CHAPTER FIVE

ESCORTS LIMITED

5.1 Evolution of the Company

5.2 Corporate Objectives

5.3 Organisation Structure and Management

5.4 Strategic Shifts

5.5 Capital Acquisition and Finance

5.6 Marketing Policies

5.7 Production and Operations Policies

5.8 Management of Human Resources

5.9 Strategic Plans and Future Outlook
5.1 EVOLUTION OF THE COMPANY

The company was incorporated on October 17, 1944 at Lahore as a private company. After partition of the country in 1947, the registered office of the company was shifted from Lahore to New Delhi. At that time, the company functioned as a small agency house and was known as Escorts (Agents) Pvt. Ltd. The company took its name from the fact that it used to escort goods from the manufacturer to consumer.

The name of the company was changed from Escorts (Agents) Pvt. Ltd to Escorts Ltd upon its conversion into a public limited company on December 21, 1959. In 1960, the company secured a licence for manufacture of 6,000 motorcycles per annum under the technical and foreign collaboration of CEKOP, Poland, and started production of motorcycle at Faridabad (Haryana). In 1978, the company entered into a technical collaboration with Yamaha Motor Co. of Japan for the manufacture of two-stroke, two-cylinder motorcycle engine of 350 cc capacity. The company later started manufacturing 350 cc motorcycles in 1983 and introduced 100 cc capacity motorcycles in 1985.

5.1.1 Business Operations

Escorts Ltd manufactures and markets motorcycles under the brand name 'Rajdoot'. The company also manufactures tractors, railway shock absorbers, agricultural implements,
heating elements, etc. In short, it a multi-product engineering company. Since its inception, the company has been functioning as a representative of well-known foreign manufacturers like M.A.N. Co. of the US, Massey Ferguson of UK, and several others. Besides, the company also carries on the business of general contractors and agency business of all kinds.

5.2 CORPORATE OBJECTIVES

Escorts is committed to producing products which are geared to meet the core needs of the people. The company believes in incorporating the world's finest existing technology to meet the demands of Indian consumers by collaborating with internationally renowned companies. Says Rajan Nanda, President of Escorts Ltd, "Our mission is to be leaders in whatever we make".

The company also believes that it is the people, rather than machines, that make an organisation successful. The philosophy and objectives of Escorts are reflected graphically in its symbol. The hidden philosophy behind the alphabet E in the word 'Escorts' is ENTERPRISE. The hexagon is a symbol of precision; when interpreted as a nut, it symbolises craftsmanship and unending productivity.

Firmly believing that success is a result of being close to the customer, Escorts has all along endeavoured to address
itself to the end user. As a result, all of Escorts products are considered leaders in keenly competitive markets. Says Anil Nanda, Managing Director, Escorts Ltd, "We need healthy and self-sustaining growth in competitive markets rather than competition per se. We need to believe in strategies and run organisation in terms of competition and total quality".

The Escorts group, as a whole, has earned a name for itself in farm mechanisation equipment and is currently spearheading the technological drive to penetrate rural areas — a corporate mission of Escorts according to its Chairman, Mr H.P. Nanda. The immediate gameplan of the company is to revitalise the health of its mainstay operations in motorcycles, upgrade technology and add more products to strengthen its market position.

5.3 ORGANISATION STRUCTURE AND MANAGEMENT

The Board of Directors of the company consists of fifteen members and is headed by its Chairman Mr H.P. Nanda. Mr. Rajan Nanda is the Company's Vice-Chairman and President while Mr Anil Nanda is its Managing Director. Mr Anil Nanda's main brief is to run the large scale motorcycle operation while Rajan Nanda is the overall incharge. Their father Mr H.P. Nanda does not play any active role in the running of the companies anymore. Escorts' Group structure is shown in Exhibit 5.1.
Exhibit 5.1: Escorts Group Structure

1. **Escorts Board of Directors**
   * Chairman
   * Vice-Chairman & President
   * Managing Director

2. **Company Secretary Office**

3. **Group Corporate Functions**
   * Finance Control: Treasury Operations
   * Human Resources: Management / Development / Planning / Industrial Relations
   * Projects: New Project / Expansion / Business Strategy

4. **Group Administrative Services**
   * Legal Affairs Department
   * Exports
   * Advertising, Public and Government Relations

5. **Group Service Companies & Departments**
   * Escorts Employees Welfare Ltd
   * Escorts Medical Centre
   * Escorts Employees Welfare Trust
   * Escorts Leasing and Finance Ltd
   * Cardiac Care Centre

6. **Subsidiary Companies (Independent Board of Directors)**
   * Escorts Tractors Ltd: Tractors
* Goetze (India) Ltd : Piston Rings
* Escorts JCB Ltd : Excavators & Loaders
* Escorts Financial Services Ltd : Leasing / Hire Purchase
* Escorts Herion Ltd : Hydraulic Valves
* Escorts Employees Ancillaries Ltd : Magnetos & Clutches
* Escorts Electronic Ltd : Trading
* Escorts Ltd : Motorcycles / Tractors

Source : Adapted from N. Chandra Mohan & B. Murali, "Escorts : Thinking big once again", Business India, Aug. 31 - Sept. 13, 1992, P. 55, and various issues of Annual Reports of the company

The Escorts Group today comprises basically of five major companies, with interests in motorcycles, tractors, auto components, construction and farm equipment, and finance. However, substantial part of the group's turnover comes from the automotive and tractor divisions.

