"VST Tillers Tractors Limited Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Tractors Limited Q1 FY2022 Earnings Conference Call hosted by Batlivala and Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Bhargava from Batlivala and Karani Securities India Private Limited. Thank you, and over to you, Sir!

Hitesh Bhargava: Thank you Faizan. Good afternoon everyone. Welcome to VST Tillers Tractors Ltd (VST) Q1 FY2022 post result conference call. From VST management, we have with us today Mr. V T Ravindra, Managing Director, Mr Antony Cherukara, Chief Executive Officer, and Mr Pankaj Khemka, Chief Financial Officer. I will now hand over the call to VST management for their opening remarks to be followed by question and answer session. Over to you Sir!

Antony Cherukara: Good afternoon everyone and thank you for being with us here today. Happy to take you through the earnings call and give you a brief before we get into the question and answer session. In quarter one, we had a revenue of 193.6 Crores, which is a growth of 32.39% over previous year. The operational EBITDA was at 25.39 Crores, which is 13.11% and EBITDA including the other income was 18.11%. The PBT is at 31.20 Crores, which is 16.12% and profit after tax is at 24.01 Crores, which is a growth of 40.7% of the previous year. In quarter one, we did the power tiller volume of 6729 tillers against previous year quarter one volume of 5186 tillers and the revenue in the power tiller business was 94.47 Crores against the previous year revenue of 72.41 Crores which is a growth of 30%.

In the tractor business, we did a volume of 2048 tractors against previous year volume of 1766 and revenue was 69.41 Crores against previous year revenue of 52.86 Crores, which is a growth of 31% and the parts business was at 28.39 Crores against previous year of 19.77 Crores, which is a growth of about 44%. This is the initial brief on the performance and now we could move onto the question and answer session and with me also, Mr. V T Ravindra who is the Managing Director of the company and Pankaj Khemka who is the Chief Financial Officer of the company. Thank you. Over to you, gentlemen!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ram S. from Spark Capital. Please go ahead.

Ram S: Good afternoon, Sir. Sir, firstly I wanted to have your outlook on the power triller and tractor volume growth for FY2021 and also I wanted to know how are the B2B supplies of power tillers, how is that segment of the business progressing?

Antony Cherukara: Good afternoon and I thought that you ask for outlook for FY2022, right?

Ram S: That is correct.

Antony Cherukara: So, the FY2022 outlook we are looking at it positively and currently as I said we have a growth of about 30% and we expect to be in that range of growth this year considering that we have launched new products in the segment, also our coverage is going up, number dealership appointment is increased and the tractor business of course is very highly competitive, we have seen a growth of about 30% in the first quarter, however, I am looking at a growth of about 10% to 15% in the tractor segment considering again the new product launches and the coverage increase that we are doing and second part of the question, I think you are asking on, I missed the second part of your question, can you come again on that, please?

Ram S: The contract manufacturing of power tillers.

Antony Cherukara: The contract manufacturing, so that is as I said last time we are engaged with that two importers who were importing earlier and now that is going steadily, the volume in first four months both put together was about 500 to 600 numbers, so that is only likely to increase as we move forward, we are also looking at one more possible OEM and that should be concluded in this quarter.

Ram S: Excellent. Sir, my second question is on our power weeders, now we have tie-up with Pubert, in conjunction with Pubert we plan to introduce power weeders in India, any update on that tie-up where we are at this point in time?

Antony Cherukara: Yes, the tie-up continues and sales volume and the coverage on that is increasing, the growth is good in that segment as well, last year as we know we did about to 1700 to 1800 volume, we expect to, as I said in my earlier calls, we should be able to do upwards of 5000 power weeders this year; however, work with Pubert has to go a long way because travel is not happening to France or for them to visit us in India that has been an obstacle to take the alliance or collaboration to the next step, so that is still awaited.

Ram S: Right, perfect and Sir, my last question is something that I have observed in the annual reports, so if I look at the breakdown of other income, there is a line item called write back of credit balances and this line item was about 10 Crores in FY2021 and about 14 Crores in FY2020, so could you tell a little more about what exactly is being written back, what are these balances pertaining to?

