



Innovating
the Future

70th
Annual Report
2015-16

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.



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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Being future-ready



As an enterprise that is rooted in fertile grounds by virtue of its presence across sectors that are at their transformational cusp, Escorts Limited delivered a commendable performance in a challenging business environment in 2015-16.

With an economic growth rate that is the fastest in the world, India clearly stands out amidst global gloom. Driven by a reforms-led growth agenda, the economic pace is expected to sustain well into the future, centered around large and consistent investments in core sectors including agriculture, construction and transportation, most notably the railways.

At Escorts, combining our innovative engineering capabilities with robust downstream platforms, pairing our rich knowledge capital with vibrant customer relationships and aligning the entrenched focus on driving national progress with a world-class product portfolio, we are future-ready to capitalise on the imminent rebound.



Message from the Chairman



“At Escorts, we are preparing for a future that creates enduring value for the country, customer and company.”

Dear shareholders,

I have always believed that companies which successfully address and alleviate some of the most genuine pressures of a society and a nation with futuristic products and solutions create enduring value. The era that we live in today is a testament of this conviction.

By virtue of our engagement in the core sectors of the economy – agriculture, infrastructure and construction and the railways, our businesses make a unique contribution to the growth and development aspirations of the nation. In line with our focus on creating enduring value for the country, we have converged our efforts on creating an enterprise that is agile, responsive, dynamic and determined. In essence, future-ready.

The forecast of above-average and spatially-distributed monsoons in the current year is expected to drive revival of farm incomes, spur economic growth, lower inflationary pressures and boost the overall rural demand across various consumption categories. As optimism sweeps across India's vast agricultural landscape, we are witnessing a certain perceptible degree of uniformity with the growing recognition of mechanisation among the farmer community as the only way forward towards enhancing crop yields.

In no small measure is this revolution being fostered by educated and progressive farmers who are aware of the cutting-edge global developments in agri-economics and are also keen to leverage scientific best practices with a view to drive more crop per

unit of the available land. They are increasingly looking at technology and mechanisation to enhance stability and derive risk-mitigated outcomes in a sector that is dependent on one core anchor – good monsoons. Besides, with small agricultural land holdings, peripheral farmers also see technology as the emerging de-facto for crop transplantation and harvest, especially in the face of risks emanating out of expensive labour or worker shortages.

Relevantly so, at Escorts, we are bringing forth cutting-edge technology that enhances agri-economics. Our world-class products help foster mechanisation across farms, positively impacting the lives at the grassroots. As a Company that is connected through a vibrant social network with the agricultural ecosystem, we nurture long-term

relationships with our dealers and customers, anchored on mutual trust, sensitivity and respect.

At Escorts, we also see the country's infrastructure and construction industry at an attractive inflection point, based on the Government's renewed focus on developing Smart Cities and other growth-stimulating infrastructure. This thrust can be a major driver of economic transformation, helping restore the growth momentum of our construction equipment business that comprises a range of world-class efficiency-enhancing equipment.

The Indian Railways is poised to be a big investment driver with its own Five-Year Plan that envisages a massive capital outlay. This will inevitably throw up huge opportunities for companies like ours that have demonstrated capabilities in cutting-edge and highly-compliant ride-control products, strong multi-year relationships and robust product development cycles.

To an attractively emerging macro-industry landscape, we have brought our continued signature focus on reinforcing the foundations of our organisation. Underlining our vision to achieve cost leadership, we converged our various global-class engineering programs and practices under Project Shikhar that aspires to drive a three-pronged result – reduce material costs, build a lean and dynamic supplier base and moderate

inventory in a bid to liberate working capital. Through our ongoing efforts, during 2015-16, we achieved robust cost economies that provide us with levers to further draw down on our material and operational costs. We also sharpened our focus on productivity that resulted in strategic manpower optimisation, enabling us to right-size the organisation. These initiatives are helping lower breakeven, enabling momentum in profitability accretion.

Your Company is also engaged with global experts and consultants to help us develop progressive systems and processes towards enhancing customer interaction with our brands and capture value across the chain through lowering costs and boosting revenues.

With the Indian Government's focus on building human resource capacities and capabilities, reflected in its Skill India mission, our Corporate Social Responsibility initiatives under the Escorts Skill Development Centre are actively contributing to skills development and employment generation.

Our unwavering focus with the customer at the pivot, robust intellectual pool, extensive use of technology, pan-India distribution channels and a comprehensive product suite across divisions are some of the Company's key strengths that will enable us to remain at the forefront of growth.

Going into 2016-17, we will continue to strive to set higher benchmarks of performance and strengthen our engagement with our stakeholders. We are future-ready to capitalise on the opportunities emerging out of the India of tomorrow that will be very different from the India of today.

