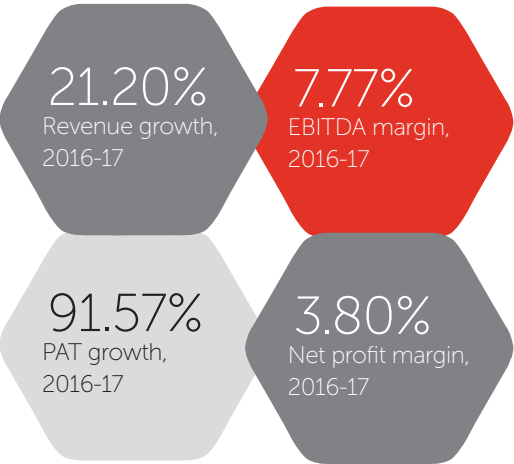


Engineering our tomorrow

Escorts Limited | 71st Annual Report 2016-17

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 realized, 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 materialize, 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.

Our performance at a glance, 2016-17



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H P Nanda, a centenary

“Dream big!” – HP Nanda, Founder Chairman, Escorts Group (1917-1999)

H.P Nanda, the founder of Escorts, would have turned 100 on 9 January 2017.

Mr. Nanda did more than just start Escorts; he ushered India’s agriculture revolution through farm mechanization supports and created one of the largest, innovation-driven engineering conglomerates of India.

In doing so, Mr. Nanda, like a number of leaders of his generation, helped build a modern, self-reliant India.

At Escorts, we are dedicated to the visionary’s pursuit of engineering excellence, nation-building, societal transformation and enhanced stakeholder value.

The vision endures.

Corporate Identity

Escorts Limited is three companies in one.



Agri Machinery



Construction Equipment



Railway Equipment

Each of these businesses represents national priorities, attractive growth and a robust operating model.

Escorts is bringing a new urgency to each.

With the objective to make growth profitable and sustainable.

Vision 2020

By 2020, Escorts expects to be among the top engineering companies in India by:

- Being the preferred solutions provider to the needs of our customers
- Practicing respectful and ethical business practices
- Being the employer of choice within the engineering industry
- Providing superior returns to our investors

Our Strategic Values

Customer Centricity: Acute sensitivity to the needs and experiences of the customer shall guide all that we do.

Excellence: We will strive to achieve and surpass world class standards in all that we do.

Innovation: We will use the power of technology and imagination to deliver solutions to customers' needs.

Agility: We will operate in our markets with the ability to change direction and position with nimbleness and speed

Background

Escorts Limited is one of India's most respected and trusted engineering companies. The journey of Escorts traces back to 1948, when a nationalistic sentiment inspired HP Nanda and Yudi Nanda to assume a franchisee for the distribution of tractors that would help farmers secure their livelihoods.

Decades later, the spirit has endured; Escorts continues to live this tradition, the Company having established its place among India's leading tractor players focusing on complementary agriculture products and solutions, as

well as a force to reckon with in the construction equipment and railway equipment space.

Today, over a million tractors and over 16,000 construction and material handling equipment that have rolled out from Escorts, complemented by a highly-satisfied customer base, are testimony to the Company's manufacturing excellence.

At Escorts, we enjoy business-strengthening alliances with industry leaders.

These leaders comprise prominent global names like Carraro, Porsche Consulting, Porsche Design, Perkins, ZF, Bosch, Honeywell, Ingeteam and Yujin Machinery.

Our manufacturing locations
Escorts owns and operates six integrated manufacturing plants in Faridabad (Haryana). These plants cover 1,83,726 sq.m. of space. The Company also possesses a plant in Rudrapur (tax-efficient Uttarakhand) and a plant in Poland (Europe).

Our knowledge capital
At Escorts, we count our employees as our most valuable asset. We invest in their training and career development, benchmarking their performance with the industry's best-in-class pay standards. We enjoy harmonious industrial relations. Our total workforce (own and contractual) stood at 8,750 members as on 31 March 2017.