Antony Cherukara: Yes, I will request CFO to get into the details on this one, Mr. Pankaj Khemka will answer on that.

Pankaj Khemka: See, in Q1 we have written back approximately 2.9 Crores which are basically three years old some provisions which were carried in books, we reviewed them and we found that which is no longer required, so we have written it back in the first quarter.

Ram S: Would you be able to give an estimate of how much would this write back figure be for FY2022?

Pankaj Khemka: More or less it is done, we do not see any significant jump in write back values for the remaining three quarters.

Ram S: Alright, Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Jiten Shah an Individual Investor. Please go ahead.

Jiten Shah: Good morning. This is Jiten, here. I had a couple of questions, firstly as far as your outlook is concerned you said about 30% growth in the tiller segment, now how do you see the situation on ground right now, has the monsoon kind of increased the demand and there are also talks about rural income increasing over the last couple of months, so if you can just give us some more insights into how the ground situation is for tillers as well as on the tractors front that will be great?

Antony Cherukara: The monsoon spread has been quite okay this year, we were all expecting that although the last few weeks has been slow, but we expect the monsoon to be normal this year that is number one and the area of sowing also is almost equivalent to last year already, so I do not see any issue in terms of the sowing area of crops or the monsoon, now as far as rural sentiments are concerned all of us know that the wave two hit rural compared to wave one badly and hence it had an effect on consumption going down during that period of April and May, but I would say the consumption is almost back and in fact the latest reports I have being seeing is that the rural consumption is in fact better than the urban consumption and we kind of see the same sentiments on the power tiller as well as the tractor sales figure, however, there is a challenge that all of the industry is facing, which is the commodity inflation and hence the increased price that is passed onto the consumer, which could become a dampener going forward, otherwise the sentiments look positive.

Jiten Shah: So that brings me to the next question, how is the raw material situation right now and how do you see the margins panning out and also yesterday on the media, there was a comment that you could be reaching a turnover of about 1000 Crores in the current year, so if you could just validate that, thank you so much?

Antony Cherukara: We have mentioned even in the annual report, we have a vision of achieving 3000 Crores by 2025 and we aspire to the second milestone maybe this year and as far as that aspiration we should be crossing 1000 Crores this year. As of now, we are on path to get that done; however, there is always this COVID wave which is an unpredictable situation for anyone of us, so that is only risk that we see going forward for this year and the commodity inflation in the last three to four weeks, it has stabilized a bit, but this again is an unpredictable situation there, which is more influenced by international price moment so it is again totally unpredictable at the moment.

Jiten Shah: But, as of now you hope to maintain the margins at the last year levels or maybe improve them?

Antony Cherukara: We are striving to improve the margins of course and for that like I have said before also in various calls, we have done a lot apart from the addressing commodity inflation through price increases that is just one method but we have been working in terms of increasing efficiency, cost reduction that has also played a role in terms of our operational EBITDA being maintained at where it was and in fact better in quarter one.

Jiten Shah: Thank you so much, Sir. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Vimal from Union AMC. Please go ahead.

Vimal: Thank you for the opportunity, Sir. I appreciate your vision to reach 3000 Crores by FY2025, so if I were to look at this company's history and if I were to look at the segment that it is operating in the power tiller segment, the segment has historically faced the ill effects of the inefficiencies within the government because it is a subsidy sort of driven product and how do you see this changing I mean we have had issues with this for a very long period of time and what suddenly changes for us in the next five years that you know we are sort of keeping such a vision, if you can just take us through what steps is the company taking and what is the roadmap for reaching this 3000 Crores of top line in FY2025. The second part to that question itself will be, what happens to profitability, I hope you are keeping an eye on the kind of operating leverage that this turnover can generate, are we looking at a meaningful margin expansion along with this as well, thanks a lot?

