

Management Discussion & Analysis

Indian Economy Outlook

India's economy gained momentum in last fiscal, robust urban consumption and public investment have supported growth despite an unfavorable external environment. In the backdrop of the headwinds both on the global and domestic front, our government has tried to address wider spectrum of themes last fiscal and in current fiscal budget announcement while adhering to the fiscal consolidated roadmap. Agenda of budget is "Transforming India" and is in line with the initiatives and vision of government. The fact that agriculture and rural sectors had received a greater focus during the budget was commendable as these sectors had not received the required thrust during the last budget and weak rural demand has been a major drag to overall consumption during last two years.

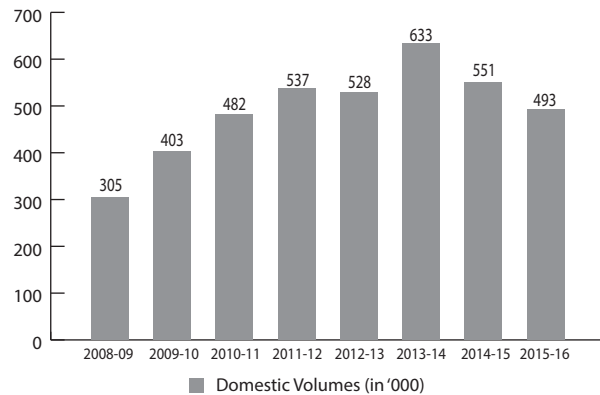
The rural economy has been under stress since last two years due to droughts and fall in global prices of primary agriculture commodities. The rural distress is evident from low growth in real income and falling rural demand. With current announcements and actions by the government has endeavored to provide a boost to agriculture sector and thereby to rural economy by proposing almost 84% increase in budget allocation for agriculture and irrigation sector. Increase allocation towards irrigation sector is expected to help millions of farmers over the long term. The focus on credit facilities, crop insurance scheme, organic farming and dairying projects bodes well for the growth of the sector. The online wholesale market for farm produce will ensure fair remunerative prices for the farmer. These initiatives are expected to provide some respite to farmers and if implemented effectively would have multiplier effect in the form of demand generation in the rural area.

Industry Overview and Business Performance

1. Escorts Agri Machinery Business

Indian Tractor Industry

Indian Tractor Industry declined by 10.5% at 493k units against 551k in FY15. Sentiment of the farmers and the industry have been dampened firstly due to Agro-Climatic Conditions-Rainfall 2nd year in a row was deficient & below-normal monsoon season and then untimely rains just before the harvesting season.



Your Company's domestic volume down by 11.9% at 50,698 against LY 57,565. Industry de grew by 17% in our strong market (North and Central), where join industry grew by 1% in opportunity markets (South and West). Your Company's domestic market share stands at 10.3% in year ended FY16.

Continuing with our strategy to offer innovative products and focus on higher HP product category, Your Company had launched "Euro 45" & "Euro 50" series under Powertrac brand and "Classic" series under Farmtrac brand in 41-50 HP category. The market response for all the newly introduced models has been very positive. Your Company's market share increased from 9.7% to 10.9% in 41- 50 HP category in FY16. The new models are creating product pull based market demand amongst the perspective buyers. Going forward in the current fiscal, we shall continue to bring new products.

Opportunities and Threats

As Global is the best next opportunity, your Company will focus on several new markets specially Europe, Africa and South East Asia and provide India's best of technology at an affordable price.

The improvement in rural liquidity and increase in non-agri component of rural incomes is a strong positive since demand will have lesser sensitivity to monsoon.

Tractor industry is dominated by majorly domestic players; Entry of MNC players has further intensified competition. Your Company is well poised to address same by technology and better product upgrades.

Product Launches

For tapping the growing market segments, your Company aimed to enhance the market penetration via new products.



- **Euro Series under Powertrac** Euro 37, Euro 41, Euro 45 and Euro 50

A technological marvel where for the first time style & comfort comes without compromising with power & performance



- **Classic Series in 41-50 HP under Farmtrac** brand were launched in early part of the year.

"Modern Inside Classic Outside" 'Kheton Ka King'. Best-in-class combination of modern design, stunning looks, and world-class technologies.

