

**ESCORTS**

**56th Annual Report 2000-2001**

## Chairman's Message



Dear Shareholder,

Driven by the revolution in information and communications technology, globalisation has become a reality and is widely accepted all over the world as the new paradigm for development.

We are witnessing the beginning of a market where the economics will be dictated by the customer needs and preferences. Our business philosophy revolves around customer dedication, innovation and value creation.

In today's commercial dynamism and changing environment, it is essential to proactively manage the risk profile of the organisation which means withdrawing from certain businesses and, at the same time, making investments in the high growth areas where organisation's unique resources and competencies may be exploited to have lead edge.

This will be realised through different business approaches for core and non-core businesses. One, we will focus on such businesses which we can independently take forward and become a dominant player. Two, we will eliminate the businesses

where the value addition by us as management in the context of international competition cannot result in sustainable growth.

Our core businesses of agri machinery, telecom and healthcare services require large investments and unique set of skills for building organisation which will not only out-perform competition but will also create new opportunities in related business activities. These businesses have the ability to exploit the competence in more than one market arena. The development of added value services and geographical spread of markets are two typical ways in which core competence can be exploited to maintain progress once traditional markets are mature. Your company plans to increase focus in these areas.

Going forward, Escorts' focus will be on core businesses of agri machinery, cellular telephony and healthcare. We are committed to remain on top of the growth curve in each core business.

In the area of agri machinery, in addition to tractors, Escorts strategy is to supply a full range of agri machinery products to customers. Combine harvesters for paddy and sugarcane are already well placed in the market. Products like paddy transplanters, attachment to tractors like loaders, backhoes, etc., and implements for farm operations are being launched.

We have strongly positioned ourselves with the completion of business process re-engineering and setting up of advanced engine research test cell and design office with 3-D modeling capabilities. We have also engaged international consultants to further improve management systems, marketing networks and sourcing to upgrade quality and save costs.

We are launching highly specialised tractors with redesigned axle and more powerful engine for specific domestic and exports markets with a view to satisfy customer needs in varying agro climatic conditions. We hope to regain our leadership status through a wide range of products and aggressive marketing.

In the telecom business, Escotel has become the largest cellular service provider in the circles of Haryana, Kerala and UP West in which it operates. Escotel is the first B circle operator to have crossed 3,50,000 customer mark. Escotel has achieved yet another milestone of cash break even for the year ended March 2001. With its acknowledged high quality network, extensive coverage and fast subscriber growth, the company is on the threshold of explosive growth that lies ahead in the Indian cellular industry.

I am happy to inform you that the group has brought in its fold four new circles of Punjab, U.P. (East), Rajasthan and Himachal Pradesh in the fourth licence bidding. Together with the existing circles, we are now the fourth largest cellular operator in the country. The new circles have given us a distinctive footprint to emerge as a dominant player in north India.

Healthcare sector is an emerging growth area. With the rising awareness among masses about maintaining good health, the opening of the insurance sector for private participation and the impeccable reputation of the Escorts Group in cardiac care, healthcare business envisages enormous growth opportunities.

We have two hospitals, each one a standing example of a state-of-the-art medical facility. The company is committed to extend the highest quality cardiac care which has become a hallmark of Escorts Heart Institute. As part of its expansion plans, the company will be setting up two hospitals in Amritsar and Jaipur over the next two years and completing the expansion of its facilities in Delhi and Faridabad.

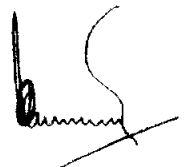
The internet and information technology are transforming our lives and we are integrating these value drivers into our businesses. Our IT initiatives, which ultimately should grow into independent businesses, primarily aim at e-enabling our core businesses.

In order to channelise financial resources to the core businesses and reduce debt at the corporate level, we are progressively negotiating with our joint venture partners to sell our stake in certain businesses where we feel that the joint venture partners can

add more value. The sale of your company's stake in the bi-wheeler business is one such example.

It is now time for Escorts to move beyond restructuring and build a vision for core businesses which we can independently take forward and become a dominant player. Our security for the future is an ever growing customer base in our core businesses.

We believe that our ability to anticipate the aspirations of our customers and respond competitively will take us to road to sustainable, profitable growth. Having optimised our business portfolio through strategically sharpened focus, we will seek growth and lead this into the future. We will make it happen to the best advantage to you – the shareholder.