Antony Cherukara: So, first part of the question is on the subsidy, like I had in earlier earnings call mentioned that there is a trend change in terms of how subsidy is viewed by the consumer, the big trend shift that has happened is the consumer does not base his purchase decision currently on the subsidy, earlier years what used to happen is only when the subsidies is declared people would come forward and purchase the power tiller, now what we see is the farmers goes ahead with the purchase of the power tiller and he waits for the subsidy if at all it comes so probably the reason for that and what we have analysed and understood is over the years, the farmers have not got the subsidy on time, so they realized that over three to four years that there is no point in waiting, so one big shift that I am seeing is the purchase decision itself, the trend has changed point number one, now coming to our power tiller business growing, yes, we are the leaders in this industry with over 53% to 54% market share in quarter one, so we realize that we have to grow the industry and the potential is there because of small and marginal farmer really needs this machine because this is the only affordable product for mechanization for him, otherwise the tractor comes at 5 lakhs upward, so this is the larger segment in India in farming is a smaller marginal farmers, so there is huge potential and in this regard we have started launching newer products now, we have already launched rather, 16 HP power tiller, we are also launching a 9 HP very innovative product into the market this year, so these launches plus our coverage of dealerships, earlier we used to operate with about 200 active dealers, today as of end of quarter one we have about 450 dealers in power tiller and they continue to increase and increase the coverage in the market, so all these put together we believe that the power tiller and the small farm mechanization business can grow, that is point number one, point number two, VST is no more of power tiller company alone, we have a large play in the tractor business, we are the seventh or eighth player in the industry with large focus on the Compact tractor segment which is the industry size of last year of about 90000 where we have about 10% market share, we are trying to increase the market share there and increase coverage by launching of newer products in that segment, apart from that from last year we have also entered into higher power space which is the large industry which is almost 800000 size that segment of the business is also growing and like last earnings call I mentioned we have taken also other initiatives of getting into precision implements business that businesses is also growing, so all these strategies put together is what we want to scale up and get to 3000 Crores.

Vimal: Sir, precision implements could you highlight more, what exactly these are and what they do?

Antony Cherukara: So, we had started with rotary tiller and this manufacturing and assembling has started in Mysore, we are also in talks with couple of foreign companies where we want to collaborate with them for further technology in the rotary application space, secondly we have also got into sprayers and because that sprayer segment is something natural for us because most of the Compact tractors that we sell go into inter-row cultivation like vineyard and other row crops in orchards and all that application, so that segment which we were already operating in we are getting in with sprayers there and secondly we are also looking at technology in spraying by talking to people who can help us get into electrostatic sprayers and things like that, that also work has started and business is progressing and I think one more part of the question you had spoken about is the profitability, yes, we have an eye on profitability, however, as I said earlier also we are gunning for growth, the profitability will be maintained at 12% to 14% which I have mentioned before.

Vimal: Sir, I appreciate your intent to maintain profitability, but looking at the long-term trend, I mean 3000 Crores of top line, my assumption is that your certain fixed cost would not grow at the same phase, so assuming that operating leverage will kick in, your margin should essentially expand and if at all you do not see them expanding some portion of your variable costs are sort of going up so which line items are sort of moving here?

Antony Cherukara: That is why I said there is a band for the margin from 12% to 14%, we will be more tending towards the higher part of that slab and slightly probably above it also when the operating leverage is very good, but however, in the initial phase of growth we all know that the opex requirement is also pretty high because you have to scale up your presence in the market, you have to scale up your spend on the brands, you have to scale up your advertising spends, so these things will definitely be an expenditure which we will have to do going forward and hence this band of margin that I am talking about.

Vimal: Right, the largest tractor player in India is also going very aggressive on farm mechanization as a business opportunity, how are you finding that competition?

Antony Cherukara: We are not obviously being the largest player and much, much bigger than us, we are not in direct competition, but what we have really looked at is, can we look at technology that is why we are getting into precision implement, so that is why I want to bring in technology in the rotary space not just get into broad based implement which will go with the tractor, so we are looking at niche segments in the rotary space there will be decent volume and very good margin, similarly in the sprayer space where actually we are leaders in the Compact four wheel drive segment where maximum of this spraying application happen and that eventually since the prime mover is ours, the tractor is ours, we should be able to easily capture the sprayer segment as well and there is also a lot of technology that can be brought into that space; however, that is work in progress for us.