- **FT 6055 Xtra** Torque Tractor with 20 speed transmission (the first in India) launched.

The market response for the newly introduced models under Powertrac & Farmtrac brands has been positive and

encouraging for the subsequent quarters. The new models are creating product pull based market demand amongst the perspective buyers. The new products are providing unique proposition of enhanced engine power, fuel efficiency, productivity & reliability to the Indian farmers.

Outlook

On full year basis Domestic tractor industry expected to go up by 8-10%, depending upon how well the monsoon fares.

Above normal monsoon is being forecasted during the upcoming season by the Government agencies. The impact of the various factors like rainfall, crop prices, % of sown area, the central Government's stand towards the land bill and the associated farmer's compensation for the acquired land would shape the chances of improving the industry sentiments in subsequent time frames.

Growing farm consolidation with increasing need for farm power per hectare and increasing substitution of manual and animal labour for various farming operations continue to drive the structural growth for higher HP tractor sales. Increasing finance penetration with more affordable finance rates have enabled a larger number of farmers to own tractors. Concurrently, the economics of tractor operation improved owing to increasing custom hiring for agricultural and other purposes, including transit of farm produce, and transport of people and materials for road construction and other infrastructure projects.

2. Escorts Construction Equipment (ECE)

Increasing investment in infrastructure development will lead to the growth in the construction market

Construction industry in India is growing rapidly with a major contribution from infrastructure development. It is expected that various projects in transportation infrastructure, power, urban infrastructure and real estate will drive the market. The development aided by a stable Government and improved macro-economic environment will lead to further growth.

After 4 years of continuous decline, the Construction equipment industry witnessed a growth of 15% in FY16 and our served markets grew by 5%. The pick and carry cranes industry went up by 9% in FY16, Compactor and BHL industry has gone up by 33% and 5% respectively.

On full year basis your Company's volumes are down by 15.0% to 2,555.

During the year your Company has launched following new products.

Hydraulic Mobile Cranes

- Safe Crane F 20
- Variants in HYDRA series (12T and 14T category) for expanding the market

Compactors

- Tandem HD85 with Escorts Water Cooled Engine

All these products have unmatched stability, offering powerful and reliable solutions to customers.



Outlook

With the development thrust from government in infrastructure, construction equipment market is expected to witness a rapid growth. It is expected that with the implementation of large projects, demand for specialized construction equipment will increase.

Government has taken a number of initiatives in the union budget for the infrastructure sector. Measures announced for physical infrastructure such as roads, ports, aviation and rural infrastructure are aimed at improving the connectivity and modernizing the various key elements of this sector. Further, forming policies for strengthening ties with private players will help in overcoming roadblocks.

Going forward, we expect that our served construction equipment industry will continue to grow at 15%-20%.

3. Railway Equipment Division (RED)

Your Company is one of a key supplier to Indian Railways for products including Brake Systems, Couplers, Shock Absorbers, etc - with a focus on safety, comfort and environment. With this wide product range and in-house R&D capabilities, your Company is well-poised to capture the immense opportunity from the Indian Railways.

The division maintained its good performance and a dominant position in the industry in spite of increased competition and price pressure for existing products. Given the government's focus on revitalizing the Indian Railway, we are very excited on the future outlook of this business. Railway sector has a potential to grow at a phenomenal rate in the years ahead. With focus on freight corridors, high capacity rolling stock, last mile rail linkages, high speed trains and port connectivity the opportunities in this sector are in abundance.

Your Company has Launched several new products for the Metros and Indian Railway segments in India. These new rail products are an outcome of continual frugal and value engineering by in house R&D and Global Technology partners for making rail travel safe and reliable and more comfortable while also paving the road to import substitution and reducing the need for costly imports. In sync with the new vision of railway transformation, this marks the initial steps of success of 'Make In India' by indigenous manufacturers.

Your Company has lined up two new product launches which includes bogey mounted brake system (testing completed) and axle mounted brake system (ongoing testing). These products combined have an addressable market size of INR 300 Cr.