Escorts Ltd has a divisionalised management structure. The company has eight divisions. Escorts has adopted the profit-centre concept. Each centre is highly decentralised and has a fairly powerful finance person. The various divisions of the company, their activities and status of divisional heads are shown in Exhibit 5.2.
### Exhibit 5.2: Management Structure and Activities of Escorts Group

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>HEAD OF DIVISION</th>
<th>ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Tractor Division</td>
<td>Associate Vice-President</td>
<td>Manufactures range of tractors at Faridabad plant. Manufacturing and marketing of industrial and construction equipment.</td>
</tr>
<tr>
<td>* Engineering Division</td>
<td>Vice-President</td>
<td>Manufacturing and marketing of automotive shock absorbers, heavy duty shock absorbers, railway brakes, couplers, industrial x-ray machines and heating elements.</td>
</tr>
<tr>
<td>* Motorcycle &amp; Scooter Division</td>
<td>Vice President (Operations) &amp; Executive Vice President (Marketing)</td>
<td>Manufacture and marketing of a range of motorcycles. Also magnetos.</td>
</tr>
<tr>
<td>* Projects &amp; Power Division</td>
<td>Executive Vice President</td>
<td>Sales, service and installation of power, generating sets, sub-stations, transmission lines mining, drilling and communication equipment and turn-key projects in India and abroad.</td>
</tr>
<tr>
<td>* Automotive Division</td>
<td>Associate Vice President</td>
<td>Manufacturing of pistons and pins at Patiala and Bangalore plants.</td>
</tr>
<tr>
<td>* Telecommunication Division</td>
<td>Associate Vice President</td>
<td>Manufacture and marketing of EPABX systems and key telephones.</td>
</tr>
<tr>
<td>* Farm equipment Division</td>
<td>Vice President</td>
<td>Marketing of Escorts Tractors and its spare parts. Marketing of Ford tractors and its spare parts.</td>
</tr>
<tr>
<td>* Agency Sales Division</td>
<td>Vice President</td>
<td>Sales, service and installation of diesel engines, alternators, control panels, gear boxes, shafting and propellers.</td>
</tr>
</tbody>
</table>

Source: Adapted from various issues of Annual Reports, Escorts Ltd.
With Escorts losing its market share, it has now decided to redefine operations. The company's plan is to make Escorts a lean organisation, with even greater emphasis on their fortes -- motorcycles and tractors. A four-pronged strategy has been drawn up which includes: hiving off the loss-making telecommunications division; transferring the piston making and assembly units to Goetze (India) Ltd - a group company; slashing overheads in Escorts; and modifying the Rajdoot motorcycle to meet today's market needs.18 Says Umesh Bannerji, finance controller, "A decision has been taken to phase out [unviable] lines and operations"19. Adds President of the company, Rajan Nanda, "The emphasis today in on rationalisation so that at the end we will have three major business groups -- motorcycles, tractors and others like auto components, each contributing to a third of turnover"20.

The company's corporate gameplan is to evolve the flagship Escorts Ltd as a predominantly vehicle manufacturing company, while components and other ancillaries would be farmed out to other group enterprises and subsidiaries which will gradually be leveraged into public limited companies within the 'Escorts Group.'21. Already 80 per cent of Escorts turnover accrues from vehicles and the strategy is to increase that proportion. Another strategy which is being implemented is to leverage each of the company's subsidiaries and formulate growth plans for each of them22.
The Escorts strategy marks the beginning of group planning for Escorts and its clutch of subsidiaries. According to Rajan Nanda, the move to restructure Escorts is part of the company's long-term group planning for the flagship company together with its subsidiaries and associate companies. "We have done through introspection and taken a close look at our product profile", comments Rajan Nanda.

Escorts has sold off deadwood diversification units in order to be leaner and fitter for the years ahead. Says Rajan Nanda, "We are rescheduling our expenses in alignment with our revenues".

5.4 STRATEGIC SHIFTS

Escorts Ltd is the flagship company of the Escorts Group. With over 20,000 employees and a turnover exceeding Rs 1,000 crore, Escorts Ltd is one of India's premier engineering companies. Escorts has grown virtually from scratch to emerge as one of the top company in the country.

Escorts is considered a good company with marketing and engineering strengths. The company has constantly focussed on the engineering sector, technology upgradation and quality control. With the opening up of the economy in the 1980s, the company has embarked on a path of diversification and has been restructuring its present operations.
5.4.1 Size of the Company

Escorts was initially given licence to manufacture 6,000 motorcycles in 1960\(^{27}\) which gradually kept increasing. With the launch of 350 cc Yamaha motorcycle in 1983 and of 100 cc motorcycle in 1985, the licensed capacity of the company went up to 5,21,250 numbers per annum in 1986-87\(^{28}\). Yamaha RX 100 was started with a capacity of 1,50,000 units per annum\(^{29}\).