With my best wishes,

Rajan Nanda

Chairman and Managing Director

Discussion with the Managing Director



“We are focusing on creating a business model that is future-ready, enabling us to enhance organisational sustainability and profitability.”



Nikhil Nanda,
Managing Director

What is the essence of being future-ready at Escorts in the context of a country that is emerging as the fastest-growing the world over?

The country's economy has gained momentum to register a five-year high GDP growth of 7.6% in 2015-16, displaying exceptional grit amidst challenging economic conditions that are prevailing around the globe. In fact, the Finance Ministry has pegged India's 2016-17 economic growth at 8% on the projections of good monsoons driving the agro-rural economy, improvement in domestic private investments and reform-oriented policies fostering a more conducive business environment. The bounties of the recently announced Seventh Pay Commission, the general trend of stable interest rates, above-average monsoons predicted in the current season represent some of the major forward-looking growth drivers.

Serving the interests of the economy's core sectors that are on a revival, your Company is fully-gearred to capitalise on the emerging macro-economic scenario with products and solutions that are future-ready. We are working towards strengthening profitability even as we aspire to exceed stakeholder expectations by constantly innovating and setting benchmarks that are among the world's best. In doing so, we are focusing on creating a business model that is future-ready, enabling us to enhance organisational sustainability and profitability.

How would you describe the financial performance of Escorts for 2015-16?

Despite the fact that 2015-16 was a challenging year due to a general sluggishness, delayed monsoons and challenging retail finance, we managed the challenges well and are pleased

to report a healthy performance. We clocked revenues of ₹ 3,472.2 crores and maintained our EBITDA at ₹ 160 crores. Our EBITDA margin grew by 56 bps to 4.6% in 2015-16, led by a healthy 13% and 15% growth in per tractor and per crane contribution, respectively, effective team efforts on material cost reduction, change in the product mix towards the value-added, robust and ongoing value engineering initiatives and higher personnel productivity with a focus on 'more for less'.

Our emphasis on strengthening cash generation from operations yielded a positive fund of ₹ 229 crores that gave us more headroom to manage our liquidity and working capital. Our Balance Sheet strengthening focus was reflected in our total debt declining by 26.2% to ₹ 355 crores as on 31 March 2016 that also led to substantial interest cost optimisation

by 10.2% to ₹ 51.3 crores on the P&L. Our debt-equity ratio also improved to a comfortable 0.19x as on 31 March 2016. With shrinking agri-sector cyclicalities, our organizational agility enabled us to report better metrics in terms of reduction in both finished goods and raw material inventory and improvement in collections.

Our sustained effort towards optimising costs and streamlining operations has put us in a position where our sales growth is translating into profitability accretion. Resultantly, our profit before exceptional item grew by 7.6% to ₹ 106.4 crores and net profit surged by a substantial 19.6% to ₹ 89.4 crores. This overall performance has not gone unnoticed with our external credit rating improving from 'BBB+' to 'A-'.

Going forward, we intend to further augment our financial health with our management organising monthly 'flash' meetings to keep a continuous check on the Company's financial health with a keen focus on lowering breakeven points.

Can you mention some of the highlights at Escorts Agri Machinery (EAM) division?

Domestic tractor industry and consequently our volumes witnessed a drop as deficient rainfall for the second consecutive year and untimely rains just before the harvesting season dampened sentiments. However, we could capitalise on the 1% growth across our opportunity markets in South and West India with the result that our domestic market share stood at 10.3% during the fiscal under review. Our EBIT margins rose to 8.1%, up by 95 bps, primarily due to material cost reduction.

We focused on leveraging our core engineering and development skills to upgrade our product lines towards

creating contemporary winners and introducing new products. Continuing with our strategy to offer innovative products, we launched the Euro 45 and 50 series under the Powertrac brand and the Classic series under the Farmtrac brand in the 41-50 HP category. The market response for these models has been very encouraging with the result that our market share in the 41-50 HP category increased from 9.7% to 10.9% in 2015-16. Going forward, we will continue to reinforce our positioning as a comprehensive mechanized farm solutions player, launching products that are suited for specialised farm applications.

At EAM, the essence of being future-ready has enabled us to look into the future with a clear lens. To this extent, we are now ready to capitalize on our prowess and work with Porsche Design to introduce the World Series tractors building on applied sciences and create one of the most prestigious technology platforms in Asia.

Going forward, I believe that our ability to research, understand, ideate, engineer and manufacture new homegrown solutions that make a tangible difference in the lives of our customers will continue to open new growth opportunities and enable us to create a strong differentiation in a competitive industry.

