

Indian tractor maker Escorts drives toward Africa for growth

CEO aims to reach deals to build models for foreign brands

NINAD D. SHETH, Contributing writer July 19, 2018 13:00 JST

Brokers say Escorts Group Managing Director Nikhil Nanda has the company in a "sweet spot." (Photo by Ninad D. Sheth)



NEW DELHI -- Escorts Ltd., India's third-largest tractor maker, is aiming to quintuple exports over the next three years by focusing on Africa and boosting contract manufacturing production for overseas brands, according to Managing Director Nikhil Nanda.

"The [African] continent could be our second home market going forward," Nanda told the Nikkei Asian Review in a recent interview. The populations of Africa and India are similar, but Nanda noted, African tractor sales last year were only about 46,000 as compared with around 700,000 for India in the year ended in March.

Nanda aims to raise exports as a share of Escorts' revenue to 15% within three years from about 3% last year. Tanzania and South Africa are particular strong

markets in Africa for the company. [Mahindra & Mahindra](#), the biggest Indian tractor manufacturer, is reportedly preparing its own push into South Africa too.

India's tractor makers, which include unlisted Sonalika International Tractors, still see plenty of room for domestic growth too, as the farm mechanization rate in India is only about half that of Brazil and even further behind that of developed nations.

India's tractor industry, already the world's largest, has seen strong domestic demand from three consecutive years of good farming weather, a series of government-mandated bank loan waivers for farmers and a rise in acreage under irrigation.

This enabled Escorts to sell 26.1% more tractors overall in the year that ended in March, or 80,417 machines, outpacing Indian market growth. Net profits more than doubled to 3.45 billion rupees (\$50.3 million) as revenue rose 20.4% to 50.16 billion rupees. Nanda attributes some of the profit gains to cost cutting and the divestment of minor businesses like auto parts production.

Escorts "is in a sweet spot with government policies like loan write-offs and good monsoons boosting the stock price," said Sumeet Bagadia, associate director of Choice Broking, a Mumbai-based wealth manager.

While shares of Mahindra & Mahindra have tripled in price over the last five years, Escorts has risen far more. Bagadia attributed this to its narrower focus on farm equipment. Escorts' stock hit a record high of 974.85 rupees in April, up from 49.50 rupees in March 2013. The shares have since fallen back below 900 rupees.

Africa is only one prong of Nanda's export strategy. He is also pushing to finalize deals to make tractors for two foreign brands. "We see this as a

profitable extension of our business, offering cheaper production facilities and experience in meeting foreign customer demand," he said.

New financing programs and models are key elements in Nanda's strategy to raise Escorts' share of the domestic market from 11% last year to about 16% within three years. The company is setting up a tractor rental program, the first by an Indian manufacturer, and has tied up with Netherlands-based Rabobank to provide financing for Indian tractor buyers.

"India is price sensitive and not everyone can afford to buy a tractor," Nanda said. "We are offering a pay-as-you-use model. The model is a shared economy one." He added that these moves will help diversify Escorts' revenue stream from manufacturing into services.

The sharing model, said Vijay Sardhana, an agriculture supply chain consultant, "could be a game-changer, since in India tractors are unaffordable for most farmers." He added, "Escorts will have to focus on tractor availability during sowing and harvesting time." Drivers will also need training, he said.

Escort is finalizing plans for a big increase in its product range, with at least six model launches planned over the next year, including the country's first compact electric-powered tractor. Research and development, as a proportion of revenue, has been increased 50% and capital expenditures are set to rise to about 30 million rupees this year from 12 million rupees last year.

"We will use our internal research and development capability to launch a new family of tractors, from a 25-horsepower compact for vineyards to 120-horsepower tractors for bigger Indian farms and exports," Nanda said. He hopes to sell the heavier models in Brazil and the EU.

Escorts also operates railway supplies and construction equipment manufacturing divisions, which have both seen brisk demand on the back of

rising Indian government spending on infrastructure. The country's railways are spending nearly \$10 billion on safety measures under the 2018 federal budget, providing significant orders for the railway supplies division, which makes brake systems, couplers, suspension systems and other gear. The division accounts for 20% of total revenues and is the company's most profitable business.

"I am confident that the [railway supplies] division will grow at a fast pace," Nanda said. "We are also bullish that India's aggressive spending on road building will drive sales for our material handling and earthmoving equipment business."