Consequent to the Government's liberalisation policy, Escorts increased its licensed capacity to 6,64,063 units per annum\(^{30}\). Exhibit 5.3 shows the total capacity of the company as on March 31, 1991.

Exhibit 5.3: Capacity Statistics of Escorts (in nos.)

<table>
<thead>
<tr>
<th>Class of Goods</th>
<th>Capacity Per Annum</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Licensed</td>
<td>Installed</td>
</tr>
<tr>
<td>* Motorcycle upto 400 cc and scooters</td>
<td>3,32,000</td>
<td>1,31,250</td>
</tr>
<tr>
<td>* Motorised 2-wheelers upto 350 engine</td>
<td>3,32,063</td>
<td>1,32,500</td>
</tr>
<tr>
<td>capacity</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,64,063</strong></td>
<td><strong>2,63,750</strong></td>
</tr>
</tbody>
</table>


Escorts expanded its capacity primarily between 1982 and 1985. In order to manufacture the RX100 model of
motorcycles, the company established a manufacturing facility at Surajpur, Uttar Pradesh. At present, Escorts capacity utilisation is about 60 per cent.

5.4.2 Growth of the Company

Escorts Ltd started manufacturing motorcycles in 1961. The decade between 1965 and 1975, proved to be the growth years of the company. Despite a dismal national industrial average growth of four per cent a year, Escorts grew at a twenty per cent annual growth rate for a decade. The company exploited every business opportunity that came in its way and created others where none existed. Escorts expanded into virtually everything that moved on wheels: motorcycles, tractors, excavators, cranes, etc.

However, the company faced deceleration in the mid-1980s. The causes of slow growth in the recent past have been many. Most important of these was the non-resident Indian Swraj Paul's bid for a hostile takeover of the Company. From 1983 to 1987, the management of Escorts did little else but to cope with the after-effects of the takeover bid. But at the same time, the Company planned to embark on a massive horizontal and vertical integration in the existing fields. A detailed plan was drawn up to venture into each segment of the two-wheeler industry.

During the period 1970-86, the growth of the Company was 16.2 per cent. However, the expansion of capacity between
1981 and 1985, and the opening of related diversification possibilities as a result of broad banding of capacity in 1985, resulted in exceptional growth in the Company's production. During the period 1980-85, the company recorded an overall production and sales growth of 52 per cent. According to a study conducted by *Business World*, Escorts recorded a rate of growth of 378 per cent during the eighties. The production of motorcycles, which was merely 48,579 in 1980-81, went up to 83,418 in 1985-86 and further increased to 156,539 in 1989-90. Earlier, in 1962, Escorts produced just 38 vehicles which increased to 17,267 in 1970 (including 767 scooters) and to 24,513 in 1975 (including 538 scooters). Between 1961-65, the company produced 14,204 vehicles. Exhibit 5.4 shows the growth in production of the company since 1980-81.

**Exhibit 5.4 : Growth in Production (in nos.)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Motorcycles</th>
<th>Year</th>
<th>Motorcycles</th>
</tr>
</thead>
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<tr>
<td>1980-81</td>
<td>48,579</td>
<td>1986-87</td>
<td>100,890</td>
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<td>1981-82</td>
<td>54,631</td>
<td>1987-88</td>
<td>125,810</td>
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<td>1982-83</td>
<td>60,657</td>
<td>1988-89</td>
<td>148,003</td>
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<tr>
<td>1983-84</td>
<td>72,775</td>
<td>1989-90</td>
<td>156,539</td>
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<tr>
<td>1984-85</td>
<td>87,213</td>
<td>1990-91</td>
<td>154,311</td>
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<tr>
<td>1985-86</td>
<td>85,239</td>
<td>1991-92</td>
<td>116,514</td>
</tr>
</tbody>
</table>

Although the company has grown in the post-liberalisation period, the current phase of recession has hit Escorts the hardest among the motorcycle manufacturers. Says H.M. Mehta, Vice President of the Company's motorcycle and scooter division, "Demand has gone into hibernation". As a result, Escorts is saddled with huge inventories. The company's production went down to 154.3 thousand vehicles in 1990-91 from 156.5 thousand vehicles in 1989-90. In 1991-92, the company produced 116.5 thousand vehicles, the lowest since 1987-88.

5.4.3 Distinctive Competencies

Increased horizontal and vertical integration, constant technological upgradation and improved product quality are some of the major factors that have lent Escorts a competitive advantage over its rivals in the motorcycle segment of the automobile industry. The company also has a formidable presence in the engineering industry due to its presence in the major sectors of the economy. Escorts' apparent advantage over its competitors is its better access to ancillaries. Another advantage for the company is that its vehicles are ninety-five per cent indigenous and it does not have to bow to the pressure of Japanese yen for imports.

Escorts has always concentrated on product excellence. The company has created a market niche in rural and semi-urban areas for its Rajdoot motorcycle -- a market which, till
recently, none of Escorts competitors could enter. The 175 Rajdoot motorcycle is rugged, goes to remote rural areas and is fully indigenous. Its prices are much lower than the motorcycles manufactured with Japanese collaborations\textsuperscript{47}.