Rajan Nanda  
Chairman & Managing Director



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## ESCORTS LIMITED

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### BOARD OF DIRECTORS

#### Chairman & Managing Director

Mr. Rajan Nanda

#### Vice-Chairman & Managing Director

Mr. Anil Nanda

#### Executive Director

Mr. Nikhil Nanda

#### Directors

Mr. Y.H. Malegam

Mr. Jahar Sengupta

Mr. Mantosh Sondhi

Mr. M Narasimham

Prof. Dr. M.G.K. Menon

Mr. Nimesh Kampani

Mr. K. M. Mammen

Dr. S. A. Dave

Dr. Fredie A Mehta

Dr. P.S. Pritam

Mr. K.G. Vassal

Mr. Jai S. Pathak

#### Vice-President & Company Secretary

Mr. G.B. Mathur

#### Registered Office

11, Scindia House

Connaught Circus

New Delhi - 110 001

#### Corporate Centre

15/5, Mathura Road,

Faridabad - 121 003

#### Auditors

M/s S.N. Dhawan & Co.

#### Bankers

Standard Chartered Grindlays Bank

ABN Amro Bank

Bank of America, NT & SA

Bank of Baroda

Citibank N.A.

Deutsche Bank

Hongkong & Shanghai Banking Corporation

HDFC Bank Limited

Punjab National Bank

State Bank of India

State Bank of Travancore



## Ten Years' Summary of Operations

(Rs. Crores)

RESULTS FOR THE YEAR	2000-2001	1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92
Total Income	1579	1570	1320	1418	1657	1444	1423	1056	982	1093
Index	144	144	121	130	152	132	130	97	90	100
Cost of Sale	1397	1375	1152	1210	1437	1258	1312	997	930	1038
Index	135	132	111	117	138	121	126	96	90	100
Interest	61	53	58	44	53	47	40	48	43	34
Index	180	156	171	129	156	138	118	141	126	100
Profit before Tax	121	142	110	164	167	139	71	12	9	21
Index	575	676	522	781	795	662	338	57	43	100
Taxation	14	30	26	34	40	39	20	-	-	8
Index	175	375	325	425	500	488	250	-	-	100
Profit after Tax	107	112	84	130	127	100	51	12	9	13
Index	822	861	643	1000	977	769	392	92	69	100
Dividend	33	32	32	30	28	23	12	10	7	10
Index	325	320	320	300	280	230	120	100	70	100
Dividend Tax	3	4	3	3	3	-	-	-	-	-
Index	100	133	100	100	100	-	-	-	-	-
Profit Retained	71	76	49	97	96	77	39	2	2	3
Index	2377	2530	1619	3233	3200	2567	1300	67	67	100

## YEAR END POSITION

### Fixed Assets :

Gross Block	952	845	740	665	678	715	371	352	338	327
Less : Depreciation	290	245	205	170	163	182	163	151	135	120
Net Block	662	600	535	495	516	533	208	201	203	206
Index	322	291	260	240	250	259	101	98	99	100
Investments	548	475	487	381	261	190	117	57	37	33
Index	1661	1441	1476	1155	791	576	355	173	112	100
Net Current Assets	392	610	531	564	504	425	203	184	209	141
Index	278	433	377	400	357	301	144	130	148	100
Share Capital	72	72	72	68	65	59	34	34	34	34
Index	212	212	212	200	191	174	100	100	100	100
Reserves	950	911	857	811	732	646	183	147	146	148
Index	642	616	579	548	495	436	124	99	99	100
Loans	618	743	651	582	495	445	325	253	278	208
Index	297	357	313	280	238	214	156	122	134	100





**d) New Initiatives**

Looking at the overall market scenario, the Company has taken certain key steps towards ensuring growth and increase in market share. These include major investments in Research & Development, cost reduction efforts and several other initiatives.

**\* Research & Development**

The Company made substantial investments in building up its state-of-the-art Research & Development Centre. This would help the company in speeding up its product development and testing processes.

