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a World
of Respect



65th annual report 2010

our mission

Escorts endeavors to transform lives in rural and urban india by leading the revolution in agriculture mechanisation, modernisation of automotive and railway technology, as well as the transformation of indian construction industry.

our brand

The Escorts brand shall continue to guard its legacy of being a brand that customers trust; where employees attain their full potential; and where nation building is a way of life.

our commitment

We are committed to excellence in engineering, innovation in products, development of market-relevant technologies and the highest of cost efficiencies in order to create value for our customers and shareholders.

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FORWARD LOOKING STATEMENT

We may from time to time make forward-looking statements in our annual reports to shareholders, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by our officers, directors or employees to financial analysts, institutional investors, representatives of the media and others.

Examples of such forward-looking statements may include:

- projections of revenues, operating income, net income (loss), net income (loss) per share capital expenditures, dividends, capital structure or other financial items or ratios,
- statements of our plans or objectives,

- changes in our regulatory environment,
- statements about our future economic performance or that of the marketplace, and
- statements of assumptions underlying such statements.

Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the projections, plans, objectives, expectations, estimates and intentions

expressed in forward-looking statements. These factors, some of which are discussed above under "Risk Factors," include material changes in the performance or terms of our concessions, developments in legal proceedings, economic and political conditions and government policies in Escorts Limited or elsewhere, inflation rates, exchange rates, regulatory developments, customer demand and competition. We caution you that the foregoing list of factors is not exclusive and that eventualities related to other risks and uncertainties may cause actual results to differ materially from those expressed in forward-looking statements. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments.

Escorts Limited is India's leading choice for farming and construction equipment and solutions.

Today, we are amongst the most **focused** and **innovative** earth-handling equipment companies in India.

Report



We earn the respect of all our stakeholders by keeping our promise to our most important stakeholder: our customers.

We promise to give them dependable and rugged 'workhorses' that deliver lasting value and peace of mind, thus enhancing their livelihoods and productivity.

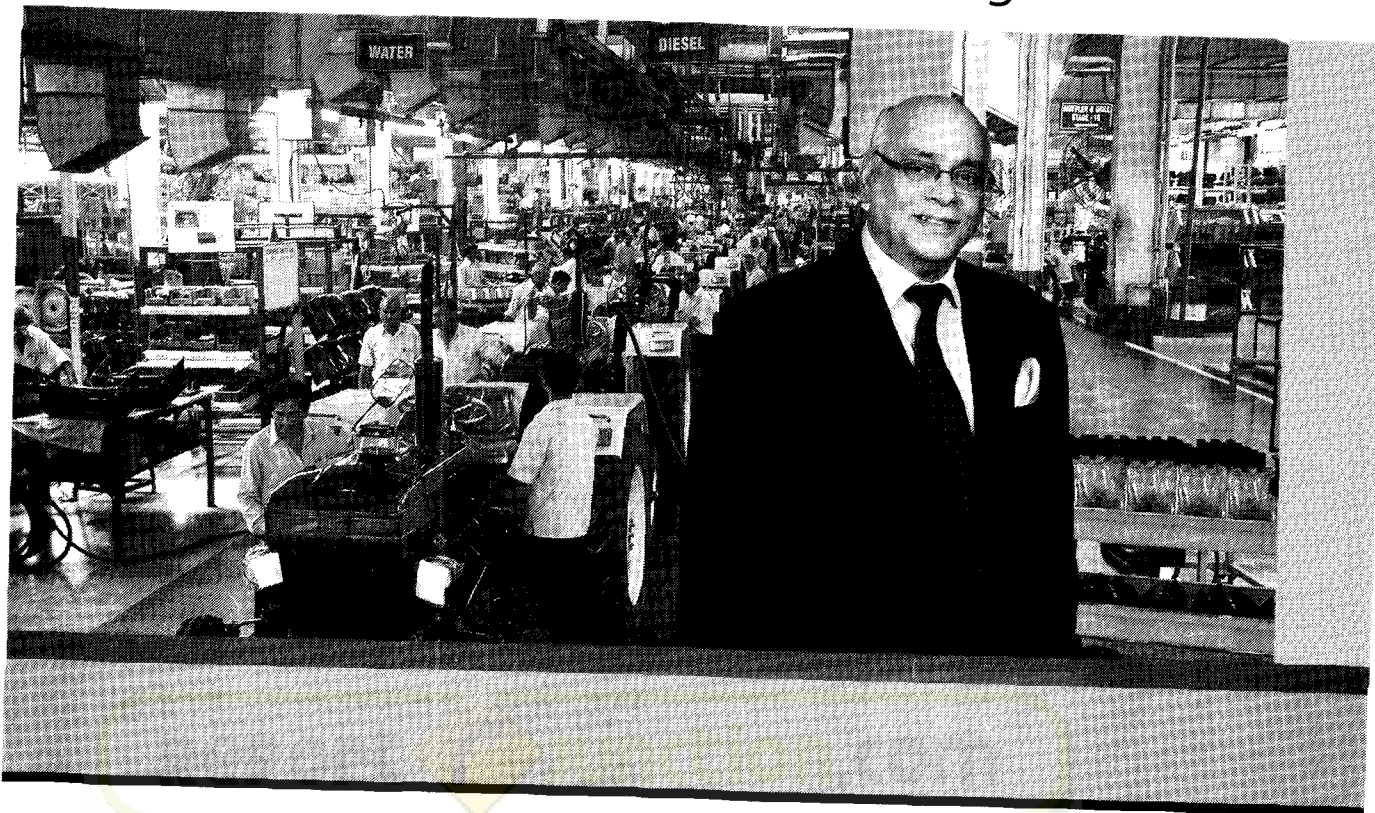
Our respect for the world brings us **a world of respect.**