Our listing and market capitalization
Escorts shares are listed on the NSE, BSE and DSE stock exchanges. The Company's market capitalization stood

at ₹6,603.8 cr with the promoter's holding of 43.0%, combined FII and DII holding of 20.3% and public / others holding of 36.7%, as on 31 March 2017. The Company's BSE scrip code is 500495. Escorts declared a dividend of 150 paise per share (15% on face value of ₹10 share) for 2016-17. The Company's dividend philosophy reconciles the need to reward shareholders with adequate reinvestment.

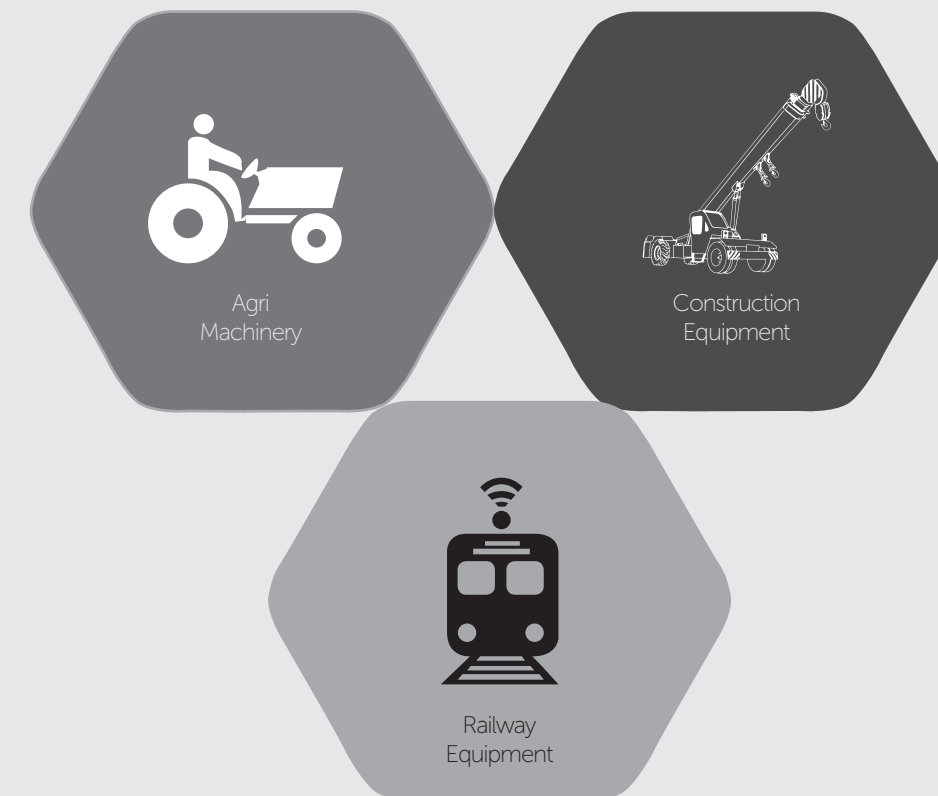
Accreditations and awards

- Escorts Agri Machinery business has been accredited with two international certifications (ISO 14001:2004 and OHSAS 18001:2007)
- BBC Knowledge's Best Brand Marketing Campaign Award for "Celebrating a Century of Excellence" to commemorate Escorts' Founder

Chairman, Late Mr. HP Nanda's birth centenary (2017)

- Indo-American Chambers of Commerce's Lifetime Excellence Honor for Mr. HP Nanda, Escorts' Founder Chairman, for his valuable contribution in the setting up IACC (2016)
- Escorts Chairman Mr. Rajan Nanda inducted into **The Machinist Hall of Fame** for his enormous contribution to the Indian manufacturing industry (2016)
- **Machinist Super ShopFloor Award** to Escorts Agri Machinery's Farmtrac manufacturing unit for excellence in productivity (2015)
- **National Safety Awards** for Escorts Agri Machinery's Farmtrac and Powertrac manufacturing units (2014)

Our businesses



80.3%

Contribution to our 2016-17 revenues*

Agri Machinery

Escorts is one of India's top Indian tractor manufacturers, offering a comprehensive range of over 225 tractor variants (25 to 75 HP). Our brands (Farmtrac and Powertrac) address the widest industry preference. The business also offers crop solutions, engines and gensets and lubricants; it is additionally engaged in the after-market sales of Escorts tractors.