5.4.4 **Key Strategic Actions and Events**

To manufacture piston rings, Escorts tied-up with Goetze AG of Germany and established Goetze (India) Ltd at Patiala in 1954.\textsuperscript{48} In 1959, the company acquired licence and technology of Mahle of Germany for manufacture of pistons and tied-up with Suko AG of Germany in 1962 for manufacture of piston pins. It later entered into a technical agreement with Knorr Bremse for manufacture of vacuum and air-brakes in 1969\textsuperscript{49}. Escorts has been the brand leader in the manufacture of 30 mm to 300 mm range piston assemblies and has been supplying these products to major engine and vehicle manufacturers including Tata, Ashok Leyland, Bajaj, etc\textsuperscript{50}.

In 1960, the company entered into technical and foreign collaboration agreement with CEKOP of Poland for the manufacture of motorcycles. Escorts took over Bahri Automobiles in Bombay in 1985 and later converted it into Escorts Transmission Ltd at Faridabad. The company manufactures hydraulic and automotive components / sub-assemblies.

In 1978, the company entered into a technical collaboration with Yamaha Motor Company of Japan for the manufacture of a
two-stroke, two-cylinder motorcycle engine of 350 cc capacity, developing an output of 18 to 24 bhp\textsuperscript{51}. Yamaha was the first Japanese company to enter India with this collaboration. As no foreign collaborations were permitted in the automotive sector, Escorts had availed of the Yamaha technology through the Technology Development Fund (TDF)\textsuperscript{52}. This technology was later integrated into the expansion and diversification activities of the company's motorcycle operations.

Escorts entered into a technical collaboration with MAN (Maschinenfabrik Augsburg Nurnberg) AG of Germany in 1981 for the manufacture of IC engines, diesel engines and engine blocks\textsuperscript{53}.

With the opening up of the economy in the eighties, Escorts entered into a formal technical collaboration with Yamaha Motor Co. in 1983 for the manufacture of the fuel-efficient 100 cc motorcycles\textsuperscript{54} -- the RX 100. The company constructed a separate plant at Surajpur (U.P.) in 1984 and commercial production commenced in November 1985\textsuperscript{55}.

The financial services subsidiary of Escorts -- Escorts Financial Service Ltd -- started operations in September 1990\textsuperscript{56}. The technical collaboration agreement with Yamaha was renewed in April 1992 for another five years with a long-term programme perspective for expanding product range\textsuperscript{57}.  

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Escorts' joint venture with German automobile giant BMW, for the manufacture of four-stroke 125 cc to 150 cc engines for motorcycles received Government clearance in September 1991. The company has recently tied up with Italian firm Mineralli to enter the 50 cc moped segment. The collaboration aims to make use of the capacity at Escorts' Faridabad plant which is underutilised due to the fall in sales of the company's 175 Rajdoot motorcycle model.

5.5 **CAPITAL ACQUISITION AND FINANCE**

The company has a paid-up capital of Rs 3390 lakhs. Major shareholders of Escorts Ltd are financial institutions (44.5 per cent), public (37 per cent) and NRIs (2.5 per cent). The debt-equity ratio of the company is 0.4:1. Sometimes this year, the company plans to raise Rs 236 crore through a partially convertible debenture (PCD) issue. This would further lower the debt-equity ratio to 0.3:1.

From a turnover of Rs 197.21 crore in 1980-81, Escorts reached a turnover of Rs 943 crore in 1980-91 and to Rs 1093 crore in 1991-92. Although turnover of the company increased by over 12.7 per cent in 1992 over the previous year, profits after tax declined by more than 60 per cent for the year ended March 31, 1992.
### Exhibit 5.5: Balance Sheet of Escorts Ltd

<table>
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<tr>
<th>Date</th>
<th>_assets</th>
<th>Current Assets</th>
<th>Fixed Assets</th>
<th>Total Assets</th>
<th>Change 1990 over 1989</th>
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</tbody>
</table>

**AS AT**

**BALANCE SHEET**

**TOTAL ASSETS**

**CURRENT ASSETS**

1. Cash & Bank Balances
2. Sundry Debtors
3. Inventory
5. Fixed Assets (Net)
6. Plant & Machinery
7. Others
8. Less Depreciation
9. Intangible Assets

**Change 1990 over 1989**

**%**

Continued on next page
Exhibit 5.6: Profit and Loss Statement of Escorts Ltd

<table>
<thead>
<tr>
<th>Period</th>
<th>Revenue</th>
<th>Cost of Goods Sold</th>
<th>Gross Profit</th>
<th>Operating Expenses</th>
<th>Pre-Tax Profit</th>
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Escorts profit after tax in 1990-91 was Rs 53.40 crore while in 1991-92, it was Rs 21.15 crore. A constant stream of new projects with long lead times besides recession, inflation and dearer money depressed the profits. Says Rajan Nanda, "Escorts is today not operating at its optimal levels. We have lost a turnover of about Rs 400 crore and profits of about Rs 40 crore to Rs 50 crore". Adds Anil Nanda, "Rising cost of imports and inflation have put severe pressure on profit margins. In the short run, therefore, the future looks bleak. However, given the resilience of Indian industry, we should in the long run certainly bounce back". However, in a hostile corporate environment, Escorts feels rather vulnerable to take-overs which essentially stems from being a vastly under-capitalised company. Exhibit 5.5 and 5.6 show the consolidated balance sheet, and profit and loss account of the company respectively for the period 1980 to 1990.