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Chairman & Managing Director's Message



Dear Shareowners,

I wish you a warm welcome to the Annual Report for our financial year 2010. Over the years, your Company has progressed in three businesses that are deeply connected to every Indian and to the progress of India at large.

Whether it be agricultural mechanisation, construction equipments, railway components and automotive parts – through every branch of our business we're playing a meaningful role in the country's development. Of all businesses, our agri-based solutions are by far the ones that have the most direct connect with the vast majority of India.

This year I would like to focus on the broad question of India's food security and what can be done about it.

Success in Agriculture is Vital to India's Economic Future

The discussion on India's food security issue is a complex one.

Second in farm output world-wide, the agricultural sector is the backbone of the Indian economy providing employment and livelihood to nearly 70 per cent of the country's population. Undoubtedly, it plays the most significant role in the overall socio-economic development of India. Although India is second to China in population, our country is adding almost an entire population of Australia each year. Any stagnation in agriculture will lead to a decline in other spheres of the economy having wider implications for society. Apart from facing steady population growth, we are also experiencing complementary complicated issues such as climate change, water table de-

pletion, global food shortages and energy shortages. Inaction against fostering the growth of both our green and dry belts can lead to a severe shortage of food supply not in the very distant future.

A Great Deal More Needs Doing

Much is being done to alleviate this scenario. In the last few years, more than 8 million new farmers have been brought under the bank credit system each year and much to its tribute, India runs the largest program of micro-credit in the world. Our farmers are also benefitting from better understanding in crop planning, improved price discovery mechanisms and minimum support prices – significantly improving their cash intake and economic standing. However, much more needs to be done to alleviate still lingering problems such as illiteracy, general socio-economic backwardness and inadequate marketing schemes for farm

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"In every action we take in managing our business, we are mindful of putting the interests of our customers and stakeholders first and foremost."

Rajan Nanda Chairman & Managing Director

produce. We also need to make speedier progress in institutional reforms. This includes the redistribution of land ownership in favour of the cultivating classes. This would provide them a sense of participation in rural life, improving the size of farms, providing security of tenure and regulation of rent. Further liberalization of tenancy would not only increase the availability of land in the lease market but would also increase the poor people's access to land. It is also imperative that programmes for skill development, vocational trainings and technical education are taken up on a large scale in order to generate required employment opportunities in rural areas and reduced dependency on inefficient small-scale farming. I also believe that further financial incentives and support should be provided on a liberal scale to promote overall agricultural modernization and the establishment of agro-processing industry and cold chain infrastructure in ear-



marked production catchments. As Jawaharlal Nehru once said for a nascent India - "Everything else can wait, but not agriculture." Sixty-three years after our independence, I ardently believe that this holds true now more than ever before.