What were some of the other developments at EAM?

We are also 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. Our priority is to strengthen the ecosystem where we stock spare parts on an anytime-anywhere basis and provide

proactive service, leading to customer delight and retention.

Along the same lines, creating opportunities for customers to own their tractors, we entered into a partnership with the Indian subsidiary of the Netherlands-based DLL Group to establish Escorts Credit, which provides retail tractor loans to customers with quick and convenient options. Similarly, our Jai Kisan helpline caters to customer queries with a strong focus on swift resolution.

Going ahead, we are looking at significant product expansion and improving our geographical reach. We are focusing on providing customers a range of world-class crop solutions and implements in a bid to augment farm mechanisation that will catalyze agri productivity and profitability. We are also working towards achieving a pan-India presence by penetrating untapped markets and increasing our market share through the extensive dealership promotion of our Powertrac and Farmtrac brands.

On the international front, we strengthened our market in South Africa and showcased our Heritage Series tractors at the NAMPO Trade Fair in 2015. Relevantly so, we highlighted the spirit of innovation through the Government's 'Make in India' initiative. We also launched our exclusive Farmtrac showroom in Cambodia's Kampong Thom province along with Tata International, our business partner in the country. Through this series, we aim to offer world-class four-wheel tractors with a 45-80 HP range. The launch of this outlet in a largely agrarian economy with vast paddy, sugarcane, palm and rubber plantations fits well with our long-term ambition plans for Cambodia.

At our European unit, the Heritage tractor series was launched in

the 75 HP bracket. Some of this product's larger components will be manufactured in India, enabling us to augment profitability.

With our Global Transformation Vision 2020, we launched 12 new tractors in the 12-110 HP range under flagship brands to focus on the needs of our international customers. I am happy to mention that 37 partners from across the world have affirmed their association with us. We already enjoy a strong foothold across continents and our new transformation vision will further enable us to strengthen our position across North and South Africa, America, Europe and the ASEAN region.

What were some of the highlights on the manufacturing side?

As an enterprise that is future-facing, we launched Project Shikhar in 2014 towards achieving industry benchmarks on the cost front. I am happy to share some of your Company's key achievements in this regard:

- Reduced overall material cost from 71.5% to 68.9% of sales
- Achieved the expected 25% reduction to build a leaner and best-in-class supplier base

At EAM, we embrace a comprehensive total productive maintenance (TPM) system for maintaining and reinforcing production integrity and quality at modest investments. Moreover, our 23-acre Knowledge Management Centre continues to establish innovative tractor designs using the latest technology, incorporating advanced features to improve productivity. With our keen focus on engineering, we have developed many new special-purpose tractors which help us meet evolving customer requirements.

Can you highlight the performance of the Escorts Construction Equipment (ECE) division?

The construction equipment industry, after four years of continuous decline, witnessed a substantial 16% growth in 2015-16. Major segments like road construction, concreting and mining have seen a positive movement with compactors finding strong favour. Our served industry (backhoe loaders, PnC and compactors) grew by a healthy 5.5% during the year under review even as we focused on cost rationalisation through backend integration with the agri-machinery and R&D teams. This amalgamation will not only help us consolidate and reinforce our manufacturing and design capabilities but will also enable us to aggressively focus on the front end of the business.

The country's material handling industry is expected to grow at an 8.2% CAGR to touch 6,400 units by 2019-20 with the market moving towards high-value, high-tonnage cranes. The focus on safety is also increasing, resulting in a paradigm shift towards safer and more specialised cranes. Moreover, the Government's policy action and investment in key areas including roads, articulated by the plan to build 30-km of roads every day, railways, defense and Smart Cities is likely to fuel industry growth.

At ECE, our pipeline of new projects goes deep, characterised by several technologically-advanced products to serve emerging applications and improve execution speed. Your Company aims to become a one-stop-shop for providing end-to-end customer-centric solutions and build a leaner manufacturing/ sales setup with better fixed costs management, driven by the sector's long-term potential.

Coming to the Escorts Railways division, why are we optimistic of the business, going forward?

The growth of the Indian Railways network has always been a Government priority. The era of network modernisation and expansion, including the new high-speed trains, will call for the introduction of many new cutting-edge technologies and systems. The Government has planned cumulative investments of ₹ 11.67 lakh crores between 2015-19 in segments such as rakes, tracks, bridges, network expansion, electrification, signalling and safety. This is over and above the investment in coaches, wagons, locomotives and the like to the tune of ₹ 1.67 lakh crores.

