ESCORTS

March 13, 2020

BSE Limited	National Stock Exchange of India Limited	Delhi Stock Exchange Limited
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001	Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051	DSE House, 3/1, Asaf Ali Road, New Delhi – 110002
BSE – 500495	**NSE – ESCORTS**	**DSE - 00012**

Sub: Credit Rating

Dear Sir/Madam,

Pursuant of Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that the Company has reviewed the need for multiple rating agencies and has decided to reduce the interactions to two agencies i.e. CRISIL and ICRA.

Accordingly, the Company requested India Ratings and Research to withdraw the rating and the agency as a process has to review the rating before withdrawl.

India Ratings and Research has revised Escorts Limited's Outlook to Stable from Positive while affirming its Long-Term Issuer Rating at 'IND AA-'. The agency has simultaneously also withdrawn the rating in accordance with the Company request. The rational of Credit Rating issued by India Ratings and Research is attached. It may also be noted that both CRISIL and ICRA have also assigned 'AA-' rating with stable outlook.

The above is for your kind information and records.

Thanking You,

Yours faithfully,
For **Escorts Limited**

SATYENDRA CHAUHAN

Digitally signed by SATYENDRA CHAUHAN
DN: c=IN, o=Personal, postalCode=121002, st=Haryana, 2.5.4.20=9293dfd89c6a59b11aa33ed30080a86fc01493df0eb4b4831c2eab314d034997, serialNumber=01ef95fa5dc1da7afbbbddba7d1cd82a0c34b80c3be0eb0ca64c1ba32e9a9732, cn=SATYENDRA CHAUHAN
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Satyendra Chauhan
Company Secretary &
Compliance Officer

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Corporate Secretarial & Law
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Corporate Identification Number - L74899HR1944PLC039088

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India Ratings & Research
A Fitch Group Company

India Ratings Revises Escorts' Outlook to Stable; Affirms & Withdraws 'IND AA-'

12

MAR 2020

By Shochis Natrajan

India Ratings and Research (Ind-Ra) has revised Escorts Limited's Outlook to Stable from Positive while affirming its Long-Term Issuer Rating at 'IND AA-'. The agency has simultaneously withdrawn the rating. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Fund-based working capital limits**				INR3.09	WD	Outlook revised to Stable from Positive; Affirmed & withdrawn
Non-fund-based working capital limits**				INR3.21	WD	Outlook revised to Stable from Positive; Affirmed & withdrawn
Term loan			June 2019	INR0.20	WD	Withdrawn
Proposed fund-based working capital limits*				INR1.16	WD	Withdrawn
Proposed non-fund-based working capital limits*				INR0.79	WD	Withdrawn

*The issuer is no longer expected to proceed with the instrument as previously envisaged.

** Outlook revised to Stable from Positive and ratings affirmed at 'IND AA-'/Stable/'IND A1+' before being withdrawn

Ind-Ra is no longer required to maintain the ratings, as the agency has received a no-dues certificate from the lenders of term loan and a no-objection certificate from the lead banker of the consortium on behalf of the consortium for the working capital limits. This is consistent with the Securities and Exchange Board of India's circular dated 31 March 2017 for credit rating agencies.

KEY RATING DRIVERS

Moderation in Operating Performance: The Outlook revision reflects Escorts' underperformance in terms of sales volumes and operating profitability in FY20. As of 9MFY20, the volumes of its key segments, tractor and construction equipment dropped by 7.5% and 25.3%, respectively, on account of an industry-wide slowdown. However, the revenue fell by only 4.1% yoy to INR44.24 billion, mainly backed by an increase in realisations in both the segments. Along with this, the magnitude of the decline in tractor volumes was lower than the fall witnessed by the overall industry on account of an increase in Escorts' market share to 11.9% in 3QFY20 from 11.2% in 2QFY20, resulting from the company's efforts to expand its dealer network (9MFY20: over 970) and enter into newer markets along with product launches. Escorts' EBITDA margins moderated to 10.9% in 9MFY20 (9MFY19: 11.7%, FY19: 11.6%), as the growth in revenue was insufficient to absorb the rise in fixed costs.