**\* Cost Reduction**

Further to the initiatives taken with the help of the international Consultancy firm Accenture for reducing material costs through better sourcing, the Company commenced the implementation of the "Supply Chain Management" (SCM) solution from i2 Technologies Ltd. This would help the company achieve substantial reduction in inventory of raw materials and work-in-process. This implementation is likely to be completed by the middle of the current year.

**\* Business Process Re-engineering (BPR)**

BPR has now been completed in all tractor plants, which have been re-engineered to match global standards in manufacturing processes. This has resulted in a quantum jump in quality and productivity, besides reduction in costs.

**\* Other Initiatives**

A major exercise of job evaluation was undertaken for the managerial staff of the company with the help of a firm of international repute with the objective of building a leaner and more cohesive organisation.

**e) Business Outlook**

In view of the prevailing overall economic situation, the current year is not expected to witness any growth in total industry volume. However, your Company is committed to increasing its market share in a competitive market by offering products to meet the needs of a wider cross section of the segments through aggressive promotion and selling.

**2) AUTO SUSPENSION PRODUCTS BUSINESS**

The Auto Suspension Products Division continued to make major improvements in quality and productivity through technology upgradation and re-engineering and also made significant breakthroughs in export markets. As a result, despite falling prices in an intensely competitive business scenario, the Division maintained its profitability and posted a turnover growth of about 12% during the year.

As a conscious strategy for growth and dilution of risk from over-dependence on the cyclical automobile industry, ambitious targets have been set for the development of export markets as well as enhancement of share in the domestic after-market.

**3) RAILWAY ANCILLARY EQUIPMENT BUSINESS**

Railway Equipment Division achieved a remarkable growth during the year both in turnover and profits. The composite brake blocks project was successfully commissioned in collaboration with ICER of Spain. The Division manufactured over 3 lac Brake Blocks during the year and captured 40% market share. Sales turnover from this project is expected to more than double and cross Rs. 20 crores in the current year.

REXLOK Rail Fastening Systems Project, in collaboration with GRSPL, Australia, would go on stream in the second quarter of the current year and provide further momentum to the growth and profitability of the Division.

The Division is vigorously pursuing with Indian Railways for new product opportunities, such as, centre buffer couplers, crash elements, etc. Recent major breakthroughs in export markets indicate bright overseas business prospects.

**4) FINANCIAL PERFORMANCE**

The Sales and Business Income of the company for the year ended 31<sup>st</sup> March 2001 was lower at Rs.1463.24 crores against Rs.1474.49 crores in the previous year. This was essentially due to a drop in the sales volume of tractors from 52,010 to 45,009 tractors which was partially made up by increase in volumes of traded goods including harvester combines and sugarcane harvestors procured from a subsidiary of your Company - Escorts Claas Limited.

The various initiatives undertaken by the company in the areas of Strategic Sourcing, Supply Chain Management and Business Process Re-engineering have started showing results in the form of reduction in materials and manufacturing costs for the goods manufactured by the company. However, because of the change in the mix of the products in favour of traded goods (with lower margins), the material, manufacturing and operating expenses, as a percentage to Sales and Business Income, show a marginal increase over the previous year.

Rationalisation of manpower and rightsizing of the organisation has helped the company not only contain the personnel cost but actually reduce it by Rs.3.59 crores in absolute terms over the previous year's figure. The increase in Sales Expenses is reflective of the intense competition in the tractor market. The Administrative Overheads have, however, largely remained under control during the year.

The increase in interest cost and depreciation is mainly a consequence of the substantial capital investment made by the company in the Research & Development Centre and upgradation of its manufacturing facilities including the state-of-the-art paint shop in the Tractor Plant. The company has now completed its programme for investment in capital expenditure, the benefits from which will flow in the coming years. The expansion in working capital due to tough market conditions is also partially responsible for the increase in financial costs.

Other income is higher than last year and represents mainly the surplus earned by the Company on sale of 24% of the equity shares of Yamaha Motor Escorts Limited.

As a result of all the above, the Profit Before Tax of the company for the year ended 31<sup>st</sup> March 2001 was Rs.121.39 crores compared to Rs.142.35 crores in the previous year. Accordingly, the Profit After Tax was Rs. 107.39 crores as against Rs.112.35 crores in the previous years.