Technical Productivity is the Interim Answer

While I'm optimistic that we will eventually get solutions around these issues, there's much we can do that's within the farmer's own control. In the short term, we need to help our farmers improve the productivity of their existing land assets as they are. Even though the yields per unit area of all crops

have grown since the 1950s, the average yield in India is generally still 30 per cent to 50 per cent of the best global benchmarks. Undoubtedly, there is still ample room for improvement and the answer lies in modernisation.

The Farmer is at the Centre of our Universe

At Escorts, we've made it our business to feel our farmers' pain, inhibitions, concerns and aspirations. We've delved in deep to understand every technological factor that helps raise productivity in agriculture, such as improved seeds, fertilizers, improved implements, rugged tractors, affordable harvesters and irrigation methods.

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Chairman & Managing Director's Message

"Arguably, we are in the largest investment cycle the IR has ever undertaken and at Escorts, we are playing our part in giving them world class components, systems and solutions."

Rajan Nanda Chairman & Managing Director

We believe that productivity levels can be nearly doubled if land is used in a more professional way with better technology and farm management practices. One cannot wish away more than 60 per cent of the holdings touching the lives of nearly 400 million of the country's population. It is a great challenge to the nation to make these units viable and sustainable.

At Escorts, we are engaging with one farmer at a time. By understanding him completely, we have synchronized our mechanisation solutions to bring clear and present value to him. In recent years, we've made great strides in extending the power, reliability and lifetime-cost-of-ownership of our tractors to ensure profitable returns for our farmers. We've spent extensive time in studying various different applications and evolved reliable and functioning solutions for them. We've also adapted our tractors to provide as much ease and convenience as possible to compensate for their rigorous and arduous lifestyle. By way of example, during FY10, we introduced the first ever "Inverter Tractor" which allows a farmer to double-up his tractor at nights to serve as a electricity generator for lighting up his home. This facility can give him better access to communi-

cation mediums for knowledge and improve the quality of his life significantly. Our role has not been limited to India alone: for over 10 years we have also been part of hundreds of farmers' lives in Europe and Africa through our fully owned subsidiary in Poland and channel partners respectively. We've also used our learnings in Europe and Africa to bring value to our farmers in India.

Enabling Road Infrastructure & Realty Construction

Construction activity is an integral part of India's infrastructure and industrial development. Hence it can rightly be termed as the basic input for socio-economic development. All statistics on the growth of four and two wheelers point to an irrefutable fact: India is becoming a nation of cars and bikes. However, our road infrastructure leaves much to be desired. Even though we have 3.3 million km. of road network, the second largest in the world, highways make up only 2 per cent of the overall road network by length. When one considers that they account for around 40 per cent of traffic, it's easy to see the need for enhancing our road networks at every level – highways, branch and rural roads. As the arteries of the nation, impact-

ing every city, town, village and neighborhood inhabited by over 1.2 billion people, we need to widen existing roads and build new branches to enable India's growth and efficiency as a nation. The Government of India is aware of this bottleneck to growth and is on the path of investing heavily for releasing access capacity. As a leading manufacturer of construction equipment in India, we are at the forefront of understanding the needs of the construction industry that has this task at hand. Our portfolio of construction equipment for road developments is second to none and we are closely working with our customers in grappling with the general shortage of skilled operators by offering in-depth training and accreditation.

