



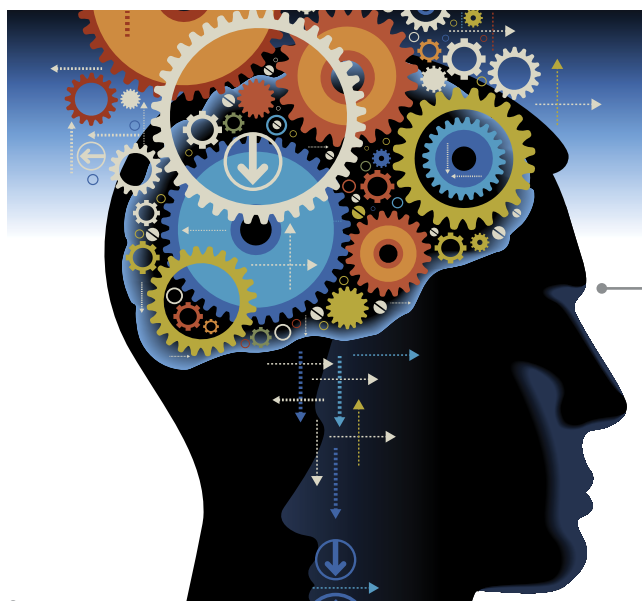
ENGINEERING  
THE FUNDAMENTALS  
OF GROWTH

69<sup>th</sup>

Annual Report  
2014 - 15



**ESCORTS**



# VISION

To be among the top engineering companies in India. Through the power of imagination in engineering we create solutions that help our customers be more productive.

# MISSION

To be an integrated solution provider to our customer by harnessing emerging future technologies and information to add value at every stage of customer need.

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### FORWARD LOOKING STATEMENTS

In this annual report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Engineering the fundamentals of growth

At Escorts, we have been engaged in 'Making India' for well over six decades, passionately and perceptibly transforming India's agricultural and infrastructure sectors and helping enrich life quality.

Today, positioned as one of the country's frontline engineering companies, Escorts is embracing its next phase of growth, powered by national progress and pivoted by its philosophy of engineering the fundamentals of growth.



## About the Company:

- Inception: 1944 | Headquarters: Faridabad
- Eight state-of-the-art manufacturing plants in India and one in Europe
- One of India's leading tractor manufacturers and amongst the world's Top Ten
- World's largest Pick-n-Carry Hydraulic Mobile Crane manufacturer
- Leading manufacturer of critical railway components for over four decades
- Pioneer in automotive shock absorber manufacturing in India
- Presence across 40 countries

## Our Businesses:

- Escorts Agri Machinery
- Escorts Construction Equipment
- Escorts Auto Products
- Escorts Railway Products

## Manufacturing Experience:

- 1 million+ tractors
- 16,000+ construction equipment
- 5 million+ auto components

## Market Penetration:

- 1,000-plus dealers, stockists and distributors
- 1,200-plus sales and service outlets

## *CMD's Communiqué*

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ESCORTS:  
A vibrant  
engine of  
growth  
aligned with  
the rise of  
the nation

## Dear Shareholders,

It is now widely believed that India will emerge as the world's fastest growing economy for the second consecutive year in 2016, an embodiment of legislative renewal leading to economic resurgence.

Since inception, Escorts' evolution has reflected serving the priorities of the country by leveraging our engineering prowess & innovation to address some of the core building blocks of the nation such as 'better food & prosperity' through our agriculture business; 'better & safe infrastructure' through our construction business; and 'better technology-driven personal mobility' through our auto and railway businesses directed towards enhancing the life quality of consumers, communities, countries and the world. Being deeply engaged in India's socio-economic progress, our focus on 'Engineering the fundamentals of growth' depicts the core of our existence.

Keeping in view the national and global priorities both on the economic and resources front, we have augmented our capabilities to directly address some of the major imbalances that impact our communities today, including low agricultural yields, outdated farm practices, infrastructural deficit and employment generation. At Escorts, it is finding a solution to these challenges that drives us every single day and we are devoted to realizing the potential of a country that is resurgent, forward-looking and truly committed to an inclusive growth philosophy.