14.5%

Contribution to our 2016-17 revenues*

Construction Equipment

The Company manufactures and markets a comprehensive range of construction equipment (cranes, backhoe loaders, compactors and forklifts). It is among the world's largest manufacturers of pick-'n'-carry hydraulic mobile cranes.

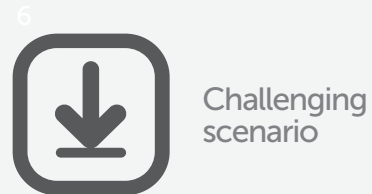
5.8%

Contribution to our 2016-17 revenues*

Railway Equipment

State-of-the-art products anchored around safety, comfort and reliability. Comprising brakes, brake systems, couplers, suspension systems, shock absorbers and rail fastening systems, among others.

*From continuing operations



The year 2016-17 was one of the most challenging for the Indian economy.

GDP growth declined 90 bps.

Most national sectors struggled.

Consumer sentiment was hesitant.

Most core sector companies under-performed.

In this environment, it would have been reasonable to post weaker numbers.

Escorts posted considerable stronger numbers instead.



The Company grew revenues 3x the national economic growth.

The Company reported profitable growth.

EBITDA growth was the sharpest in years.

ROCE was the highest in a long time.

The Escorts performance:
Larger. Better. Faster.

And all because of one reason.

Constructive disruption.

Helping us engineer our tomorrow.

Constructive disruption at Escorts.

Looking at the world with a new pair of eyes.

Engineering our tomorrow.

Preparing for it today.

Where the priority is to plan for 2020 and beyond.

Where every second person asks 'Is it sustainable?'

Where the two words on everybody's dislike-list are 'status quo'.

Where every engineer is obsessed with 'customer experience'.

Where the focus is on creating new markets than merely capturing share.

Where 'zero defects' is the new mantra.

Where each shopfloor manager is driven by 'more from less'.

Where 'transaction' has been replaced by 'relationship'.

Where the base line is 'Is it the best standard in the world?'

Where research investments are considered sacred.

Where each business desires to emerge as the customer's single-stop solution.

Where every business is being driven more around Return on Capital Employed than market share.

Where financial decisions are driven by cash flows more than cash profits.