Where there are roads and access, realty assets soon follow. Today, India is witnessing quantum growth in general construction of retail, affordable housing, hospitality, commercial and industrial assets across the country. According to IHS Global Insight, construction spending is expected to increase to US\$370 billion by the end of 2013, with residential totaling US\$63 billion and nonresidential registering US\$307 billion. This represents a compound

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annual growth rate (CAGR) of 13.3 per cent. Undoubtedly, construction is an important part of the industrial sector and one of the core sectors of India's economy. Not surprisingly, the construction sector is also the second largest employer in the country following agriculture, employing some 18 million people directly and 14 million indirectly. With solid growth momentum forecasted over the next 20 years, our construction equipments business is well positioned for the future.

Serving the Railways Expansion Programmes

Indian Railways (IR) operates more than 8,500 passenger trains and transports around 5 billion people annually across twenty-seven states and three union territories (Delhi, Pondicherry and Chandigarh). With its 64,015 kilometres network, it is the third largest railway in the world under a single management. Undoubtedly, the railways form a key pillar to India's infrastructure impacting most Indians. The key challenges before it is to meet the accelerated transport demand and provide high quality service. Thus, capacity enhancement, technological upgradation and service improvement of Indian Railways are the major thrust areas of the current Plan.

The government also envisages a 51 per cent increase in freight traffic and 32 per cent increase in passenger traffic during the plan period. With an expenditure of Rs.2,51,000 Crores on various capacity enhancement and replacement programmes including new lines, doubling, gauge conversion, electrification, new dedicated freight corridors and new rolling stocks, your Company is deeply involved with the Indian Railways on multiple levels. Arguably, we are in the largest investment cycle the IR has ever undertaken and at Escorts, we are playing our part in giving them world class components, systems and solutions.

Prudent Financial Management

One of the significant achievements of your Company this year was its ability to reduce interest costs through a mix of initiatives such as quicker sales realisation, better access to low cost funds for working capital and increased earnings through treasury operations. We also enhanced key functional areas such as Risk Management through Standard Operating Procedures; Investor Relations through a dedicated desk to serve analysts and funds and new channel finance models for finance tie-ups with dealers.

Going forward, these initiatives along with post ERP implementation initiatives such as a shared resources department for accounting operations and automating risk management practices, should deliver robust financial controls, streamlined processes, reduced operating costs and sustainable business growth.

Conclusion

Despite myriad of complex issues facing the country, I am extremely optimistic about the potential of agriculture, infrastructure and transport development in India. I also believe that our home-grown agricultural mechanisation solutions can not only help improve the economic status of our farmers but also help generate a handsome surplus for the nation as well. Similarly our work within the construction and the railways industries should also leave a positive national imprint. I would like to take this opportunity to thank all our stakeholders for taking part with us in this exciting journey.

Rajan Nanda

Chairman and Managing Director

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Joint Managing Director's Message



Dear Shareowners,

FY2010 has been a year in which we truly began to see the fruits of our strategy towards sustained profitability. For me, the year has been about strengthening our foundations further by continuing to focus on doing more of what we were doing before – directing our core competencies of innovation, engineering and manufacturing towards delighting our customers and widening our operational efficiencies further across the board.

I am pleased to report a compellingly successful year. We boldly negotiated the challenges the year threw at us and clocked a 27 per cent increase in our top line to Rs. 2,745.7 Crores, a testimony to a growing and deeply felt respect for our products and services. More gratifyingly, our consolidated EBITDA increased by 17 per cent to Rs. 231.2 Crores, giving us more headroom to manage our liquidity and working capital

resources to reduce our interest cost down by 75 per cent from Rs. 47.2 Crores to Rs. 11.7 Crores. Our net profit grew by 53.3 per cent to Rs. 137.5 Crores. Our efforts at cost savings, streamlining and cost management has put us in a situation where our sales growth is translating directly into both equivalent revenue and profit growth. Our liquidity has improved, interest costs have fallen substantially and debt/equity ratio is now very attractive.

Apart from these fundamental strategies, we also focused on leveraging our engineering and development skill-sets to upgrade our product lines into contemporary winners and introducing new product classes. A shining example of this was the introduction of our all new backhoe loader DIGMAX®, which positioned us as serious challengers to established market leaders. Going forward, I believe that our ability to research, understand, ideate, engineer and manufacture new home grown solutions that make a difference to our customers will continue to open new growth opportunities and set us apart in the industry. We also took a hard look and consolidated our channel mix by deepening our support to dealers that were highly service orientated and value creators for our end users. We further expanded our channel and retail

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"We will continue to focus on creating a top-quality efficient business that is a strong platform for delivering growth and higher value to our stakeholders."

