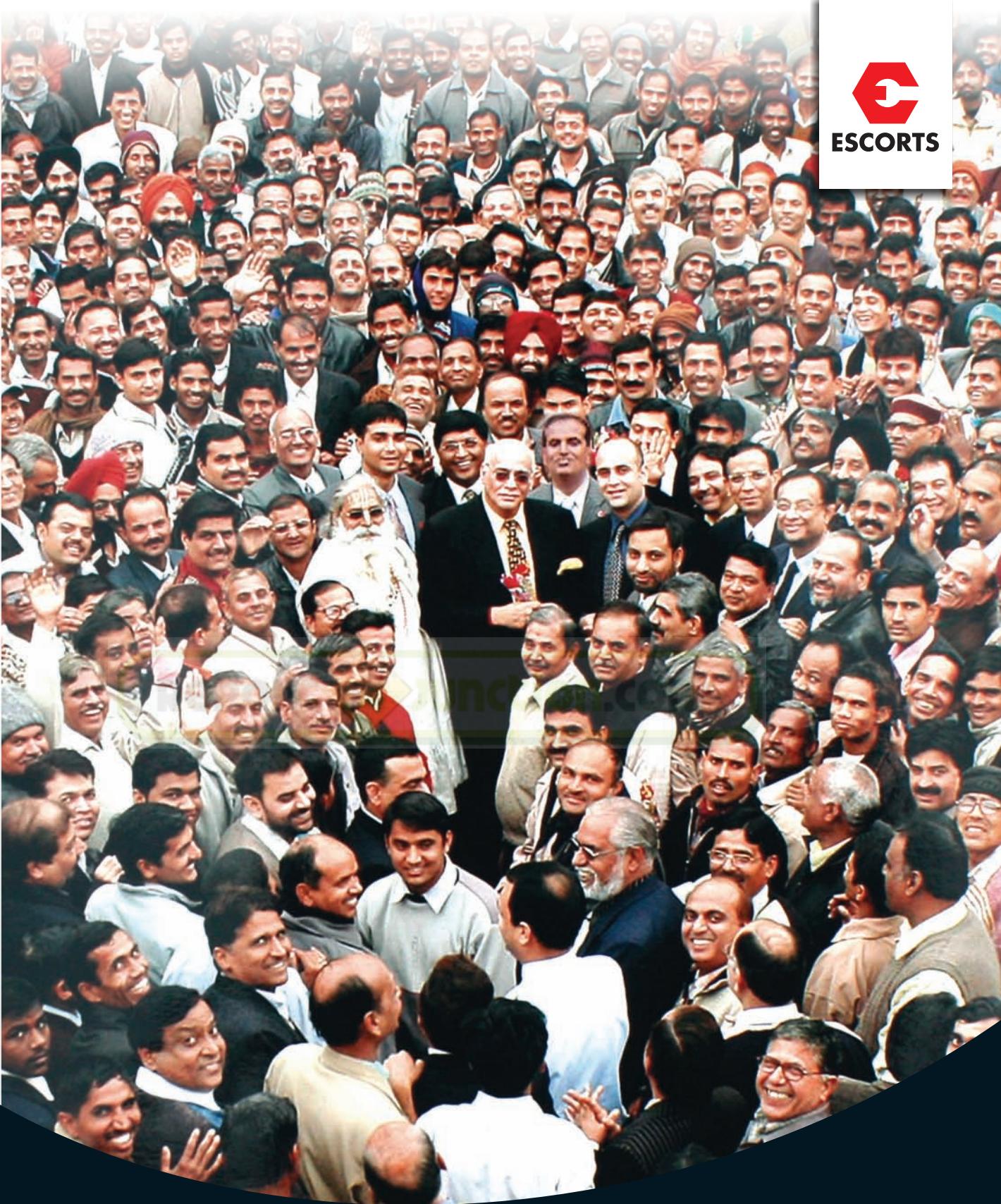


**63<sup>rd</sup> ANNUAL REPORT : 2007-08**



**E**  
**ESCORTS**

**OUR PEOPLE...OUR STRENGTH**



## Chairman's Message

Dear Shareholder,

The year 2007-08 has been one of the most significant for Escorts India. The seeds sown this year past will have fruits that will be harvested for a long time to come.

Before we reflect on our momentous successes, we must take note of the environment in which we operated. The year 2007-08 was marked with severe economic strains of rampaging inflation, unprecedented fuel costs, tightening interest rates by the central bank in the first half and virtual cessation of farm loans in the second. If these were not enough, the farm economy slowed down and the government failed to increase support prices.