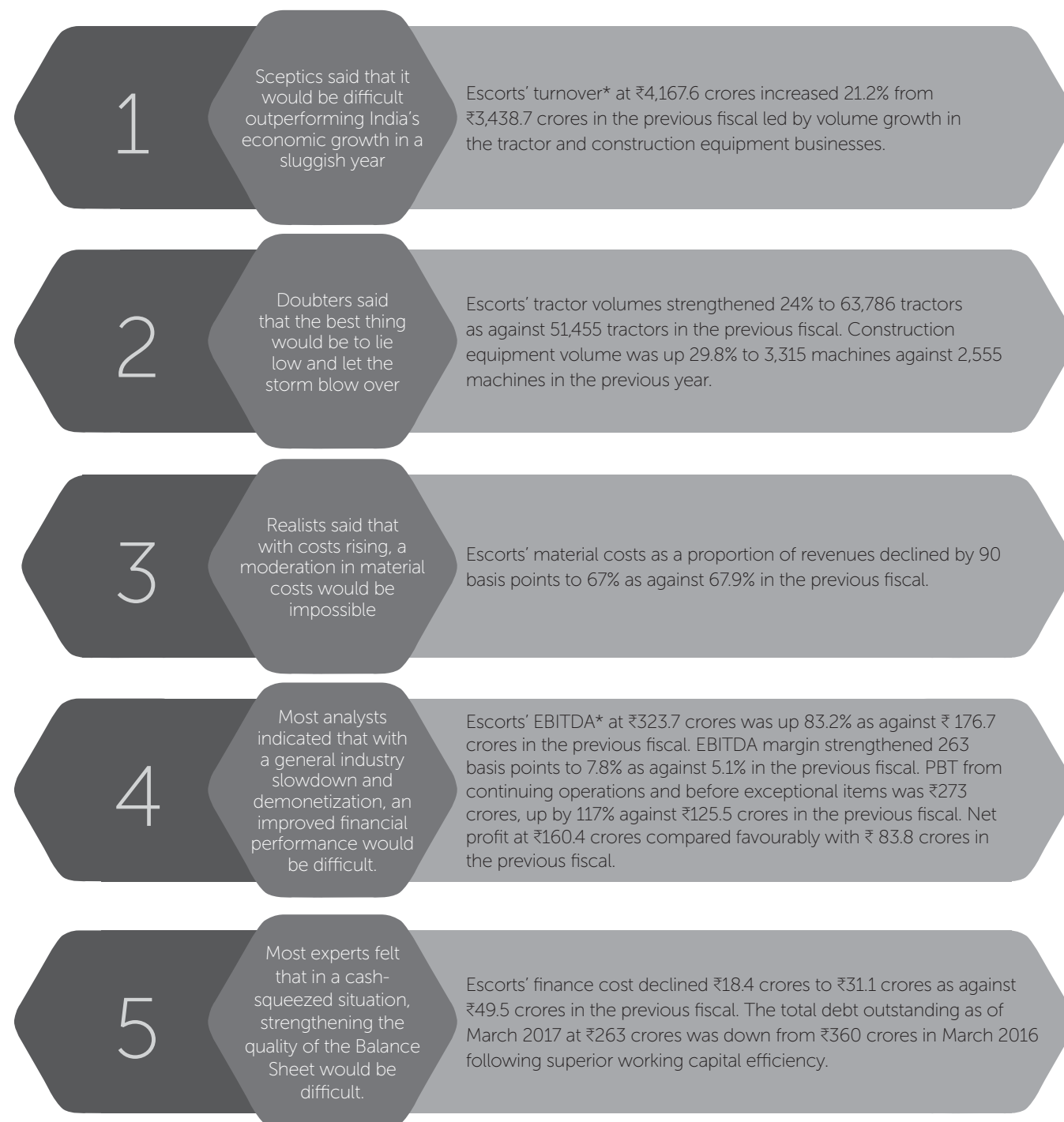
Where every initiative is directed towards enhanced organizational value.

Where the business priority is not complete if it has not extended to community welfare.

Where the objective is to leave the world cleaner and greener.

Constructive disruption is listening to the inner voice that says 'Why not!'

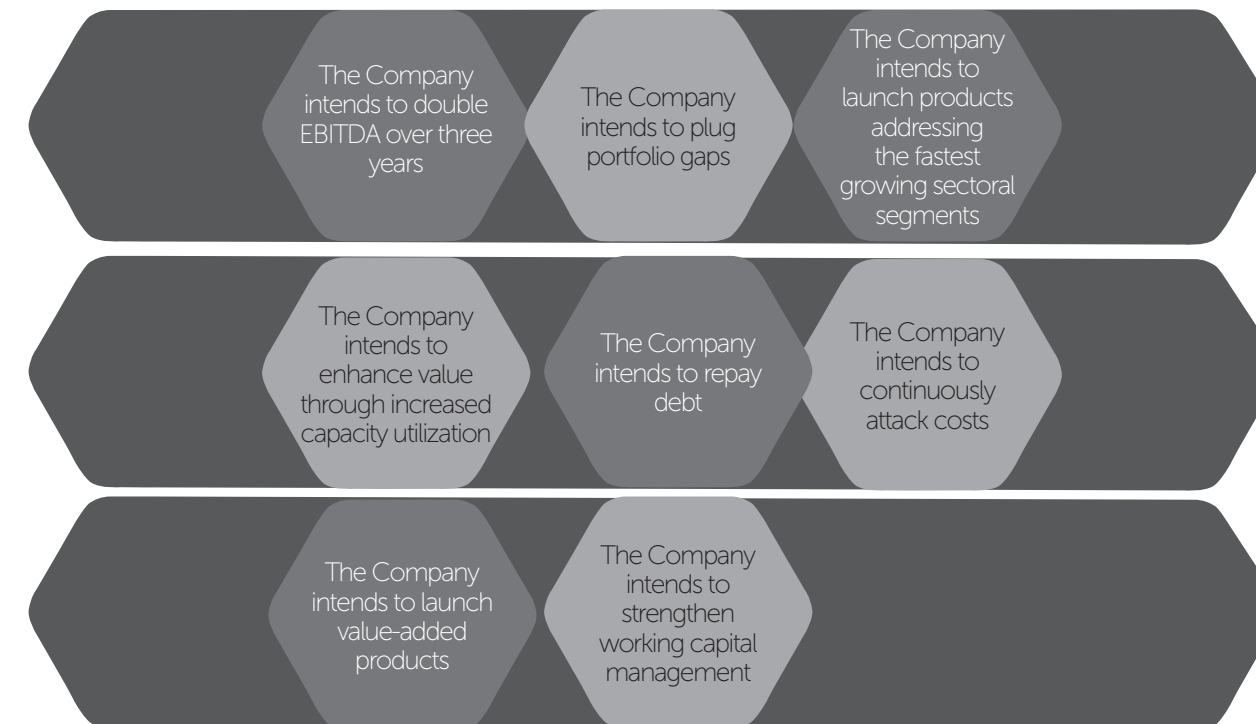
Even when the rest of the world is saying 'It can't be done!'