Nikhil Nanda Joint Managing Director



finance initiatives that improved cash availability to customers and end-users, making it easier for them to buy and adequately stock our products. Finally, we continued to press on with strategic vendor partnerships and most advantageous manufacturing processes, making optimal use of our production and distribution resources.

Agri Machinery Business

For FY2010, the Agri Machinery Division recorded revenues of Rs. 2473.7 crores, up 30 per cent from Rs.1,899.8 crores. This was on the back of strong demand for our tractors – we sold 60,086 units

during the year, up by 31.6 per cent from 45,627 units in the previous year. Of this, exports grew by 56 per cent at 2,017 units against 1,291 units in previous year. Going forward, we will be investing in Agri machinery business to expand capacity and develop new technologies. We plan to launch 6-7 new products in the near future which are best suited for specialized application needs of the farmer. Keeping pace with the growing expectations of the farming community, we are today transforming ourselves to become a provider of mechanized farm solutions for our farmers. We have established strategic

tie-ups with leading implement and attachment manufacturers to provide farming solutions across various stages of the cropping cycle as well as non-farm applications.

The year saw some shining examples of these strategies already in play. The division has launched several new quality products, including India's first ever INVERTER TRACTOR and other high horse power tractors which provide extra torque and better applicability to the Indian farmer. The new tractor models address more segments and agro-climatic zones and have been well

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Joint Managing Director's Message



received in the market. Further, we consolidated our position in the African market both at the retail and the institutional level, with a landmark order of 2000 tractors from the Government of Tanzania. Substantial investments have been made in the Agri Machinery Division to further augment our product range. We are constantly aligning our products with emerging applications, to provide greater thrust for value-added farm mechanized solutions. Our overall success during the year vindicates our strategy of becoming a complete farm solutions provider. The year also marked our 10th year anniversary of our European presence in which we have made steady progress over the years.

Construction Equipment Business

To take advantage of an exciting construction equipments business representing a 25,000 crores market opportunity, we are focusing on strengthening our peer position by concentrating on technological advancements, introducing new and enhanced products and tying up with international manufacturers. We continue to focus on earthmoving machinery and maintain our leadership position in the material

handling equipment business of cranes and soil compactors.

FY2010 witnessed a landmark launch of the DIGMAX® backhoe loader, an extremely well engineered and thought out product which has opened new avenues for the Company in the earthmoving segment. The project is indeed testimony to the perseverance, speed, acting on customer feedback, stress testing and intellectual acumen of the subsidiary's R&D team. Going into the future, DIGMAX has the potential of becoming the lead revenue generator for the subsidiary.

The current pipeline of new projects under development goes very deep, giving the Company the prospect of introducing several technologically advanced products to serve emerging applications and improve the speed of construction project execution. The aim of this business is to become a one-stop-shop for providing end-to-end solutions for the construction industry. In this endeavour, we have successfully launched several new products as line extensions through strategic alliances. Going

forward, this vertical is playing a meaningful role within a wider canvas of economic activity by becoming a function of India's road transportation and real estate infrastructure growth story.

Engineering Division

As the Indian Railways (IR) enters an era of modernisation and expansion of its network, the new high speed trains will call for the introduction of many new technologies and systems altogether. Through our in-house research and strategic alliances, Escorts is positioning itself to be part of this great opportunity. At the same time, we focused on getting better organised by upgrading our manufacturing processes through aggressive cost rationalisation, leaner production flows, enhanced design, effective supply chain management, setting right processes and up-skilling our personnel. The Division already has a healthy order book for the current fiscal, with potential for further growth.

Currently, we are developing four new railway products for coaches and wagons that will be introduced in the current year. To widen our scope for growth, we are also in the midst of diversifying from the traditional rolling stock