## ESCORTS LIMITED

### 5) INTERNAL CONTROL

During the year under review, your Company has carried out an audit of its internal control systems and assessment of risks arising therein. This audit, which was carried out with the assistance of the internationally acclaimed audit firm M/s KPMG, has been concluded satisfactorily covering all major areas. Recommended improvements are continuously being implemented and monitored on a regular basis.

### 6) HUMAN RESOURCES / INDUSTRIAL RELATIONS

Consequent to the wage agreement signed with the Employees Union in 1999, the Company has been able to sustain significant changes in work culture and practices such as working to industrial engineering norms, multi-skilling and multi-machining. The Company has also taken steps to implement new performance management for its managerial and supervisory workforce. It is expected that over the next two years, the Company will become a lean and more efficient organisation comparable with the best in its class in the world.

As on 31<sup>st</sup> March 2001, there were 7,464 persons on the rolls of the company including all grades of workers, staff, supervisors and managers

### 7) RISKS AND CONCERNS

While management is reasonably confident of achieving its objectives for the current year, it must be mentioned that the market continues to be subdued and the macro economic factors do not presage a revival for some time. Record foodgrain inventories with state agencies are also likely to depress farm prices and consequently the disposable incomes of the farmers.

## SUBSIDIARIES

### ESCORTS CLAAS LIMITED

Escorts Claas Limited produced 352 harvester combines during the current year in comparison to 267 harvester combines in the previous year. The turnover of the company grew from Rs.38.96 crores in the previous year to Rs.58.95 crores in the current year showing an increase of 51.3%. The profit before tax also grew by 105% from Rs.6.04 crores in the previous year to Rs.12.37 crores in the current year. The growth in the domestic market was phenomenal due to substantial reduction in machine operating cost, improvement in product quality and wide acceptance in the market.

Escorts Claas Ltd. has declared a higher equity dividend at 65% for the financial year ended on 31 March 2001 (up from 20% for the previous year).

### ESCOTEL MOBILE COMMUNICATIONS LIMITED

During the year under review, Escotel Mobile Communications Limited has achieved the record of being the fastest growing cellular operator in the country. Its customer base grew from 1,35,000 at the beginning of the year to 3,07,000 at the close of the year recording an exponential growth rate of 127%, which was substantially higher than the average growth rate of the industry. The Company has also been successful in maintaining its revenue levels at 10% of all India circle revenues and achieved a turnover of Rs.175.14 crores, which shows an increase of 68% over the previous year. The number of towns covered in the three circles serviced by Escotel went up during the year from 92 to 132, which contributed to its sustained market leadership in these circles in this year.

During the year, the Company achieved financial restructuring of the offshore debts with a moratorium of two years and has also executed a new term facility from ICICI on similar amortisation terms as the offshore loans.

### ESCORTS AUTOMOTIVES LIMITED

During the year under review, Escorts Automotives Limited recorded a total income of Rs. 5.63 crores and a net loss of Rs. 2.12 crores.

### ESCORTS ASSET MANAGEMENT LIMITED

Escorts Asset Management Limited (EAML) became a subsidiary of your Company during the year under review. Escorts Asset Management Limited is the Asset Management Company of Escorts Mutual Fund, registered with the Securities and Exchange Board of India. Escorts Mutual Fund launched four new schemes during the months of February and March 2001. During the year under review, EAML recorded a total income of Rs.1.13 crores and a post tax profit of Rs.0.02 crores.

### ESCORTS SECURITIES LIMITED

Escorts Securities Limited became a subsidiary of your Company during the year under review. Escorts Securities Limited is a stock broking company registered with the Securities and Exchange Board of India and a member of National Stock Exchange Board of India as a Category I Merchant Banker. During the year under review, this company recorded a total income of Rs.2.52 crores and a post tax profit of Rs.0.04 crores.

### ESCOSOFT TECHNOLOGIES LIMITED

Escosoft Technologies Limited (ETL), a subsidiary of your company in the Information Technology sector, grew from approximately 41 employees as a start-up in April 2000 to 145 professionals at the end of the year.

During the period, ETL built its business lines and consolidated its professional teams around its three strategic business areas, namely :

- Interactive / Entertainment Software Development and Animation
- Enterprise Software Solutions Group; and
- Professional Services

ETL during this period established its facilities and infrastructure separately for Software Development Group and Animation Studio, covering approximately 30,000 sq.ft. space.