India is among the largest tractor markets of the world. We are focused on spearheading agricultural mechanization which can enhance yields, alleviate labor intensity and contribute to an agricultural resurgence that is at the core of food security as well as economic wellbeing among our farmer communities. To our commitment of mechanization, we are also bringing to the fore our frugal engineering practices. This is helping us optimize costs, gain higher efficiency, drive better capacity utilization and ensure superior cost competitiveness, thereby setting the platform for growing our market share.

With increasing urbanization, the government's assertive focus on correcting the country's infrastructural deficit, developing roads network, enhancing inter-city mobility through rapid

transportation systems and modernizing the railways is evident in the proposed establishment of smart cities. The widest complement of our construction machines, auto components & railway products gives us just the right portfolio to address the core national urban development need. Our emphasis on technology-driven products are aligned to elevate the country's transportation infrastructure.

With an array of world-class products and processes to back us, Escorts, as a future-facing enterprise has now embarked on a challenging journey – bringing in international benchmarks through technology collaboration with global majors, strengthening our frugal engineering excellence coupled with innovation-led technology and service commitment to bring in the best to address growing customer needs. We are building enduring relationships to strengthen our customer proximity and enhance brand equity. Our strategy is in place to build stronger partnerships among our suppliers and dealers, broaden our distribution network and expand our coverage to maximize reach. We are engaging with globally-reputed consultants who are helping us in cost optimization, institutionalizing best-in-class systems and processes for lean and proficient operations and enhanced profitability.

At Escorts, our people agenda exemplifies inclusiveness for skill building and for creating a pipeline of aspiring talent. Building 'employable' talent is a core priority for India's long-term socio-economic progress. As a means to participate in this mission through our CSR initiatives, we constituted Escorts Skill Development Private Limited with the stated objective of establishing and operating skill development centres across the country as a means to equip youth with skills and create livelihood opportunities.

At Escorts, we are creating value that transcends conventional measures – as a world-class engineering company, as a preferred employer and as an entity dedicated to sustained philanthropy. I invite you to be a part of Escorts, a truly vibrant engine of growth aligned with the rise of our nation.

Best wishes,

**Rajan Nanda**

Chairman & Managing Director  
Escorts Limited



## Q&A with the Managing Director



“The fiscal 2014-15 was a year of transition and today, we are decisively prepared for capitalizing on tomorrow’s potential.”

*Nikhil Nanda, Managing Director, emphasizes that greater collaboration within teams, closer engagement with customers and wider technological and cost innovation is already helping the Company transition into its next phase of growth*

### **Q. What is your macro vision for Escorts?**

As a frontline engineering enterprise that is deeply connected with India’s agricultural and infrastructural roots, we continue to pursue all-round excellence. Towards this extent, we are engaging in customer need-driven product innovation to ensure better alignment of brand expectations with on-field asset performance. We are also bringing the value of global technology collaborations to our products, delivering world-class equipment performance, safety and mileage, characteristics that are core to our customer’s requirements, hence making us an integral part of their agricultural engagements. With a view to democratize availability, we are also associating with specialized financial institutions while simultaneously supporting our channel partners and increasing the length and width of our franchise.

At Escorts, all of these initiatives are anchored on our macro vision of enhancing agricultural mechanization and in doing so, strengthening farm economics and driving farmer prosperity. Moreover, with a strong focus on international markets, we are also poised

to increase our overseas business, leveraging a global mindset and an emerging presence in strategic geographies.

Under our construction equipment vertical, I must mention that aggressive R&D investments, channel expansion for enhanced coverage and a wider product portfolio are some of our strong points helping us meaningfully contribute to India’s overall infrastructural development.

Today, closely linked with the nation’s progress, Escorts reaffirms its commitment to nation-building by focusing on hunger and poverty eradication by bringing forth world-class technology and infrastructure solutions, thereby emerging as one of the top global engineering enterprises.

### **Q. If you were to mention a singular anchor pivoting Escorts, what would it be?**

It would have to be our inherent ability to listen to our customers. This is our most valuable business driver that allows us to gain traction in driving product value, market value, brand value and ultimately, shareholder value.

**Q. Can you give us an example?**

A classic case in point is the January 2015 launch of Escorts' Powertrac haulage tractors, India's first Anti-Lift Tractor (ALT) series, positioned around the core benefit of 'Driver safety, owner savings'. Our deep insights into customer usage patterns of tractors exposed a key vulnerability characterised by the front lifting nature of the tractor that could result in limited or no steering of its front wheels causing the driver to lose control, endangering both his personal safety and the integrity of the asset.