*From continuing operations

At Escorts, constructive disruption is not a one-off response.

It is a continuous journey.



Chairman's overview

The Escorts of today is agile and responsive to capitalize on emerging opportunities



I am pleased to present the annual report to you on the centenary of Mr. HP Nanda, the founder of the company. India today is at an inflection point and likely to graduate from a perpetually-developing nation status into a developed modern country in the global community of nations. To create enduring value for the country, we need to build an enterprise that is increasingly agile and future-ready.

Escorts is addressing the growing national opportunity by selecting to focus on three businesses aligned with India's development story. As a future-facing enterprise, Escorts is strengthening its technology investments and positioning by building capabilities in the areas of product development, technology and design, making us competitive across local and global platforms.

We are building our engineering capabilities and strengths to launch new products and expand our businesses. The three verticals we serve have a great potential for growth, as each represents a strong pivot for the development of the Indian economy.

Indian agriculture is yet to be fully mechanized and there is a growing need for strengthening productivity and viability. We are working on technology and solutions that will help create the highly-mechanized and evolved farms of tomorrow. We are developing new, large and smaller tractors that will not only help us expand our range, but also give our customers a wider choice.

The Indian government's policy priority matches this universal relevance as well. We believe that a number of agricultural reforms will enhance farm viability and accelerate reinvestments, benefiting our entire agri machinery business.

India's infrastructural development is a massive task for the next 20 years. Engineering set-ups and contractors

will have plenty of focused projects, needing smarter and efficient construction equipment technology and solutions. The focus to invest aggressively and extensively in infrastructure will translate into the building of new roads, bridges, ports, airports and other infrastructure supports. We are today producing the required engineering solutions that will contribute to the growing requirement. Escorts is engaged in scaling product design, technologies, capability and capacities. We are collaborating with select European companies to offer cutting-edge products that makes it easier for contractors to deliver larger, better and faster.

As the global population increases, we see a larger investment going into railways across the world as an effective mass, long-cum-rapid transport system – across scale, safety and sophistication. The Indian government is prioritizing railway network expansion, which has reflected in an increased Railway budgetary outlay exceeding rupees one lakh crore per year, creating an attractive opportunity for our railway products business. The dedicated freight corridor connecting Delhi, Mumbai, Kolkata and Chennai will liberate more track capacity for passengers and widen our product portfolio relevance. Our product suite, comprising all types of brakes and couplers, are vital for the safety of

high-speed, multi-wagon trains.

The Company has made significant progress in the last couple of years. The Company divested its non-core businesses, strengthened its commitment to existing businesses through increased investment, widened its product range and deepened its service commitment. Besides, we intend to strengthen our business by addressing the growing scope of our products in the international market, potentially enhancing the quantum of our exports in a substantial way across the foreseeable future.