Vimal: Right, last question, most of the products that you have highlighted, most of these products are sort of localized right, is there any product that you are importing right now currently and probably look into localize it once you achieve scale or how is it?

Antony Cherukara: That is what I said, definitely we are looking at technologies that can be brought in, we are in talks with a Japanese company, we are in talks with a European company, so both these technologies we are doing a lot of trials at this point and I cannot say anything at this point because the road that will be taken is under discussion even now, so once that is finalized I will come out and tell all of you what we are doing.

Vimal: Right and this 12% to 14% margin band is after considering the technology is brought and you manufacture it here, right?

Antony Cherukara: Yes.

Vimal: Fair enough. Thank you so much and all the very best.

Moderator: Thank you. The next question is from the line of Devanshu from Yes Securities. Please go ahead.

Devanshu: Sir, good afternoon. I had a few questions, one is to do with the exports right, so we did about 450 tractor volume export in numbers in FY2020 I think over 860 odd in FY2021, if I am not mistaken and they have already crossed about 400 in the first four months of this year, can you give a sense on what is the outlook and if you can explain how we are expanding and whether this is all through Zetor?

Antony Cherukara: No, none of this is through Zetor, however, the Zetor alliance is helping us to expand in Eastern Europe through references, using their warehouses for keeping couple of tractors of ours where the prospective dealers can visit and take a look at the tractor, so these kind of work is happening with Zetor, but it is not being sold through the network of Zetor, now the reason for growth is purely our distribution expansion in Europe and in Africa, so we have expanded into Eastern Europe as was the plan stated earlier and also we have expanded our network in Africa compared to earlier, so you are right, we are seeing good growth in exports and I think that will continue this year.

Devanshu: So are we looking at about 1000 plus, 1200 volume this year?

Antony Cherukara: Yes, that is what we are looking at.

Devanshu: Sir, coming to another broad question, if the MD or you can answer it so VST Tillers is clearly trying to move to the next level right in terms of efficiency, products and scale, so when you look at some the good companies in other sectors who are pretty much attempting to do the same and they built a strong CX14 around the senior management and they have also incentivized through ESOPS, so I want to get a sense how we are building a team around the MD and the CEO and do we plan to issue ESOP linked to the financial progress of the company?

Antony Cherukara: I will request MD to take this question, thank you.

V. T. Ravindra: Yes, on a mangers bandwidth we are building a lot of strengths there so you would have seen the change happening over the last two years itself, we are professionalizing the whole management team and looking at building the strength there to take it to the next level, as far as ESOP that is something that board will have to take a decision, yes, we have some thoughts on that, but nothing finalized on ESOP as of now.

Devanshu: Sure, thanks and in your 3000 Crores vision do inorganic opportunities fit in anywhere and if so in which segment are we looking at?

V. T. Ravindra: Yes, we are looking at inorganic preferably something that is in the agriculture and similar sector, so that it easier for us to handle.

Devanshu: Can we expect an announcement anytime in this year?

Antony Cherukara: Yes, I will elaborate a little bit on that, see we are looking at the farm, farmer, rural market canvas and evaluating opportunity, but it is too early to announce anything at this point, but definitely it is again something we are working on.

Devanshu: Sir, last question, the employee cost has risen on a Q-o-Q basis even if I knockout the VRS that we paid in the previous quarter, so is there anymore component of that or can we expect the run rate to be what it is right now and maybe if you can explain as to the reason for the jump?

Antony Cherukara: The employee cost as a percentage has definitely come down, if you compare year-on-year compared to previous quarter one and compare to even quarter four it slightly down if you leave out the one time expenses which is given in the note for quarter one which is a leave encashment of the VRS employees which is given in the note so it is about 8.83% actually after reducing the leavesalary one time expense for the VRS settled employees, it has actually gone down and I do not think that is going up.

Devanshu: So, this 18 Crores figure could be the run rate for the next few quarters, right?

Antony Cherukara: Yes.

Devanshu: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Smitesh Sheth from Raedan Securities. Please go ahead.

Smitesh Sheth: Good afternoon. Yesterday in the media interview there was some mention about the real estate parcel si could you give some detail about what is the size of it and what are the eventual plans for it also maybe in next one year, two years and how do you plan to monetize it?