5.6 MARKETING POLICIES

Ever since Escorts started manufacturing motorcycles, it was the largest manufacturer of motorcycles in the country. However, the liberalisation of Indian economy in mid-1980s led to entry of other motorcycle manufacturers which pushed Escorts to the second position. In order to meet the challenge of the market place, the company introduced new models of motorcycles. The company also gave more emphasis on marketing strategies in the post-liberalisation period.
Product

The company has been producing motorcycles since 1962 and markets its products under the brand name "Rajdoot". It started producing and marketing sports model motorcycles "Rajdoot GTS" in 1972 which was popularly known as "Bobby Rajdoot". Escorts' Rajdoot 175 cc motorcycle was the market leader. During its peak years, Rajdoot 175 found 50,000 customers in the non-metro markets.

In 1991, the sales of Rajdoot 175 crashed to 56,277 from an all time high of 97,176 motorcycles in 1990. And since 1985, when the company's competitors first unleashed their more fuel-efficient 100 cc motorcycles, the once supreme 175 cc Rajdoot has been losing its market share -- from 60 per cent, its share is down to 18 per cent. Says Rajan Nanda, "Business in the pre and post liberalisation period are not the same".

The company introduced the 350 cc Rajdoot motorcycle in 1982 as a result of the collaboration agreement with Yamaha Motor Co., Japan. Rajdoot Yamaha 350 was not a big success and the company made the logical move of discontinuing production. The main reason was that the volume of sales did not cover the cost of production. Also, the high cost of maintenance combined with a lower fuel-efficiency had stalled sales. This forced the company to close the division and cut back its losses.
As a result of Escorts' technical collaboration with Yamaha Motor Co., the company introduced 100 cc motorcycles -- Rajdoot RX 100 in 1986. Besides, the company devised a strategy to combat the competition from the 100 cc Japanese motorcycles. It launched Rajdoot AC 130 in 1987 to cater to the semi-urban areas.

Escorts' joint venture company with BMW of Germany is to be incorporated in 1992-93 for the manufacture of 125 cc new generation motorcycles for the domestic market. Besides, the company is also planning to widen its product base further by introducing a 50 cc moped by using the Italian Mineralli technology. It is planned to be launched this year (1993) with an initial capacity of 60,000 units per annum. Says P.S. Batra, Vice President (Marketing) of Escorts Ltd, "We want to offer the complete range - from 50 cc moped to a 350 cc motorcycle."

5.6.2 Pricing

The objective of the company is to provide the customer with a quality product at a reasonable price. Why Rajdoot 175 still sells could be attributed to extraneous factors such as the yen appreciation or duty differentials. The price differential of about Rs 7,000 as compared to the 100 cc Japanese motorcycles exhibits the company's concern towards pricing. Returns on Rajdoot 175, on the other hand, are
only 5 per cent. Even these returns are getting squeezed because of increasing input costs, and the company is finding it difficult to raise the price in a competitive market.

Otherwise also, it has been Escorts' constant endeavour to manufacture products at a viable scale of operations so as to price the product on its production efficiency basis. Although cost of major inputs like steel and power increased by about 200 per cent between 1980 and 1985, the prices of Escorts motorcycles increased only by about 34 per cent. The price of Yamaha RX 100 increased by 14.6 per cent in 1991 to Rs 28,897 from Rs 25,225 in 1990. Incidentally, this was despite two-wheelers being exempted from the hike in special excise duty. Being dependent on imported inputs, their costs went up after the devaluation of Rupee. Besides, ancillary units of the company also raised their prices after their raw material costs increased.

Withdrawal of concessional duty of two-wheelers, enjoyed by them on import of components, in the 1992 Union Budget led to a further increase in the price of Escorts RX 100 model. Even during the recessionary phase in 1991-92, Escorts had to increase the prices of its vehicles due to underutilisation of production capacities and a simultaneous increase in the prices of inputs.
5.6.3 Promotion

Escorts’ Rajdoot 175 cc model of motorcycle was India’s largest selling motorcycle in pre-liberalisation period. Consequently, the emphasis on product promotion was not much. However, with the entry of new players in the motorcycle segment during mid-1980s, the company gave more thrust to promotion of its products. Consequently, Escorts adopted an aggressive marketing strategy for Yamaha RX 100. For its 175 cc model alone, the company spends Rs 1 crore every year on advertising.82

Total expenditure on sales promotion in 1989-90 was Rs 1097 lakh which went up to Rs 1204 lakh in 1990-91.83 Expenditure on commissions and discounts amounted to Rs 415 lakh in 1989-90 and Rs 457 lakh in 1990-91. In 1989-90, expenditure on advertising and publicity was Rs 682 lakh which increased to Rs 747 lakh in 1990-91.84

The company took a decision to position the 175 cc model as a rugged rural model, leaving the RX 100 to cater to the performance-oriented urban market. Says P.S. Batra, Vice President (Marketing), "The needs of these two markets are very different. City driving requires quick acceleration and good road handling capabilities while in the rural market, ruggedness and ease of maintenance are important criteria in the purchase decision."85 To this effect, the advertising communication was also changed -- the strategy was to
establish that the technology was appropriate for Indian conditions. On the other hand, Escorts exploited the performance image of the Yamaha RX 100 by projecting it as a performance machine \(^{86}\).