Additionally, your Company is also evaluating 4 to 5 new products. The new Automatic Door for Metro & High Speed Train, LHB Alstom Coach Dampers, Heavy Duty Locomotive Dampers, Rubber to Metal bonded products, Friction Products for LHB live up to the Escorts brand legacy of contributing to national development while unleashing hitherto unexplored business potentials for Railway Equipment Division.

We expect your Company revenue to grow at 15-20% CAGR for next 3-4 years.

4. Escorts Auto Products (EAP)

Achieved a revenue of ₹ 92.4 Cr. against ₹ 103.4 Cr. last fiscal. EBIT losses have gone down on a full year basis and also on the quarterly basis. This is achieved mainly due to cost savings in VRS, margin expansion due to sales portfolio rationalization and improvement in operations in EAP.

Overall Risks & Concerns

Prospects of the Indian tractor and construction industry are highly dependent on Government policies. Historically, large number of equipment's are sold on credit, despite an increase in the non-performing assets (NPAs) for financial institutions over the last few years, which has led to some tightening of credit norms. Most of the Equipment financing done by

banks comes under priority sector lending, a directed-lending mechanism of the Government of India. Despite the macro economic challenges the Company has been able to perform year after year. Had the macroeconomic environment been better we would have performed better.

Monsoons

Normal monsoons is critical for the agriculture industry. Indian Met Department predicting above normal monsoon this year. The Construction equipment sales to some extent run the risk in case of above normal monsoon.

Raw Material Cost

The raw material cost represents the largest expense head of the industry with alloy steel and pig iron (primary components), accounting for 75-80 % of the total raw material cost.

Over the past preceding three years, the prices of iron, alloy steel and rubber have been volatile. Any further slight variation will affect the profitability. Cost reduction project started last fiscal has resulted in significant reduction of material cost around 250 bps over previous fiscal. This project will be completed in current fiscal and resulting in reduction of Raw material cost from 72% to 68%, along with 25% reduction in supplier base leading to more profitable and leaner organization. .

Fuel Price

With the domestic price of oil rising significantly over the past few months, the price of automotive fuel is likely to face upward pressure. This has impacted cost of ownership and may have an impact on your company's product.

Corporate Governance

Your Company continues to benchmark corporate governance policies. High ethical & Corporate Governance standard is maintained to ensure honest & professional business practices to protect the reputation of the Company and its stakeholders. A strong risk management and internal control system form the backbone for robust corporate governance practices.

Your Company maintains adequate internal control systems, which provide, among other things, reasonable assurance of recording the transactions of its operations in all material respects and of providing protection against significant misuse or loss of Company assets.

Information Technology

During the year, your Company's Information Technology was strategically outsourced to Cognizant Technology

Solutions. This was done to facilitate the creation of a world class IT organization completely aligned to business goals and to proactively explore/evaluate emerging technology to meet medium and long term business plans. With this your Company will have direct access to Cognizant's innovation labs which would help in the implementation of state of the art processes, capabilities and technology.

With this contract, Cognizant has replaced multiple vendors who were previously rendering IT services. Along with managing the day to day IT operations, Cognizant is also involved in the various IT driven transformation initiatives currently going on in Escorts. During the year your Company's IT department won many awards and appreciations. Some of the major awards won are stated as under:

- Dataquest Business Technology Award for Security, 2015
- The ICONIC IDC Insights award for Business Intelligence, 2015
- CIO 100 Award, 2015
- Innovative 100 CIO Award 2015

Investor Relations

Your Company has a dedicated investor relations desk, which service the interest of investors, through regular contact and timely communication. Your Company maintains an active engagement with the investor community, through ongoing investor management meetings with shareholders and investors globally. During the year, your Company has organized "**Investor & Analyst Meet 2016**" in Faridabad attended by 70+ investors/analyst, also your Company has actively participated in a number of Domestic and International Investor Meets. Your Company also periodically conducted Analysts' meets and plant visits to communicate details of performance, important developments and exchange information.

Your Company's website (www.escortsgroup.com) contains a dedicated section '**Investor Information**' where all shareholders' information is available under one roof. Your Company's Annual Report is also available in a user-friendly and downloadable form. During the year your Company launched investor relations' mobile application, which can be downloaded from Apple iTunes and Google Play Store. Further for any query you can write in to us at investorrelation@escorts.co.in and we will get back to you within 3 working days.