At Escorts, we brought the value of our R&D practice to the problem and developed features that could significantly augment the tractor's front-lift resistance capability, thereby enhancing driver safety and ensuring lower operating costs for the owner.

**Q. What were some of the other new tractor series launched during the year?**

Even as the overall Indian tractor market remained subdued with volumes declining by about 13%, we embraced a clear strategy to introduce innovative, features-rich and technology-led products.

In a move that is yet again consistent with our mission of enhancing agri-mechanisation and offering safe and cost-effective haulage operations in a product that also showcases extra style, comfort and power, we launched the state-of-the-art Farmtrac 6050 4x4 Heritage Series at Agrotech in Punjab in November 2014. A significant chunk of the international market runs on 4x4 tractors and this is indicative of the kind of potential that exists for these products in India, the fifth largest agricultural market of the world.

We also recently launched the revolutionary, next-generation 'XP series' engines in the Farmtrac brand of tractors that facilitated superior field economics by enabling the farmer to work across the entire 1,200-2,200 rpm range without compromising on power and fuel efficiency, thereby opening up the widest range of farm and commercial applications.

**Q. There has been a steady focus on higher HP tractors.**

It is a part of our well-defined strategy on portfolio premiumisation towards creating an entirely differentiated category and leading within it, especially in higher HP tractor segments. It is pertinent to mention that this focus is already yielding results as we could drive a near 54% growth in tractor volumes in the 50+ HP category and accrue a considerable increase in market share in this segment to 9.7% in 2014-15 even as the overall domestic market for this space grew by 5%.

What gives me further confidence of gaining mind share and, resultantly, market share in the higher HP segment is our focus on introducing 40-50 HP tractors within the Powertrac brand. This offering is anchored on the proposition of cost-efficiency through better mileage and higher power and we intend to seamlessly plug into this category and focus on democratizing the segment by leveraging our well-established Powertrac brand.

**Q. How did the Company fare on the global front during the review year?**

On the export front too, we reported a substantial 146% growth in volumes, demonstrating our large-scale product acceptance.

Notably, we launched our futuristic Farmtrac Heritage line in South Africa in sync with our ambition of emerging as the leader in the sub-80 HP tractor category in the country. In another development, we also introduced two series of tractors in Bangladesh - the new Farmtrac 6060 Heritage series in the 60 HP segment positioned in the high-end premium category and the new Powertrac Diesel-Saver Plus 4455 Euro series in the 55 HP range covering the popular mid-size segment.

Importantly, both these new launches set us up to grow our volumes significantly in the coming years on the back of our focus on the 'right product-right region-right time' philosophy.

Going into the future, we have identified key high-potential markets including those of Africa, Europe and the US that present significant scope for growth with regards to being large markets with relatively lower competitive intensity. Moreover, the twin benefits of a strategic organizational restructuring to enhance focus on exports paired with a product suite that can be easily plugged into these markets gives us the confidence that exports will be a sizeable contributor to our revenues in the upcoming years.

**Q. What were some of the material developments on the shop-floor?**

Our stated ambition is to emerge as the most profitable tractor manufacturer in the country and towards realising this vision we activated Project Shikhar in 2014 that aims to institutionalise processes and practices for a lean and efficient operation led by benchmarked levels of material cost, design excellence, lean and quality supplier base and a sprightly supply chain.

I am proud to report that within a short duration of the launch, we have already derived substantial gains, which will result in increasing shop-floor value creation, going forward.

**Q. What were some of the other highlights at the agri-machinery division?**

At Escorts, we believe that products alone do not build a business; relationships do. It is with this philosophy that we have engaged in a sales and marketing restructuring exercise at the division to focus on the frontend of the business, creating critical touch-points with dealers and the customers at large.

As a means to create a future-ready organization, we also encouraged lateral intra-divisional movement among our people that not only strengthened the sense of collaboration among our teams but also fostered new ideas, helping crystallize and refine our go-to-market strategies.