Escorts' three businesses are aligned with India's development. We will continue investing in technologies, efficient distribution and product mix for enhanced agility, dynamism and customer responsiveness to capitalize on emerging opportunities. We have created robust structures for benchmarking the best players in the industry to develop a competitive cost advantage and enhance our profitability. As we delve into new products and segments, the overarching idea will be to achieve growth using the Company's earned-reserves, making us a self-reliant enterprise.

I am optimistic that this futuristic approach will enhance value for all our stakeholders in an enduring way.

Rajan Nanda
Chairman & Managing Director

Q&A with the Managing Director

Escorts is readying for a leap in differentiating itself through products, technology and customer experiences that transform our stakeholder value creation.



Nikhil Nanda, Managing Director, explains the transition of Escorts into a rapidly value-enhancing organization.

Q: What is the principal message that you wish to convey to shareholders?

A: At the outset, let me communicate my gratitude to our stakeholder family, without whom the robustness in our performance would not have transpired. It is the collaborative working of the various arms of our stakeholders – employees, customers, partners, collaborators, investors, lenders, industry, the government and community at large – that provides me with the optimism that this improvement can indeed become sustainable.

Escorts has been in existence for nearly seven decades and yet, in a certain sense, the journey has just begun. This is largely because the robust 'India story' has only just begun as well. It took India 60 years to reach its first trillion dollars in economic value; it took the country's economy a mere seven years to reach its next trillion dollars; the economy is expected to achieve its third trillion dollars in five years, trebling from this point to 2030 as the third-largest economy in the world.

At Escorts, I am optimistic that we will more than match this national momentum; we are engaged in creating disruptive cutting-edge products, carving out a large share of the markets of our presence, and servicing customers more effectively. The result is that we are optimistic of consistently outperforming and, in doing so, doubling profitability and market share across our businesses across the next three years.

Q: What does the Company need to do to more than match this momentum?

A: I am convinced that this substantial

leap will only be achieved if we do different things and do things differently. The next three years of our journey will be the most disruptive in our existence.

For instance, in the reinvented Escorts, we have created one of the most disruptive innovation cells to introduce products and solutions for the future. We are not engaged in merely addressing customer needs of the day; we are engaged in designing products and solutions that graduate customers towards a better tomorrow. This future-facing Escorts is engaged in an active dialogue with some of the most advanced autonomous technology centres, electric mobility companies and global disruptive technology centres with the objective to partner their presence in India and evolve our personality into a sophisticated and precision technology-driven engineering company of the future.

To make this happen, we have charted a transformational path to develop competencies, pursue innovation and enhance our business agility by making Escorts a performance-driven company. As we progress, we will also focus on process improvement, digitization across the board for real-time connectivity and engagement, capacity building and creation of robust review and monitoring mechanisms to accelerate our growth and unlock the full potential of our organization.

Coupled with these initiatives, we are engaging the best talent with a growing focus on cutting-edge research, innovation and youthfulness. We are creating differentiated products that cater to discerning customer needs of

today and tomorrow. We are also investing deeper in our brands following the creation of separate channels for Farmtrac and Powertrac to enhance our marketing and sales focus – a move that is expected to deliver market share gains as well as additional revenues in the next three years. We are widening and deepening our pan-India distribution channel that makes it possible for customers to reach us quickly and conveniently. We believe that the combination of this differentiated approach – productisation, marketing and distribution – represents a completely new way of doing business at our Company.

Q: What is your view of the Company's overall performance in FY17?

A: I was satisfied by the Company's overall performance in FY17. The industry, in all the three segments that we operate, grew on the back of a normal monsoon, thriving rural sentiment and increased government spending in infrastructure and railways. The upcycle in the domestic tractor industry is expected to continue for a couple of years. The private investment cycle hasn't yet picked up in full swing, so the upcycle in the domestic equipment industry is expected to continue for at least 4 to 5 years. The increased investment in Indian Railways is expected to sustain longer and the Metro is emerging as the mainstay of urban transportation.

Our growth is in line with industry growth trends. Our overall revenues from continuing operations grew by 21.2% in FY17. We marginally gained market share in the tractor business to 10.8% and maintained our position in the construction equipment business.



We moderated our cost structure through material and financial savings; we grew our business without straining the Balance Sheet, resulting in a stronger ability to service the declining debt on our books, strengthening our long-term sustainability.