Escorts Financial Services Ltd -- a 100 per cent subsidiary of Escorts was established in 1990. It has been engaged in hire-purchase services of the company’s products as well as those manufactured by other organisations. The company has disbursed financial assistance of Rs 40 crore in 1991-92. It has now enlarged its scope of operations to include merchant banking and other financial services. Its capital has already been increased from Rs 1 crore to Rs 2.5 crore in the current financial year and will be expanded further to enhance its revenue earnings \(^{87}\).

5.6.4 Distribution

Escorts has managed to stay ahead of its competitors in the area of distribution. Its dealer network, which has evolved over the years to cover virtually every centre of demand for motorcycles, is acknowledged by industry observers to be one of the best. Says P.S. Batra, "We have an excellent distribution network" \(^{88}\).

Escorts has a network of more than 700 dealers all over the country selling its motorcycles. To ensure prompt service to its customers, it has 100 service vans and 1,000 service
motorcycles. The company's sales and service staff manages a trained workforce of 5000 dealers personnel. There are more than 3000 retailers of auto-components / spare parts manufactured by Escorts. Therefore, easy availability of spare parts and quick serviceability has helped Escorts in popularising its vehicles. The marketing section of Motorcycle and Scooter Division of the company undertakes programme for dealer development.

5.6.5 The State of Competition

Primarily, there are six motorcycle manufacturers in the country (including Ideal Jawa which produced 5800 motorcycles in 1990-91 and none in 1991-92). With the opening of the economy, several new players have joined the motorcycle segment. As a result, Escorts share in the motorcycle segment has come down from a high of 47 per cent in 1984 to 29 per cent in 1991. Its market share further went down to 27.06 per cent in 1991-92. Exhibit 5.7 shows the major players and their market shares.

Exhibit 5.7: Major Players and their Market Shares (1991-92)

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Market Share (%)</th>
<th>Manufacturer</th>
<th>Market Share (%)</th>
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<tbody>
<tr>
<td>Escorts</td>
<td>27</td>
<td>TVS-Suzuki</td>
<td>9</td>
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<tr>
<td>Bajaj Auto</td>
<td>27</td>
<td>Enfield</td>
<td>6</td>
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<tr>
<td>Hero Honda</td>
<td>31</td>
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</tbody>
</table>

With the entry of Hero Honda and Bajaj Auto Ltd in the motorcycle segment, market share of Escorts has suffered adversely. Exhibit 5.8 shows the major players in 100 cc category and their market shares.

**Exhibit 5.8: Market Share in 100 cc Category (1992)**

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Market Share (%)</th>
<th>Manufacturer</th>
<th>Market Share (%)</th>
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<tbody>
<tr>
<td>Hero Honda</td>
<td>52.1</td>
<td>Bajaj Auto</td>
<td>15.2</td>
</tr>
<tr>
<td>Escorts</td>
<td>20.6</td>
<td>TVS-Suzuki</td>
<td>12.1</td>
</tr>
</tbody>
</table>


The company relies heavily on ancillary units for production of motorcycles. Says Anil Nanda, "For motorcycles, we rely upon outside suppliers rather than thinking of setting up our own manufacturing unit with an enormous expense". Automobile pistons, shock absorbers and piston rings, manufactured through Escorts associate company Goetze (India) Ltd, are products with 10 per cent in-house consumption.

In fact, ancillarisation was a part of growth strategy of the company since its inception. The company spawned 900 ancillary component manufacturers in the Faridabad area. Thus, ancillarisation turned out to be of immense help in growth of the company and in earning profits. The company
buys 75 per cent of its motorcycle components from ancillary units\(^{85}\).

The company has also been exporting its vehicles mainly to South Asian and African markets. In 1986-87, Escorts exported vehicles worth Rs 3.01 crore which increased to Rs 4.35 crore in 1988-89\(^{96}\). Its exports grew to Rs 34.25 crore in 1991 and further to Rs 40.55 crore in 1992\(^{97}\). Despite its willingness to capture overseas markets, the company has not been able to make much headway as Japanese do not let their collaborators undertake any significant exports. Says H.P. Nanda, "We cannot export Rajdoot and the Japanese will not let me export RX 100"\(^{98}\). Net forex earning of Escorts was Rs 31 crore\(^{99}\) in 1991-92.