In that mix, tractor prices which had to firm up to account for inflationary prices slid later in the year. Sales slowed through the year, first, due to higher prices and later due to poor credit availability from public sector banks and the limited capacity of NBFCs, cooperative banks and regional banks to make up the deficit. The final straw came in the form of the global meltdown that made the rupee weaker, imports costlier and dampened exports.

For the farming community, the year was significant for both the right and the wrong reasons. The government sought to ease the pain of many farmers by waiving their loans. That said, it failed to provide an adequate enough mechanism for the fallout for the banking community. In fiscal 2008-09, priority sector lending has failed to meet one third of its targets. Consequently, farm credit has gone through a huge squeeze in the past nine months. However, some semblance of normalcy is reappearing as it has become evident that it is rural India which is the most resilient in these recessionary times.

Despite this grim economic setting, your company has ended the year with a strong, profitable showing, putting behind the years of struggle. For Escorts, the return to profits was a clear demonstration of your company's restored health and success of the revamp. Your company announced a profit of Rs. 11.87 crore on the back of a slew of strategies that has delivered higher domestic market share, improved earnings from a lower market base, structural reorganisation and greater cost and operational efficiencies.

Escorts Limited has proven through its performance in fiscal 2007-08 that the efforts to strengthen the fundamentals of the company, sharpen focus on core strengths, build value for customers and drive operational efficiencies have put the company on a profitable track. Of the many initiatives that were undertaken, the biggest contributor has certainly been the initiatives in revamping the economics of the business by focussing on cost compression. A slew of initiatives has resulted in a saving of over Rs. 100 crore by eliminating waste, working more efficiently, right-sizing the work force, reduction of held stock and negotiating better prices from our suppliers.

## **AGRI MACHINERY BUSINESS**

Despite industry slowdown in tractor sales, Escorts Limited maintained its overall sales performance. Domestic sales in particular demonstrated strong growth and Escorts captured incremental growth beyond the industrial volume of the market by adding niche products to the portfolio as also going up the value chain.

The cost compression and rationalization exercise coupled with structural organization and improving operational efficiencies is reaping rewards for the company. The results are already encouraging and validate the entire exercise.

Your company wants to expand its horizons to become a complete farm solutions provider from just being a tractor manufacturer. Our aim will be to develop solutions that will enhance agricultural productivity and improve quality of life in rural India.

Your company has aggressive plans of further increasing the market reach and subsequently market share by offering price competitive models of global quality. This, backed by spare-parts & after sales service support deliveries, will help us deliver to our customers an overall satisfaction and success package for a long-term win-win relationship.

Escorts is further increasing the market reach and subsequently the market share by offering price competitive models of global quality norms in terms of technology, performance and durability. Better marketing, innovative products, robust financial systems and controls, dealership penetration and greater emphasis on export markets will be the key pillars on which our growth strategies will be based.

The agri machinery business registered strong growth in profitability. Right through the year, despite difficult market conditions, Escorts increased its market share. In the current economic situation, the

agriculture sector with its relative insularity from the buffets of global financial collapse can provide India the necessary growth engine.

## **CONSTRUCTION EQUIPMENT BUSINESS - ECEL**

The Construction Equipment Business has been recording a handsome y-o-y growth in its gross revenues in the financial year ending 31st March 2007. The company topped it up further by registering an impressive 50% topline growth in the current year that ended on 31st March 2008.

As one of the major milestones in its transformation journey, ECEL has just moved into its state-of-the-art and intelligent manufacturing & assembly facility in Ballabgarh, which spans a covered area of over 250,000 sq. ft., spread over 15 acres land. This factory is equipped with contemporary capabilities and processes to facilitate a three-time increase in its production capacity for its existing as well as new, high quality products.

ECEL has set its sights to an ambitious growth plan over the next five years, thanks to a slew of new product introductions as well market expansion strategies, which shall pan out from the beginning of calendar year 2009.

However, given the recent global financial and economic turmoil, the tremors of which are being felt on the Indian economy, ECEL too faces growth challenges in the FY 2008-09 and the shorter term. In the first half of FY 2008-09, ECEL also had to contend with an unprecedented hike in the input costs, driven by steel.

ECEL has been particularly impacted by the economic downturn and slowing down of the construction industry. Combined with the higher depreciation costs arising from its new plant, the impact is that much more. However, ECEL's product quality, cost of production are of global standards and will drive business volumes with the recovery of the core sectors.

## **ENGINEERING DIVISION**

The Engineering Division of your company comprises of Railway Equipment Division (RED) and Auto Suspension Products Division (ASPD).