Our overall EBITDA margin from continuing operations also grew to 7.8% compared to 5.1% in the last fiscal on the back of improved volumes and cost reduction. Our RoCE improved to 13.04% on the back of improved margins.

Our financial health improved as our net debt remained negative. Our cash flows and working capital efficiency strengthened. We invested in R&D for new products and new technology development, which shall bear fruit in the future.

In Operations, we received the TPM Excellence Award, which signifies that we crossed the first milestone towards world-class manufacturing. To enhance synergies, we combined the organizational structure at the back-end (R&D, Manufacturing & Supply Chain).

We successfully divested our interest in Escorts Auto Products. This shall enhance our management focus and investments availability for our remaining businesses. This also means that we shall be able to reduce our land requirements to facilitate the capacity expansion of our tractor business. We signed an agreement with DLL to strengthen retail financing for our customers. We realigned the roles at the top management for clear accountability related to profitability, growth and sustainability.

Our partners, in terms of dealers and suppliers, are happy as their profits improved on the back of higher volumes; our customers are enjoying new products and rewarding us.

Having said all this, I feel that there is still a lot of work to be done in the area of manpower cost reduction, higher exports, improving customer satisfaction and achieving profitability in our construction equipment business. We are taking steps to improve and results should be visible in the next 2 to 3 years.

Q: Can you comment on Escorts Agri Machinery's performance in FY17 and prospects?



A: In FY17, our strong markets (North & Central India) grew by 12.5%, whereas our opportunity markets (South & West India) grew by 25%. We gained market share in both markets and increased our overall market share by 50 bps to 10.8%. This came on the back of successful launches of new Farmtrac products (Farmtrac 6055, 55 HP, T20 Gear box) and Powertrac products (Euro45 and Euro50). We are also investing deeper in our brands following the creation of separate channels for Farmtrac and Powertrac to enhance our marketing and sales

focus – a move that is expected to deliver market share and revenue gains in the next three years.

Our EBIT margins also went up by 221 bps to 7.3% on the back of reduced material cost. We successfully completed Project Shikhar, which aims to reduce the material cost of our tractors through VA-VE, design changes and applying cost-effective sourcing. We also launched new models for exports, namely Farmtrac 6080 Pro and Farmtrac 6090 Pro (Farmtrac Tractors in 80 and 90 HP), which shall help us develop key export

markets.

To achieve our stated target of establishing the Farmtrac brand as a leader in the higher HP category and position the Powertrac brand as a challenger in the mass-market category (reaching industry average margins of 15%), we started the LEAP program. There are four pillars of this program, which are aimed at increasing market share, back-end contribution margins, spares, while reducing fixed costs (including manpower). This shall be a three-year program and we are committed

to achieve our objectives. We shall continue to lower our blue-collar employee fixed cost through a VRS program and planned retirements. These initiatives shall make the Company lean and help us negotiate the down-cycle.

We are developing products to penetrate South and West India in the orchards and rice belts. We are strengthening our channels in these markets. We have identified key international markets and are in the process of completing our product portfolio from 12-110 HP, specifically for exports. This year, we will organize an International Day where we will showcase our portfolio for channel partners. We shall launch a Compact Series of tractors for the Indian and global markets. We have designed the look and styling of this tractor with the help of a global design firm of repute. I am sure our customers will look forward to this tractor.

As we look to gain volumes, we are planning to expand our capacity to 1.5 lac tractors per year. We shall watch the industry closely and shall commit resources with correct timing. We shall look to use our existing land resources as well as the now-available Escorts Auto Products premises.

As mentioned in the past, we are working in the direction of offering an end-to-end service (from land preparation to harvesting) for the paddy crop; we started a few centers in Andhra Pradesh and Odisha as pilots. This will evolve us from a product-centric approach to providing solutions to our customers.

In terms of people capability, we commissioned the Escorts Sales Academy to train and polish our front-end teams – including our own sales force as well as Dealership Sales Executives – so that all Escorts representatives speak the same language and provide the same customer experience across geographies. We are also working in developing digital platforms for training and capability-building.