At Escorts Railway Equipment Division, through our in-house research facilities and strategic alliances, we are positioning ourselves to be an integral part of this large opportunity. On the manufacturing front, we have always looked at safety and comfort as a paramount concern and have focused on innovation to enhance product and asset integrity. Towards this extent, we have completed testing the bogey-mounted brake systems and will introduce them soon. Meanwhile, our axle mounted disc brakes are under R&D and will be tested soon.

Given the Government's focus on revitalizing the Indian Railways, we are excited on the future outlook of this business. To capture the opportunity, our endeavor is to expand our product range either through in-house development or through technology partnerships.

What role are 'people' and 'processes' playing in this transformation?

Human resource is an organisation's key asset and we firmly believe in investing in them foremost. Our

people focus has always been on creating an environment of unity, collaboration and co-operation where our employees are candid and work together towards strengthening our organisational culture. Even so, our average employee age is declining as we continue to hire young and energetic youth. Moreover, the number of women in our workforce has also increased over the years. Employee-driven innovation is always encouraged as we work towards creating an 'innovation fund' and inspiring our people to think beyond the obvious.

Going ahead, we will continue to emphasise on the development of human resource capacities and capabilities towards enhancing productivity and enable team members to realise their personal goals and aspirations through comprehensive learning and development platforms.

Even as we remain committed to the growth and development of our employees, we also believe that robust systems and stringent processes have the ability to transform the way organizations function. Last year, we joined hands with US-based IT major Cognizant to modernize our technology landscape and achieve our vision of digitally transforming our businesses to deliver innovative products, provide superior customer experience and drive growth.

Cognizant will enable Escorts to improve control and collaboration across our value chain by mobile-enabling the workforce and integrating multiple systems used by vendors, sales partners and customers. This will help us continuously improve product quality and offer a broad range of customised, configurable and

value-added products and services, strengthening existing customer relationships and building new ones.

Thus, we will embrace adaptive production lines and demand-based manufacturing practices and develop new digital capabilities in areas such as mobility, analytics, cloud, telematics and machine-to-machine communication. Complementing traditional channels with new digital ones, we will be able to better align manufacturing and business strategies and expand into newer geographies. By enabling connected worksites, remote product monitoring and diagnostics and platform-based governance, we will be able to harness and analyse real-time data from multiple sources for improved customer insight, decision-making and productivity.

Apart from Cognizant, we are also 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.

What are the overall ambitions for 2016-17?

Being an integral part of India's agricultural and infrastructure development sector, your Company has always been an enthusiastic participant in the nation's progress. Today, India's growth is among the highest in the world, making it a driving force behind global recovery. To capitalise on this consumption-led opportunity, we are leveraging our ability to engineer technology to chart a growth path that spans a wider canvas of economic activity across the agriculture, infrastructure and transportation sectors.

With this backdrop, we expect profitable business growth with innovation-driven engineering. In this journey, we intend to be mindful to focus on creating an efficient business that builds and delivers higher value for all our stakeholders. Driven by the twin focus of winning in the market and operational efficiency, backed by our continued obsession to learn and listen, we intend to leverage our engineering skills to exceed expectations.

We have focused strongly on brand building and visibility and hence have strategic plans of higher investments in this area through integration of our go-to-market with some of the most innovative digital, web and brand platforms.

At every junction, your Company's ability to engineer technology and innovation is making a difference to our customers. Going forward, we will continue to identify needs, tap new opportunities and adapt to changes we anticipate in the future. With our relentless efforts and a strong customer-centric approach, we commit ourselves towards significantly improving capital returns and wealth for our shareholders, customers, employees and all other stakeholders.

As always, I can be reached through our Investor Relations team or directly at nikhil.nanda@escorts.co.in. Please feel free to share your thoughts and suggestions.

Board of Directors



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1. Mr. Rajan Nanda

Chairman & Managing Director

Mr. 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. 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), STS Forum, Japan, high-level strategic

group constituted by All India Management Association (AIMA) and Young India Committee of CII.

3. Dr. S. A. Dave

Director

Dr. 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. Hardeep Singh

Director

Mr. Singh has a rich experience of holding top managerial positions in leading Indian and foreign companies. Mr. Singh was the Former Executive Chairman of Cargill South Asia and Amalgamated Plantations Private Limited (a Tata Enterprise) and non-executive Chairman of HSBC Invest Direct India Limited. He is the Chairman of the monitoring committee on Minimum Support Price constituted by Planning Commission, Govt. of India. He has been a member of National Council of CII, National Committee for Agriculture of FICCI and served as an honorary advisor on Agriculture to the Chief Minister of Punjab. An invited speaker at the World Bank, US Department of Agriculture Global Summit, International