all the acquisitions have been made at par and the potential for appreciation is immense with the approaching economic turnaround.

We expect the value of our investments in group companies to appreciate over 10 times in the next two to three years. This optimism is well supported by our disinvestment in Hughes Software Systems (I) Limited at 20 times its acquisition value. Similarly, our disinvestment in Escorts JCB Limited yielded us several times our original investment.

This trend for our group investments is widespread and private investors in Escorts Yamaha Motor Limited have offered to subscribe to its equity capital through private placement, at eight to nine times over its value.

Several investors, including insurance companies, have evinced interest in acquiring equity of Escotel Mobile Communications Limited., at a substantial premium to their existing value.

I am extremely proud to inform the shareholders that all our investments, which have been made after due consideration, have great potential for appreciation and will yield substantial returns in the future.

PERFORMANCE

During the year under consideration, the company's income declined by seven per cent to Rs. 1319.70 crores. The net profit was Rs. 110.17 crores. Some of the reasons for the slightly depressed performance this year were the economic slowdown and the political uncertainty on the one hand and the labour strike in the Group on the other. We used this strike as an opportunity for streamlining work practices, optimising future productivity standards and rationalising costs. We have now achieved a much healthier business structure.

The company has maintained its schedule of investments in infrastructure manufacturing, R & D, product programmes, system networking, etc. These investments have been largely made from internal accruals. Thus, we have kept our debt liability under control and have used our internal resources in the most optimal manner.

The capital and reserves of the company grew by Rs. 4 crores and Rs. 52 crores, respectively. The net-worth was recorded at Rs. 935 crores, up from Rs. 879 crores.

Restructuring of the business, and strategic acquisitions made during the last few years, will more than offset the minor slippage that has occurred in some financial parameters of the company during the period under review.

Over the last five years, since the business restructuring process began, net worth of the Company has grown over 5 times from Rs. 181 crores to Rs. 930 crores, profit from Rs. 12 crores to Rs. 110 crores; all other financial indices have recorded healthy improvements.

In next 3 years, the Company plans to fully repay its term debt of Rs. 513 crores without recourse to any borrowings. The Company is also planning, during this period, to strengthen the infrastructure and in-house research and development for agri operations to accelerate growth in profit and net worth. Combined impact of substantial increase in profits, net worth, appreciation in the investments and debt free operations would witness a substantial level of growth in market capitalisation, share value, dividend return, market quotation and, in summation, shareholders' wealth.

TOWARDS THE NEXT MILLENNIUM

I strongly believe that the best way for us to predict the future is to create it. As we move into the next millennium, we need vision, commitment and the ability to perform to lead Escorts into a future that it creates for itself. For that purpose we need to :

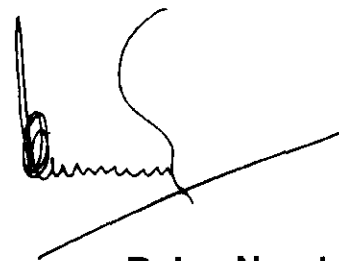
- Identify and build sustainable competitive advantage
- Deliver results

- Stay ahead of competition
- Remain focused
- Anticipate, meet and exceed the expectations of our customers, shareholders and all the people who make Escorts successful - our stakeholders.

In the coming millennium, we will continue to grow through our tried and successful model of creating a virtuous business cycle. We will identify business opportunities, invest in them, build them, harvest them and finally divest in them to provide our shareholders the best return for their investment.

We will strive to unleash the full creative potential of our people to realise accelerated growth, shape our markets and create Escorts' destiny.

Finally, I wish to express my sincere appreciation to our eminent Board of Directors and esteemed shareholders who have reposed great trust and confidence in the management. I look forward to the 21st century with hope and excitement.



Rajan Nanda

Chairman & Managing Director



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