During the year under report, we also identified financing as one of the key challenges faced by our customers in accessing our products. To help address this issue, we entered into channel financing agreements with major NBFCs and other regional players, riding on their distribution network and financing capabilities. This has not only enabled greater access to pockets that are our traditional weak spots including the markets of the South but has also widened the access of our Escorts range of products. In February 2015, we launched a partnership with DLL, the Indian subsidiary of Rabo Bank (one of the world's most respected agriculture banks) to initiate Escorts Credit – an arrangement under which DLL will provide retail tractor loans to Escorts customers with convenient and fast options, thereby further widening our potential market.

I must also mention yet another exciting development that transpired in June 2015. We forged a partnership with the globally-reputed Cognizant Technology Solutions aimed at improving control and effecting greater collaboration across our value chain. This will result in mobile-enabling the workforce, strengthening integration across our ecosystem, creating adaptive production lines and manufacturing practices and developing digital capabilities including analytics and mobility.

These alliances are consistent with our philosophy of creating value for our entire ecosystem, helping seamlessly integrate our dealers, customers and employees and fostering greater levels of association among them.

**Q. Please enunciate the key developments at the Company's construction equipment business.**

The Indian construction sector continued to remain in a state of near paralysis for most of the past financial

year. However with the new government at the helm, there has been some optimism that the sector has bottomed out with future prospects looking better.

Even in this backdrop, the Escorts construction equipment division outperformed the industry by reporting a near 8% growth in volumes against the industry volume decline of 10%. Led by the strong and well-established brand franchise of Escorts cranes, we continued to lead the market in this segment with the product suite contributing to the bulk of our construction division sales. I must also mention that we are gaining good traction in the backhoe loader space, the largest segment of the construction equipment industry, with Dig Max II reporting both volume as well as market share gains during the year under report.

Leveraging this platform for growth and looking to swing the business back to profitability, we undertook several crucial steps including optimising both fixed as well as variable costs, effecting price increases across categories, widening the channel network, reaching out directly to potential customers and securing financing through retail tie-ups. The results of these initiatives were evident in the last quarter of 2014-15 with losses coming down sharply, which gives us much confidence as we move forward into 2015-16.

**Q. What were some of the reportable highlights at Escorts' railways and auto products divisions?**

We are very excited at the long-term prospects of our railways business considering the concerted efforts undertaken by the Indian Railways towards modernisation and capacity de-bottlenecking.

Our focus on driving product value and moderating costs resulted in EBIT margins moving up sharply despite revenues remaining flattish during the year, which clearly indicates a pick-up in buoyancy. Moreover, we closed the fiscal with substantial worth of orders in hand including the developmental order for our indigenously-designed axle-mounted disc brakes, and going into 2015-16 we intend to widen our product suite through either captive development or through forging technology partnerships, thereby taking the business to its next level of growth.

At our auto products division, we engaged in concerted efforts to get the business back on track. Towards this end, we implemented the Group-wide VRS initiative aimed particularly at restructuring the division. This largest-ever VRS at Escorts was availed by a significant number of employees and will enable greater efficiencies and productivity on the back of



manpower rationalisation. This initiative paired with a stronger focus on our dealership, productivity and shop-floor efficiency gains and portfolio optimisation geared towards value-added products resulted in EBIT losses declining in 2014-15, a traction that we hope to sustain over the future.

**Q. If you were to emphasise on the key facilitator of these enterprise-wide achievements, what would it be?**

It would undoubtedly be our people. Our engineering and our front-end teams constitute a knowledge pool that is undeniably one of the best in the world and share a common passion to make a real difference in the lives of our customers.

To reinforce this sense of being, we initiated the 'Empathy' programme that encouraged our employees to spend a week within the social milieu of our customers to 'listen' to their needs and transfer this knowledge onwards for the development of products and features that solve their challenges. Concurrently, we have also initiated the 'MD for a Day' initiative to invite members to come and take my position for a day, thereby fostering a culture of generating ideas from within and implementing them with speed. I have also engaged in several Town Halls to connect with our people and recharge their sense of passion while at the same time understanding the pulse of the organization and channelizing it for common good.

Going forward, talent acquisition will continue to remain a key spotlight of our HR division even as we focus on creating a dynamic, professional and committed talent pool that is drawn from some of the best educational brands in the country.

**Q. What was the significance behind the launch of the corporate campaign during the year under report?**

At Escorts, we launched a full-fledged corporate campaign centered around the positioning of 'Engineering the Fundamentals of Growth'. This tagline is not just an agglomeration of fancy words. In fact, it is the very basis of our philosophy of responsible nation-building dovetailed with our legacy of co-creating customer value.

