Escorts Limited

Instrument	Amount	Rating Action
	Rs. Crore	**October 2016**
Commercial Paper (CP)/short-term-debt (STD) programme	50.0 (enhanced from 25.0)	[ICRA]A1 assigned/outstanding
Fund based limits	478.00	[ICRA]A-(Stable)/ [ICRA]A1 ratings outstanding
Term loan facilities	257.00	[ICRA]A-(Stable) rating outstanding
Non-fund based limits	613.00	[ICRA]A1 rating outstanding
Unallocated	73.00	[ICRA]A- (Stable)/ [ICRA]A1 ratings outstanding

ICRA has assigned a rating of **[ICRA]A1** (pronounced ICRA A one) to the Rs. 50.0 Crore[1] (enhanced from Rs 25.0 Crore) commercial paper (CP)/short-term-debt (STD) programme of Escorts Limited (EL). ICRA also has ratings outstanding of **[ICRA]A-/ [ICRA]A1** (pronounced ICRA A minus/ ICRA A one) for the Rs. 1421.0 Crore bank facilities of the company[†]. The outlook on the long-term rating is "Stable".

The ratings assigned factor in the healthy operating performance of EL in the current fiscal as its key business segment – agri machinery division witnesses strong volume growth. An improvement in farm sentiments aided 21% growth in tractor volumes during H1 FY2017; the agri machinery division is expected to report healthy profits benefitting from economies of scale, benign raw material prices as well as savings from various cost efficiency measures undertaken by the company. EL's second largest division – construction equipment division also recorded a healthy growth in volumes in H1 FY2017, led by a pickup in demand in the construction equipment segment; although the division continues to record losses at the operating level, an expectation of continued improvement in demand in the industry would support improvement in profitability metrics.

ICRA takes note of the divestment of the loss making auto components division by the company through an asset sale during 2016-17. Although provisions for writing off the debtors and inventory of the division along with extraordinary items towards offering severance package to the division's employees could have one time adverse impact on profits in current year, the divestment of a loss making division augurs well towards sustainable improvement in cost structure over the medium term. The ratings assigned continue to factor in the company's long operating history, its strong brand franchise, vast dealer network as well as its diversified business mix. The ratings, however remain constrained by the inherent cyclicality associated with the company's key business segments – agri machinery and construction equipment.

Going forward, the extent of write-offs undertaken for divesting the auto components division would remain a key rating sensitivity. Additionally, the impact of any significant investments towards funding inorganic expansion plans or balance sheet adjustments, similar to write-offs from Business Reconstruction Reserve in the past, on the credit profile of the company, would continue to be monitored.

1 100 Lakhs=1 Crore=10 million

† For detailed rating scales and definitions refer the ICRA website www.icra.in or other ICRA publications

Company Profile

Escorts Limited was incorporated as Escorts (Agents) Private Limited (EAPL) in Lahore (then a part of undivided India) in 1944. The company started off by manufacturing tractors under the Escorts brand name in the 25-40 horsepower (HP) range. In 1969, it promoted Escorts Tractors Limited (ETL) as a joint venture with Ford Motor Company (FMC), USA for the manufacture of Ford Series of tractors in the 40-50 HP range; subsequently the company acquired the entire equity stake of ETL in August 1995, thus making ETL its subsidiary.

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, industrial and construction equipment, and telecom equipment and services. During the period 1994 to 1998, it undertook a major re- organization exercise wherein it consolidated its agri-machinery business by merging ETL with itself, and hived off its various divisions into separate companies. Subsequently, EL decided to focus only on core businesses viz., Agri-Machinery and Construction Equipment and divested its non-core businesses viz., Telecom business in 2004, Healthcare in 2005, Software business in 2006 and its stake in joint venture with Carraro in 2006. Further, in 2012 the company merged its construction business with itself.

At present, the company is primarily a manufacturer of tractors and construction equipment (besides railway equipment; auto components division divested in August 2016) and a holding company for other subsidiary/ joint venture companies of the Escorts Group. It's manufacturing facilities are spread across four locations in Faridabad (Haryana) and a facility at Rudrapur (Uttaranchal) and Poland.

Recent Results

In Q1 FY2017, Escorts Limited (standalone) Net Sales at Rs. 1047.4 Crore represented a 9.4% growth over the corresponding previous year period. The company's profit before depreciation, interest and tax at Rs. 87.8 Crore, represented a 52.4% growth over the corresponding previous year period.

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