5.7 PRODUCTION AND OPERATIONS POLICIES

The liberalisation of the economy in 1984 set the stage for newer entrants into the marketplace and the resultant competition probably made Escorts rethink their priorities. For years, Escorts made a conscious decision that it did not need the newest technology -- instead, it was highly labour intensive. Today, chastened by competition, Escorts has a plan that will hopefully put it back in the driver's seat. Says H.P. Nanda, "We have had to change our way of thinking and our plans. We are computerising extensively, getting the latest technology and cutting down on labour"\(^{100}\). As a result, automatic and CNC (computerised numerically
controlled) machines are replacing the older ones in the factories to improve quality and productivity, and output per man. Adds H.P. Nanda, "With liberalisation and convertibility of rupee, Indian industry was now exposed to global competition. Escorts has accordingly taken strategic steps and realigned its resources with emphasis on technology, quality and cost effectiveness."

The company has also undertaken product and technology improvements in the existing fields of production. It has upgraded its manufacturing facilities. Says P.S. Batra, Vice President (Marketing), "We have facilities for many operations like a paint shop, machining shop, etc." Elaborates H.P. Nanda, "Vertical integration in existing fields will also be achieved by setting up casting and forging facilities in the coming years. One's own units in these areas will lead to considerable savings in costs." 

Escorts Ltd has embarked on a major cost-cutting exercise. The Value Engineering Department of the company suggests ways to reduce the cost of the product without affecting its quality. The Capital Budgeting Section of the company plans and procures machines in the process of formulation and implementation of manufacturing activity. The required machines are mostly purchased from outside sources such as HMT, or are imported if no suitable indigenous source exists. Besides, some of the machines are also developed in the company's SPM Section depending on cost, sophistication.
and urgency. Moreover, this department prepares a five-year investment plan taking into consideration capacity enhancement, replacement policy for all machines and technology upgradation.105

The Product Engineering Design Department of the company design the assemblies, sub-assemblies and parts of a product. The proposed design undergoes a feasibility study, conducted by the Product Engineering Testing Section. Before being released, the product design is completely tested by this section for endurance and other functional aspects of the prototype. After successful testing of the prototype, the final design documents are released for information and necessary action to various departments such as Industrial Engineering, Manufacturing Engineering, Materials, Production Planning and Control, Quality Control and Inspections, and Marketing Department. It is due to the presence of such infrastructure within the company that Escorts has been able to sell the relevant technology in the market. A classic success story in relevant technology is the Escorts 175 cc Rajdoot motorcycle, a product which has steadily evolved over a quarter century.108 As a result, the company has been responding to the needs of the changing market through product development and innovation.

The company has constantly upgraded its Industrial Engineering Section which plays a vital role in the complete
manufacturing activities such as plant layout, installation and commissioning of machines, component cost estimation, etc. Plant modernisation has been undertaken by the company in order to reduce manufacturing cost. The company's production and operations policies are geared towards broadening the product range, product development and quality improvement. Keeping in mind the problems of vastly greater loads, Escorts has embarked on a plan for developing a range of rugged products with an eye on the future.

Over the years, Escorts has invested in some of the country's most modern manufacturing facilities -- at present numbering sixteen. The company envisages that in the challenging decade ahead, these plants will serve as the Escorts resource, one that will continue to give products that incorporate the most contemporary innovations and technology.

5.7.1 Research and Development (R & D)

Escorts believes that in the 1990s, the difference between survival and supremacy will be dictated by one factor -- the willingness to invest in research and development (R & D). Says P.S. Batra, "We are constantly researching and upgrading our product, so that, while the technology remained appropriate to Indian roads and conditions, the fuel-efficiency and other aspects improved in step with developments in the market." Rapid indigenisation of the
RX 100 motorcycle is an example of the company's R & D capabilities. In five years' time the RX 100 model has been indigenised upto 95 per cent\textsuperscript{110}. It is, however, not doubted that the process of product development and innovation was aided by the infusion of Japanese technology via the Yamaha models of motorcycles\textsuperscript{111}.

Collaboration with international organisations of technological excellence, constant research to adopt the emerging technology to the specific requirements of the market, and belief in the philosophy of industrial interdependence have made Escorts a leading company in the automobile industry. The Escorts Research Centre (ERC) at Faridabad is making sustained efforts in meeting the ever-widening market horizons of technological competence in tune with the country's unique and changing needs. Escorts has invested considerably in R & D and has trained its personnel abroad\textsuperscript{112}. Apart from development of existing products, the company has laid considerable emphasis on improving acceleration, fuel-efficiency and lowering of exhaust emission of its vehicles. Says Anil Nanda, "We will do whatever is necessary to improve our models and may be restyle it"\textsuperscript{113}. According to N. Venkataraman, Managing Director of the Madras-based, India Pistons Ltd, "Escorts is a good competitor and deserves respect for its good technology and diversified range of products"\textsuperscript{114}. 
5.8 MANAGEMENT OF HUMAN RESOURCES

The company believes that it is the people, rather than machines, that make an organization successful. Escorts' acknowledgement to its people is reflected in the fact that it takes care to nurture the skills of its employees and their talents by offering them growing and prosperous careers, not mere jobs. The company attributes its success to a constellation of the right people — numbering more than 24,000 — striving for one goal — progress, one commitment — perfection, one attitude — professionalism and one philosophy — enterprise of work. The company also lays emphasis on team-work. In its more than four decades of existence, the company has developed the right kind of professionalism that is needed to run a large corporation.