Antony Cherukara: So, this is a land parcel which was having the manufacturing facility for us, now that is shifted to Hosur, right now we have our corporate office in this place and we do not intend to do anything at this point in time because it is not the right time for real estate and definitely not in the next one or two years probably beyond that, I think that would be the best time to realize the full value of this at a later date.

Smitesh Sheth: Sir, what was the size of it in terms of the area or something?

Antony Cherukara: I do not have an exact figure, but it is around 20 acres.

Smitesh Sheth: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you, Sir for the opportunity. Sir, if you can share the higher HP tractor numbers for the quarter?

Antony Cherukara: We have done about 170 tractors of higher HP.

Kaushal Shah: If I recollect your guidance we were planning to do go around 1000 numbers for the current year in the higher HP category, so I think that should be doable, right?

Antony Cherukara: Yes.

Kaushal Shah: So, the next question was on the tiller volumes obviously we have done great performance over there, even on tiller side the contract manufacturing part where we have done roughly around 600 numbers, so there also I think we have guided for something like 3000 number volume for the current year, now considering that we have done 600, you think that can also be an achievable number?

Antony Cherukara: More or less, we will be there.

Kaushal Shah: So, your volume number for the current year, which you have mentioned earlier which is 30% growth that includes this number also correct?

Antony Cherukara: Correct, yes.

Kaushal Shah: Sure, that helps, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anand S from B&K Research. Please go ahead.

Anand S: Thanks for taking my question. I just wanted to ask some bookkeeping questions, what was the tiller and tractor revenue for the quarter?

Antony Cherukara: Tiller revenue was 94.47 Crores, tractor revenue was 69.41 Crores.

Anand S: And the export volume, Sir?

Antony Cherukara: Export volume was 264 tractors for Q1.

Anand S: And in the tiller, what is our market share for the quarter any changes in improvement?

Antony Cherukara: In quarter one, we were at 54%.

Anand S: Sir, what is the capex plan for the next two years any major changes that we have?

Antony Cherukara: We have no major changes, but we have a capex plan for this year of about 60 Crores.

Anand S: Sir, any feedback on the precision implements that we have launched?

Antony Cherukara: Good feedback all around and we are looking to launch more new products in the coming months.

Anand S: That was broadly my question. I will fall back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

Nilesh Doshi: Thank you for taking my question. My question is pertaining to export market, so in this category of tractors or the size in which we are, who would be the competitors especially on the developed market like Europe and what is the size of that market?

Antony Cherukara: The segment that we are in is compact trators, the industry size in Europe is about 30000, but the number of players are huge I mean starting from the European based players, based in Italy like Goldoni and several other players and there is some Japanese players like Kubota, Iseki and there are Korean players like TYM and there are Chinese player and then there are Indian players like Sonalika, Escorts I mean there is a very large amount of competition that is there in the segment, but I am happy to say that we have been able to do well especially in France we have over 10% market share in the segment now and that is good and we have one of the largest networks in France with over 80 outlets with our distributor and the same work that we have done in France now we have started doing in Germany, in Belgium, in Netherlands, in Spain, in Portugal and as I said earlier we also started getting into the East European market, our first dealer in Croatia, Slovenia has come up already, we are appointing a dealer in Romania, Bulgaria so that growth is happening.

Nilesh Doshi: Sir, what has changed for the farmers or the consumers to accept the Indian made product in these kind of categories because historically we all know that Europeans have been developed world and typically would have preferred the European manufacturer or a Japanese, so what is your experience and what is your learning you are seeing that they are accepting Indian made products, is it the price differential or something else which is adding to that?