Robust Credit Metrics: Escorts continued to maintain a negative net debt position of INR3.79 billion as of September 2019 (FY19: INR2.22 billion, FY18: INR6.29 billion), primarily driven by a substantial reduction in debt. The debt reduced on the back of strong cash flow generation, resulting from the improvement in profitability since FY16 and efficient working capital management. The fall in debt, and the resultant decline in interest expenses, led to a substantial improvement in the interest coverage (operating EBITDA/gross interest expense) to 34.61x in 9MFY20 (FY19: 37.08x, FY18: 18.77x). Ind-Ra expects the credit metrics of the company to remain strong over the medium term, on account of the absence of any major debt-led capex and stable profitability.

Liquidity Indicator - Superior: Since FY16 (except FY19), Escorts' cash flow from operations and free cash flow have been positive. The cash flow from operations improved to INR3.03 billion in 1HFY20 (FY19: negative INR2.12 billion, FY18: INR4.64 billion), primarily due to an improvement in working capital management. The free cash flow improved to INR1.72 billion in 1HFY20 (FY19: negative INR4.05 billion; FY18: INR3.28 billion).

The agency expects the cash flows to remain positive over the medium term, backed by a stable working capital cycle (9MFY20: 44 days, FY19: 45 days) and stable profitability margins (10.9%, 11.7%). The liquidity is also supported by healthy cash reserves of INR4.85 billion as of September 2019, with no long-term debt obligations. Escorts has announced capex of around INR2.5 billion each in FY20 and FY21 towards increasing the capacity, developing new products, and investing in a joint venture with the Kubota group (likely to be met through internal accruals).

Diversified End-segments: Over the years, Escorts has increased the revenue share of its non-agri machinery business of construction equipment and railway equipment. While the agri machinery segment continues to be the largest source of the company's revenue and profitability, the other segments also provide growth opportunities. In addition, all the segments are unrelated, thereby restricting the impact of any downturn in the agri-machinery segment on the company's performance. However, the benefits are partially offset by the lower margins offered by the construction equipment segment. The management is taking steps to address this issue by improving the product mix, launching new products in the high-value segment to boost realisations, and implementing cost-optimisation measures.

Highly Cyclical Industry: The tractor industry's volume growth has historically been volatile, as demand is strongly co-related to the agriculture sector's output, which depends upon monsoon and crop prices, among other factors. After growing by 8%/21%/16% yoy in FY19/FY18/FY17, the industry's volumes declined by around 10.3% yoy in 9MFY20. This makes Escorts' revenue highly volatile. Furthermore, the company's presence in the construction industry, which too is cyclical and depends on government policies regarding infrastructure development, could impact its credit profile.

Limited Presence in Southern/Western Markets: Though Escorts has been gaining industry market share with respect to tractor sales, its limited presence in the western and southern regions constrains its ability to gain market share. The company is looking at increasing channel partners in these regions, particularly in the orchards and rice belts, to increase its market share. Escorts is also building up a portfolio of high HP engines to expand its export revenue. On a lower base, Escorts' export volumes increased by 35% in 9MFY20.

COMPANY PROFILE

Escorts operates in three operating segments: agriculture machinery, with a total installed capacity of over 100,000 tractors (77% of 9MFY20 revenue), construction equipment (14%), and railway products (8%). The company offers a wide range of tractors under Farmtrac (premium) and Powertrac (mass segment) brands. It has six plants in Haryana (India) and a plant in Poland (with an annual installed capacity of 2,500 tractors).

FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR billion)	62.62	50.59
EBITDA (INR billion)	7.25	5.54
EBITDA margin (%)	11.6	10.9
Interest coverage (x)	37.08	18.77
Net leverage (x)	-0.3	-1.14
Source: Company		

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	13 December 2018	30 November 2017	10 November 2016
Issuer rating	Long-term	-	WD	IND AA-/Positive	IND A+/Positive	IND A/Stable

Fund-based working capital limits	Long-term/Short-term	INR4.25	WD	IND AA-/Positive/IND A1+	IND A+/Positive/IND A1+	IND A/Stable/IND A1
Non-fund-based working capital limits	Long-term/Short-term	INR4.00	WD	IND AA-/Positive/IND A1+	IND A+/Positive/IND A1+	IND A/Stable/IND A1
Term loan	Long-term	INR0.20	WD	IND AA-/Positive	IND A+/Positive	IND A/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

Corporate Rating Methodology

Analyst Names

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