In the post-liberalisation period, Escorts is restructuring its set-up to have a complete synergy. Enumerating the measures that are being taken up, H.P. Nanda says, "First, we are trying to cut down the unnecessary manpower in our new plants by introducing automation and computerisation. This was started after the Yamaha tie-up. A golden handshake scheme is being offered for affected workers." Admits Rajan Nanda that the company is overstaffed at present but with progressive modernisation, hopes it will require fewer people.
To cut down on manpower costs, intake of freshers has been frozen for the last few years and an attempt has been made to make the workers more versatile. This, however, seems inadequate. Escorts’ staff costs have increased from Rs 44 crore in 1987 to Rs 84 crore in 1990-91 -- an increase of 90 per cent.

Escorts Ltd went for some drastic cost-cutting measures when there was a downturn in the two-wheeler and automobile industry. In a span of ten days, the company relieved 10 executives from the motorcycle division, all of them being senior level personnel. Those who were sacked were Vice Presidents and senior divisional managers. The move was a part of the company’s reorganisation exercise as well. Says Rajan Nanda, "In an organisation that employs 24,000 people out of whom 700-800 are managers, dropping 10 persons is no reason for panic. There is no design to dismantle operations....We are cutting expenses right across and rationalising our operations."

Notwithstanding the above actions, the company is known as a fair and generous employer which cares for its employees. It gives incentives to workers for raising productivity. It gives considerable importance to manpower training and development. The Personnel Department of the company is responsible for employment, manpower planning, training and development, personnel administration, industrial
relations, welfare, general administration and security services.

Escorts' commitment to its people goes beyond an individual and extends to their families and to the community as a whole. As part of the company's corporate philosophy, Escorts undertakes numerous activities in order to meet its social obligations. H.P. Nanda, Chairman of Escorts, is as much known for his concern for community development as for his contribution to the shaping of industrial policies, government-industry relations and business ethos. Says H.P. Nanda, "With the Government failing to promote the social system is India, the entire onus of social development is on the industry." He adds further: "The industry has to look beyond its nose. Its role is not just to manufacture. What is needed today is that we go back to the villages and start development from there. These are the areas which will create demand for what the industry produces. The industry should help farmers become wealth creators and create a purchasing power in these areas."

Escorts has held an almost unblemished industrial relations record. It faced a lock-out for a brief period in 1973. After a gap of almost 17 years, there was a tools-down strike in March 1990.
5.9 STRATEGIC PLANS AND FUTURE OUTLOOK

Escorts Ltd has embarked on a two-pronged strategy to regain its erstwhile position among the top ten companies in India. The company is going in for technology tie-ups to upgrade its existing products. At the same time it is also diversifying into unrelated / newer areas such as telecommunications, foods and finance in a fairly big way. Large capital-intensive projects -- in power generation, aluminium and steel -- is the emerging trend among the large Indian corporate conglomerates which feel threatened by international competition. Escorts is planning to follow suit in the next few years. Says Rajan Nanda, President of the company, "Having looked as to what kind of equity and net worth could be built up and possible leveraging, we will take up a project of anything between three-and-a-half to five thousand crore".

Anil Nanda, the company's managing director is planning a series of diversifications in totally unrelated areas. Says Rajan Nanda, "We are looking at various projects unrelated to the automotive and engineering fields. We would like to get into food processing, petro-chemicals and of course, cars. We believe we can make cars as well as anybody else". However, he sounds a note of caution: "We do not want to rush into unfamiliar fields. The effort is to first stabilise the existing operations, earn good returns and only then think of diversification."
The most significant change, however, has been planned for the motorcycle division. The rugged Rajdoot -- the company's mainstay -- will cease to exist in a couple of years from now. It will be a completely new motorcycle fitted with a 180 cc BMW engine and chassis, both of which are now being developed by the German company for Escorts.

Escorts is also planning to launch a 125 cc motorcycle in collaboration with BMW in order to provide greater choice to the buyer. The company also plans to produce a four-stroke 180 cc motorcycle tailormade for the Indian roads with BMW collaboration. The emphasis of production priorities would be on reduction of exhaust emission, greater fuel-efficiency and payload capacity. The company hopes to cater extensively to the rural market through these models.

Escorts is also planning to increase exports of its vehicles. It is planning to export about 30,000 vehicles every year after the BMW collaboration comes into force later this year. Even its diversification plans have exports as its main strategy. Says H.P. Nanda, "The company is diversifying into new products to gain specific market niches, with a sharp focus on exports."

To reinforce the company's position in the motorcycle market, a 10 year programme has been finalised with Yamaha.
Motor Co. of Japan for additional models to be progressively introduced for specific user segments.136

As regards the future plans of the company, P.S. Batra, Vice President (Marketing) is clear that Escorts will continue to concentrate on the two-wheeler business. The 175 cc model definitely has "a few years left in it", though Escorts is already planning to come out with a newer range of motorcycles in the 200 cc to 500 cc range, with technical collaboration from BMW of Germany.137 Thus, the corporate gameplan of the company is to increase its product range in order to satisfy the varying needs of the consumers as well as to meet the challenge of the market place in the near future.

* * * * *
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