

November 29, 2021

Escorts Limited- Long-term rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	646.0	646.0	[ICRA]AA & Rating placed on watch with developing implications; [ICRA]A1+ Outstanding
Non-fund Based – Working Capital Facilities	281.0	281.0	[ICRA]A1+; Outstanding
Unallocated	23.0	23.0	[ICRA]AA & Rating placed on watch with developing implications; [ICRA]A1+ Outstanding
Total	950.00	950.00	

*Instrument details are provided in Annexure-1

Rationale

Material Event

The board of directors of Escorts Limited (Escorts) in their meeting held on November 18, 2021, provided in-principle approval for the following:

- Escorts will issue 9,363,726 equity shares through a preferential issue to Kubota at an issue price of Rs. 2,000 per equity share aggregating Rs. 1,872.74 crore, subject to shareholders and necessary regulatory approvals; post preferential allotment, Kubota's stake in Escorts will be 14.99%¹; pursuant to the transaction, Kubota will become Joint Promoter along with existing promoters of Escorts
- Existing Promoter Group (Nanda Family) of Escorts is not selling any shares & continues to remain fully invested in the company
- Kubota will make an open offer to the public shareholders of Escorts to acquire up to 26% of the share capital in accordance with SEBI regulations
- With a goal of making Escorts the exclusive vehicle of business in India and simplifying the corporate structure, Escorts and Kubota have decided to take necessary steps to evaluate and consider the feasibility of merger of Kubota's subsidiaries in India where Escorts is also a partner (Kubota Agricultural Machinery India Pvt. Ltd & Escorts Kubota India Private Limited) into Escorts, subject to necessary approvals
- Evaluate and consider the feasibility of cancellation of all the residual equity stake of Escorts held by the Escorts Benefit and Welfare Trust (besides the pending capital reduction) without payment of any consideration and the merger of Escorts Finance Limited into Escorts, subject to necessary approvals
- To reflect the spirit of joint partnership, upon completion of this transaction, the name of the company shall be changed to 'Escorts Kubota Limited' subject to regulatory approvals.

¹ Assuming existing capital reduction scheme filed with NCLT for cancellation and extinguishment of 1,22,57,688 shares of Escorts Limited held by Escorts Benefit and Welfare Trust is not made effective prior to the date of preferential allotment, else this shall be 16.39%

- Kubota intends to have Mr. Nikhil Nanda engaged in his individual capacity as a non-employee with the proposed designation of senior managing executive officer and General Manager of Value-Innovative Farm and Industrial Machinery Strategy and Operations of Kubota, besides a proposal to induct him as a director on the Board of Kubota’s European business holding company, Kubota Holdings Europe B.V., Netherlands. Mr. Nikhil Nanda’s non-employee involvement in the foregoing capacity will not interfere with his role as the CMD of Escorts.

The preferential issue remains subject to requisite stakeholder/regulatory approvals, and the extent of subscription under Kubota’s open offer remains to be seen. Both the transactions are expected to be completed by March 2022, thereby providing further clarity on the emerging shareholding pattern. The timeline for the merger of Kubota’s subsidiaries in India into Escorts would remain linked to the increase in the shareholding of Kubota; notwithstanding the same, the merger is expected to be completed over the medium term.

Impact of the Material Event

The long-term rating has been placed on watch as the aforesaid development is likely to have a favourable impact on the credit profile of Escorts, the extent of which would be ascertained over a period of time, given the nascent stage of developments and the dependence on various stakeholder/regulatory approvals and market dynamics. Escorts and Kubota had previously collaborated in March 2020, when the board of Escorts had given an in-principle approval for a preferential issue to Kubota as well as acquisition of stake by Escorts in the marketing and sales company of Kubota. The enhanced ownership/control of Kubota, if and when it materialises, is likely to help improve Escorts credit profile further. The inflow of ~Rs. 1,873 crore as a result of the preferential issue is likely to further strengthen the company’s financial risk profile and support its product development/capacity expansion/network expansion plans over the medium term. Kubota’s know how in the farm equipment, mechanisation and construction equipment space, is likely to aid in strengthening Escorts’ product development capabilities and help the latter enrich its product profile over the medium term, thereby supporting its market share prospects. The enhanced collaboration with Kubota shall also entail greater sourcing by Kubota from Escorts for its other global markets and aid export prospects and earning profile of Escorts. Accordingly, the developments are expected to be a credit positive in ICRA’s view.

ICRA would continue to monitor the developments related to the preferential issue/open offer, and take appropriate rating action, post analysing the impact of the same on Escorts’ credit profile.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, Key financial indicators: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractor Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Escorts Limited. As on March 31, 2021, the company had six subsidiaries, an associate company and four JVs, which are enlisted in Annexure-2.