During the year 07-08 Indian Railways grew by approximately 10 % which gave our Railway Business a significant increase in our order book and billing. During this period your company could grow business in Air Brake, Brake blocks, Shock absorbers, couplers etc. and as a result of this RED business has grown by 24% over last year, while export business grew by 100 %.

The Rudrapur plant which started production in the year 2005-06, contributed significantly to this growth.

Indian Railway has embarked upon many ambitious projects of environmental protection and one of them is introduction of Bio-Degradable toilets in passenger coaches.

The Auto Suspension business, automotive market in India in 2007-08 remains static compared to 2006-07. Our main customer in 2 wheeler segment has seen significant reduction in motorcycle production, affecting our domestic sales adversely.

During the 2nd half of the year 07-08 prices of all Raw Materials increased by 20 % affecting our material cost. However, with initiatives on cost reduction from suppliers and price increase from customers, we could negate the effect of inflation considerably.

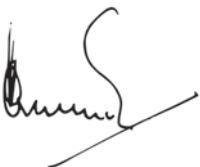
Your company has taken many steps during 07-08 in developing new products, new customers and new markets both in Auto Suspension as well as in Railway business. On the strength of these initiatives we are confident of increasing our sales and contribution of Engineering Division significantly during 08-09, global meltdown notwithstanding.

## **IN CONCLUSION**

By enabling people to drive this change, we are well on our path to making Escorts a lean and efficient organisation. What we have today is a company that is strong enough to battle market headwinds.

Today, we are far more focussed. We are constantly evolving and innovating, creating new products to suit market demands.

On the back of our performance, better fundamentals and strong marketing drive, we commit to make your company even more profitable in the year closing September 2009 and with a better topline. I am hopeful that this year your company's overall performance on operating levels would exceed our best past years.



**Rajan Nanda**  
*Chairman and Managing Director*

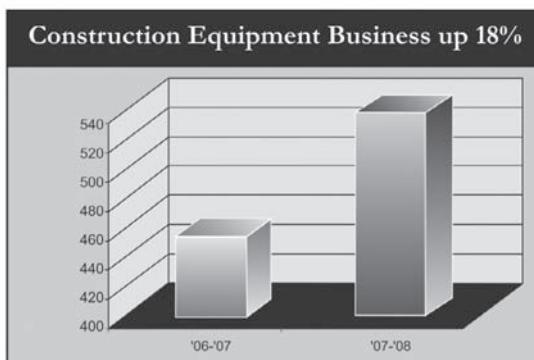
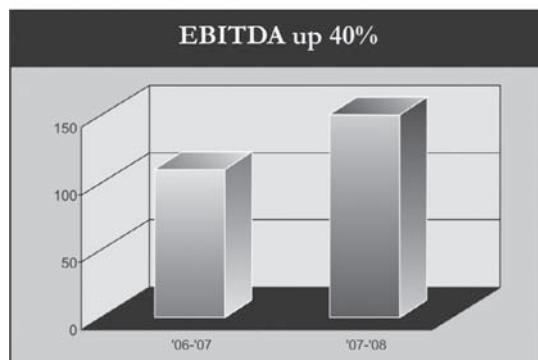
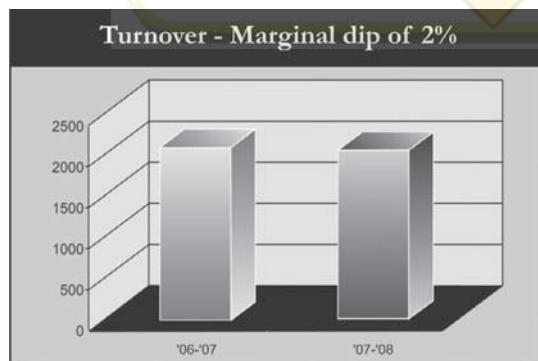
# Year 2007-08 in a nutshell

## Highlights

- Fiscal FY08 EBITDA up 40 per cent
- Cash Profit doubles to Rs 96.55 crore
- PBT up at Rs 45.54 crore after loss previous year
- Domestic sales ramps up through aggressive, revamped retail push
- Strong rural demand hobbled by slowdown in agri finance disbursal

Escorts performance in the fiscal year Oct 2007-Sep 2008 is a reflection of strong economic management and aggressive revamp to manage the high inflation and constrained demand scenario. The Company's profits rose to Rs 11.87 crore in the financial year 2007-08 ending 30th September 2008.

The Company recorded nearly 40% higher EBIDTA of Rs 152.48 crore as against Rs 109.50 crore in the previous fiscal. Cash profit more than doubled at Rs 96.55 crore as against Rs 40.55 crore in the corresponding period. The turnover showed a marginal dip of 2% despite slowdown in market. Profit Before Tax (PBT) was up at Rs 45.54 crore as against a loss in the previous fiscal.