Corporate Social Responsibility

Community Development

As part of the community development, your Company indulge in multiple health related activities, such as check-up camps, women Empowerment, blood donations, among others in Haryana. CSR at Escorts portrays the deep symbiotic relationship that the group enjoys with the communities it is engaged with as a responsible corporate citizen, your Company try to contribute for social and environmental causes on regular basis.

Our CSR Mission is of empowering communities and creating opportunities for the underprivileged in areas of education, training and health, to ensure sustainable and inclusive growth, which is both environment's friendly and socially uplifting.

Employee Training and Development

Your Company manages 9,300 employees across all levels. Your Company has organized various in house and outside training workshops for workmen. There were approx. 500 plus training programmes and 3,400 plus Training Mandays; during last 12 months, the same initiative is being undertaken for the development of our employees in all our business verticals.

Capital Expenditure

Your Company has carefully planned Capital Expenditure for medium term with the primary focus on developing design, productivity improvement and cost reduction.

In addition, investments are also planned for modernization of the existing manufacturing facilities and improve the flexibility across all the plants giving a competitive advantage to your Company to introducing more products in the coming years.

Cost Savings

Your Company has continuously focus on stream-lining operations and cost rationalization during 2015-16 including materials, manufacturing and other over heads. All the employees right from shop floor to corporate office are involved in this initiative, wherein each team has targets to achieve in cost savings.

Initiatives taken on building lean supplier base to benchmark ourselves against the best, Positive results already visible and more will be visible in this financial year. Our efforts towards reducing fixed costs have kept pace in the year gone by and tangible results will be visible in years ahead.

Financial performance with respect to operational performance

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The Company has provided segment reporting on a consolidated

basis as per standard AS 17 on segment reporting. This information appears along with the consolidated accounts.

Operational Performance

The Company's Revenue at ₹ 3,472.2 crores in year ended Mar'16 against ₹ 3,985.8 crores in year ended Mar'15. The tractors volume at 51,455 in year ended Mar'16 down by 13.9% against 59,779 tractors in year ended Mar'15. Construction volumes down by 15% at 2,555 in year ended Mar'16 against 3,007 in year ended Mar'15.

Earnings before Interest, Depreciation, and Amortisation (EBITDA) at ₹ 160 crores in year ended Mar'16 as against ₹ 161.4 crores in year ended Mar'15.

Profit Before Tax (PBT) at ₹ 91.9 crores in year ended Mar'16 against ₹ 68.3 crores in year ended Mar'15 and Profit After Tax (PAT) at ₹ 89.4 crores in year ended Mar'16 against ₹ 74.7 crores in year ended Mar'15.

Segment Performance

The **Escorts Agri Machinery Divisions** revenues down by 14.1% at ₹ 2,739.4 crores in year ended Mar'16 against ₹ 3,204.3 crores in year ended Mar'15. The EBIT for the division stood at ₹ 222.1 crores in year ended Mar'16 against ₹ 229.3 crores in year ended Mar'15.

The **Escorts Auto Product Divisions** revenues stood at ₹ 92.4 crores in year ended Mar'16 against ₹ 103.4 crores in year ended Mar'15. The EBIT stood at ₹ (16.6) crores against ₹ (23.7) crores last year.

The **Railway Equipment Divisions** revenue at ₹ 205.4 crores in year ended Mar'16 against ₹ 183.5 crores in year ended Mar'15. The EBIT stood at ₹ 22.7 crores against ₹ 17.5 crores last year.

The **Escorts Construction Equipment Divisions** revenue at ₹ 455.6 crores for the year ended Mar'16 against ₹ 511.4 crores in year ended Mar'15. The EBIT stood at ₹ (30.02) crores against ₹ (24.8) crores last year.

Note: "The 'forward-looking statements' part of the Management Discussion & Analysis on economic indicators is based on our best estimate of the current environment. This may be subject to change based on external macro-economic factors out of control, including but not limited to raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax and economic policies."

On behalf of the Board
Sd/-

Place: Faridabad

Date: 25th May, 2016

RAJAN NANDA

Chairman & Managing Director