About the company

Incorporated in 1944, Escorts Limited is a leading tractor and farm equipment OEM in India with an 11.3% market share in the domestic market (FY2021). The company generates business from its three key divisions — agri-machinery (EAM) involved in manufacturing tractors (~82% of revenues in FY2021), construction equipment (ECE) involved in manufacturing and trading construction equipment products (~11%), and the railway equipment division (RED), which manufactures shock absorbers for railway coaches, centre buffer couplers and brake systems (~7%). The company has manufacturing facilities in Faridabad (Haryana), Rudrapur (Uttarakhand) and Poland.

The EAM segment manufactures and markets its tractors under the Farmtrac, Powertrac and Steeltrac brands and commands a strong presence in the northern and central regions, aided by strong brand recall and a well-entrenched dealership network. The company's product portfolio spans HP segments with healthy presence in the 31-50 HP category.

Escorts has entered into a collaboration with Kubota Corporation, wherein after establishing a manufacturing JV, the latter acquired an equity stake in Escorts through a preferential issue.

The ECE segment manufactures as well as trades construction, material handling and earth moving equipment. The division's manufactured product range includes pick-and-carry cranes (PNC), compactors and back-hoe loaders, etc.

The company was promoted by Delhi NCR-based Nanda family. Mr. Nikhil Nanda is the current chairman and managing director of the company. The company's board comprises 12 members, of whom six are independent directors.

Escorts was incorporated as Escorts (Agents) Private Limited (EAPL) in Lahore in 1944. EAPL was converted into a public limited company and renamed as Escorts in January 1960. The company started off by manufacturing tractors under the Escorts brand in the 25-40 HP range. In 1969, the company promoted Escorts Tractors Limited (ETL) as a JV with Ford Motor Company (FMC), US, for manufacturing the Ford Series of tractors in the 40-50 HP range. Escorts acquired the entire equity stake of ETL in August 1995, making ETL its subsidiary (subsequently merged with the agri-machinery division).

Over the years, the company diversified into other products to emerge as a multi-business entity with interests in agri-machinery, automotive components, railway equipment, construction equipment, and telecommunication equipment and services. However, some of its non-core businesses, such as telecommunications, healthcare, software and its JV stake with Carraro were divested during the mid-2000s. In December 2016, the company sold off its auto product assets, leading to the closure of the division.

Key financial indicators (audited)

Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	5,810.1	7,014.4	3,375.6
PAT (Rs. crore)	472.8	872.4	366.1
OPBDIT/OI (%)	11.4%	16.1%	13.2%
PAT/OI (%)	8.1%	12.4%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4	0.3
Total Debt/OPBDIT (times)	0.1	0.1	0.1
Interest Coverage (times)	38.5	84.5	58.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Balance sheet breakup of H1 FY2022 financials is not available;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
				Nov 29, 2021	Oct 25, 2021	Mar 31, 2021	Sep 17, 2020	Mar 30, 2020	Jul 19, 2019	Mar 28, 2019 Oct 4, 2018	Jul 19, 2018	
1 Fund-based-Working Capital Facilities	Long Term/Short Term	646.0	-	[ICRA]AA&/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA- &/[ICRA]A1+	[ICRA]AA- (stable)/[ICRA]A1+	[ICRA]AA- (stable)/[ICRA]A1+	[ICRA]AA- (stable)/[ICRA]A1+	
2 Non-fund based-Working Capital Facilities	Short Term	281.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Unallocated Limits	Long Term/Short Term	23.0	-	[ICRA]AA&/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA (stable)/[ICRA]A1+	[ICRA]AA- &/[ICRA]A1+	[ICRA]AA- (stable)/[ICRA]A1+	[ICRA]AA- (stable)/[ICRA]A1+	-	
4 Commercial Paper	Short Term	-	-	-	-	[ICRA]A1+ Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

&= Under watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term/Short Term - Fund-based- Working Capital Facilities	Simple
Short Term - Non-fund based-Working Capital Facilities	Very Simple
Long Term/Short Term - Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based- Working Capital Facilities	-	-	-	646.0	[ICRA]AA&/[ICRA]A1+
NA	Non-fund based- Working Capital Facilities	-	-	-	281.0	[ICRA]A1+
NA	Unallocated Limits	-	-	-	23.0	[ICRA]AA&/[ICRA]A1+

Source: Company; & Under watch with developing implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Escorts Ownership	Consolidation Approach
Escorts Finance Limited	69.42%	Full Consolidation
Escorts Securities Limited	51.26%	Full Consolidation
Escorts Benefit & Welfare Trust	100.00%	Full Consolidation
Escorts Benefit Trust	100.00%	Full Consolidation
Farmtrac Tractors Europe Spolka z.o.o	100.00%	Full Consolidation
Escorts Crop Solution Limited	100.00%	Full Consolidation
Adico Escorts Agri Equipment Private Limited	40.00%	Equity Method
Tadano Escorts India Private Limited	49.00%	Equity Method
Escorts Kubota India Private Limited	40.00%	Equity Method
Kubota Agricultural Machinery India Private Limited	40.00%	Equity Method
Escorts Consumer Credit Limited	29.40%	Equity Method

Source: Annual report FY2021

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