# Customer Focus

## Commitment to achieve customer satisfaction



Customer focus is central to Escorts, and meeting customer needs form the basis of our business. We endeavour to orchestrate our customer needs, desires, and goals to provide them with high-quality products and reliable service.

Through our vast network of more than 3000 dealers, stockists, and salesmen, across India and the global, Escorts engages directly with its customers to deliver incomparable service and customer experience. Our products and services aim to benefit people and improve their quality of life. Escorts is committed to maintaining high standards of safety, security and quality not only in our products but also ensure flawless manufacturing operations.

Market intelligence tools like Supply Chain Management systems, Customer Measurement systems and trackers, feedback from our salesmen and engineers in the field are the various ways in which we monitor market & customer demands, drivers of customer satisfaction, and most of all areas of improvement. The various tools equip our salesmen and marketing managers to forecast customer needs and determine the kinds of products we need to develop in the future.

With people forming the backbone of our business, our pursuit is to ensure smooth, on-time delivery, fastest turnaround time, and assured customer service.

# Technology & Innovation

## Driving innovation for competitive advantage



Innovation and new technologies are key success factors when it comes to offering customers high-performance solutions. Our engineering strength built over several decades gives us this competitive advantage to continuously develop new products, advance our processes and develop customer-friendly solutions.

To keep pace with competition and advances in technology, Escorts Knowledge Management Center (KMC) established in 1976 is a world-class R&D with facilities for design and product evaluation to deliver quality and trouble-free products. The entire tractor system, from the engine to transmission and hydraulic systems as also vehicle design from body work to controls and accessories is developed at the KMC. We are the first Indian company with in-house R&D

capabilities to certify engines for US EPA and EURO-VCA.

Our quest for technological excellence is further proven through the modern R&D centre and Quality and Testing laboratories set up at various plants of our Engineering Division deploying latest servo-hydraulic testing systems (MTS) and cam drum rigs for durability and life tests.

One of Escorts latest investment has been in setting up state-of-the-art, modern manufacturing plant, for our Construction Business, with a production capacity of 14000 units. This infrastructure enables us to develop innovative and value-engineered solutions, cutting-edge technology and provide effective after sales service making us the undisputed leader in the industry in India.

# Harnessing Talent

## Creating a culture of high performance



Escorts believes that competitive advantage in any business can be gained only by harnessing talent. Our aim is to attract and retain a talented workforce, to build organizational capabilities and create a culture of creativity.

Strong performance culture, training and development, employee assistance programmes, accountability through a 360 degree feedback process and fostering future leaders are among the various initiatives Escorts is focusing on to build a stronger Company. Our Human Resources strategy is to develop a workforce of exceptionally talented people through various initiatives including individual development and growth, continuous innovation and learning, high performance culture, and empowerment and ownership.

With over 125 researchers focusing on innovative market-oriented solutions and over 1200 highly

talented managers, we can boast of having a culture of constant nurturing and enhancing leadership capabilities.

Employee engagement is another key area of focus at Escorts. Fostering two-way communication, we encourage our people to openly engage with management and across various businesses. It is the culture of openness, transparency and communication that will deliver long-term results in business underpinned by high levels of efforts, a strong performance focus and greater workforce stability.

The growing success of Escorts is based on the dedication and commitment of its people, as it is our employees who carry out the Company's vision and help us realize our goals.



## BOARD OF DIRECTORS

<b>Mr. Rajan Nanda</b>	Chairman & Managing Director
<b>Mr. Nikhil Nanda</b>	Joint Managing Director
<b>Dr. M. G. K. Menon</b>	Director
<b>Dr. S. A. Dave</b>	Director
<b>Dr. P. S. Pritam</b>	Director
<b>Mr. S. C. Bhargava</b>	Director

### **Exec. Vice President – Law & Company Secretary**

Mr. G. B. Mathur

### **Exec. Vice President & Group Chief Financial Officer**

Mr. R. K. Budhiraja

### **Statutory Auditors**

M/s. S. N. Dhawan & Co

### **Internal Auditors**

Grant Thornton, New Delhi

### **Registered Office**

SCO-232, First Floor,  
Sector-20, Panchkula-134109  
Haryana

### **Corporate Centre**

15/5 Mathura Road, Faridabad – 121003

### **Bankers**

IDBI Bank  
ABN Amro Bank N.V  
Bank of Baroda  
Citibank, N.A  
Deutsche Bank AG  
Hongkong & Shanghai Banking Corporation Limited  
HDFC Bank Limited  
Punjab National Bank  
State Bank of India  
State Bank of Travancore