With a focus on positioning brand Escorts as a holistic engineering and technology play, we launched an inspiring audio-video digital campaign that showcased our call to action to take India to its next orbit of growth through our comprehensive engagement in sectors that are core to the nation's secular and sustainable growth.

I am delighted to mention that this crusade found strong resonance among our employees, dealers, customers and financial partners and helped reinforce the value of the Escorts brand as one that is single-mindedly focused on making in India and making India.

**Q. What are some of our plans for 2015-16?**

The fiscal 2014-15 was a year of transition and today, we are decisively prepared for capitalising on tomorrow's potential.

We have embarked on an ambitious program that emphasises on lean management and consolidation of operations to create a more profitable manufacturing practice. Simultaneously, we are also looking to engage with best-fit partners for technology infusion to tap into the larger opportunities available within our operational sectors. In the long run, our focus is to first boost earnings and then efficiently allocate capital to productive assets in order to generate superior RoCE. Going into 2015-16 and beyond, I am certain that these initiatives will not only enable us to target higher market share and margins but also make us the brand and partner of choice across our businesses.

**Q. What is your message to the Company's shareholders?**

I consider all the shareholders of Escorts as my partners in the business. Keeping the spirit of partnership in mind, through this message, my intent was to reach out to you to communicate the initiatives, performance and strategic direction of your Company.

I must mention that Escorts lends utmost importance to Corporate Governance. We have strengthened our Board of Directors with some eminent and sought-after industry leaders to guide us on our quest going forward. In line with our core value of transparency, we have outsourced our internal audit processes to Grant Thornton in September 2014. Our objective has always been to constantly improve our systems and processes to match the best in the industry.

I want to seek the feedback of my partners in order to build this Company as we move ahead. I want to invite you to become a part of this journey to transform your Company into a customer-centric, technologically-driven and a highly profitable engineering enterprise. I can be reached through our Investor Relations team or directly at [nikhil.nanda@escorts.co.in](mailto:nikhil.nanda@escorts.co.in). Please feel free to share your thoughts and suggestions.

# Board of Directors



## **1. Mr. Rajan Nanda**, Chairman & Managing Director

Mr. Rajan Nanda is a visionary leader who has played a defining role in establishing Escorts as an organization of repute. His astute leadership has resulted in giving Escorts a sharper focus in the high growth economy sectors of agri machinery, construction equipment, railway equipment and auto components. Mr. Nanda is an active member of several apex trade and industry bodies. As a member of the CII National Council, he has served as the Chairman of its Agriculture Committee. Mr. Nanda plays a pivotal role in promoting the cause of Indian agriculture and his endeavours resulted in the government announcing the long-awaited National Agriculture Policy.

## **2. Mr. Nikhil Nanda**, Managing Director

Mr. Nikhil Nanda has been a key member of the Board since 1997. He plays a vital role in managing the Group's performance and steering its operations to create a customer-centric, technology-driven brand. Together with the leadership team, he is leading the organizational transformation into a culture of high-efficiency and aggressive growth. Mr. Nanda is a member of Northern Regional Council of Confederation of Indian Industry (CII), Federation

of Indian Chambers of Commerce & Industry (FICCI), the Indo American Chambers of Commerce (IACC), high-level strategic group constituted by All India Management Association (AIMA) and Young India Committee of CII.

## **3. Dr. S. A. Dave**, Director

Dr. S. A. Dave is an economist of international repute. He has a rich experience across multiple facets of financial and capital markets. Former Executive Director of IDBI, former Chairman of UTI and the first Chairman of SEBI, Mr. Dave is acting as Chairman of Centre for Monitoring Indian Economy, Mumbai and is also the Director of HDFC Limited, and many other reputed companies.

## **4. Mr. S.C. Bhargava**, Director

Mr. S. C. Bhargava is an eminent personality with a rich experience in all facets of Finance and Insurance. He possesses extensive knowledge in the field of securities market, treasury operations and investments, among others. Mr. Bhargava, Senior Fellow of Institute of Chartered Accountants has also worked as member of the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Market for Reserve Bank of India. Currently, he is serving on the Board of many reputed organizations.