Antony Cherukara: In this particular segment there are different kinds of applications, there is one very specific area of application where they need our kind of tractors and secondly I want to make an important point here, the point is our quality is no less than the Japanese or the European tractors, what is different is the technology on offer, for example European or Japanese tractor might offer a particular kind of transmission, which may not be in our portfolio right now or it could give electronics, which is not in our portfolio right now, but quality wise we are not any lower than any of these, Indian products are equally good and that not goes only for us but I would say for all Indian manufacturer. Second point to be understood is the duty cycle in Europe is very low, for an Indian farm for example, the farmer uses a tractor upwards of 600 to 700 hours every year, but the European farmer uses only about 150 hours to 200 hours, so the usage is very less, third is they want what I have met lot many customers, spoken to them, visited their farms, they are looking for less complicated products so I see a lot of traction for less complicated products especially with the population aging in Europe, I am seeing a large shift to less complicated product and that is a trend I am seeing in Europe especially in our segment, I cannot comment on the higher horsepower segment because the scale and the operations are very different, but in our segment this is what I am seeing.

Nilesh Doshi: Sir, the market size what you mentioned 30K is for our kind of segment right?

Antony Cherukara: Correct, up to 30HP Compact tractor.

Nilesh Doshi: Right and in the vision statement of yours I mean 3000 Crores kind of a market, what kind of you have factored in coming from exports like are you very optimist and seeing a very big change can happen after two, three years some kind of inflection point?

Antony Cherukara: At least 10% of the revenue should be from international business that is what we are looking at.

Nilesh Doshi: And largely from Europe, right?

Antony Cherukara: Largely Europe and Africa.

Nilesh Doshi: Thanks for taking my question. I will come back in the queue again.

Moderator: Thank you. The next question is from the line of Nishit Shah from Aequitas Investment. Please go ahead.

Nishit Shah: Good afternoon, Sir. I wanted to understand how are our launch is doing and are we planning any new launches in near term?

Antony Cherukara: Yes, we have had recently in the last six months, we have launched about three to four products, one is our high torque 27 HP tractor**,** it has done very well in Maharashtra, Gujarat markets. then we have launched 17 HP single cylinder tractor, this is especially for the Gujarat market, we are in the process of ramping that up now, thirdly we have launched the 16 HP power tiller which again, we are ramping up now, it has got very good response and the demand for power tillers are going up in that segment which is the seed fitted power tiller, it has got tremendous response, then we have launched a 30 HP in fact, the 30 HP tractor is the most technologically featured tractor in that segment in Indian market today with all sorts of features like fully single gearbox, mid PTO, which is not available in any tractor in fact mid PTO, reverse PTO offering which again in this segment is the first time, so tremendous amount of technology packed into that 30 HP product and it has got tremendous response in all the market and now we are ramping it up in fact the response are very good and very positive.

Nishit Shah: And does that include the subsidy neutral tillers which you are earlier targeting?

Antony Cherukara: In fact to tell you that subsidy neutral we have not ramped up, simply because the need has not arisen because we are now actually having challenge with supplies in disruption in the quarter one as you know, we just about coming out of it and we see a healthy volume without having to get into the subsidy neutral product and we are ramping up our manufacturing and our volume, we have started running our power tiller plant at about close to 97% to 98% of installed capacity so we are just about at 100% capacity level, now we are actually increasing our capacity to manufacture tillers that is the work that is going on.

Nishit Shah: Sir, my second question is, what is the kind of dealer addition we saw in Q1 and what would be the kind of inventory at dealer level?

Antony Cherukara: Dealer addition at power tiller segment is about 40 to 50 dealers, nd the tractor dealer addition is about 20 number in fact the inventory of dealers has come down, all India inventory is about 400 dealers of tillers is only about 2100 to 2200, so average of about 4 or 5 tillers at each dealership and in tractors also the inventory has considerably come down at about 350 odd dealership, we have only an inventory of about 1800 to 2000 tractor so as I said before VST is not in the inventory or the billing business, we are in the consumption business and that is what we are focused on.

Nishit Shah: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Karthik Keyan from Suyash Advisors. Please go ahead.

Karthik Keyan: Good morning. Thank you the opportunity. A couple of questions, one is what is the pricing regulation regarding power tillers, are you actually able to price the products freely or you depend on state government dispensation on that and how exactly to think about that going forward?

Antony Cherukara: See, there is no pricing regulation as such, what happens is when the subsidy tender is floated, there is a hope that every company gives and based on with the pricing is decided, now I mean that is the only limitation, otherwise if you do not want subsidy you can select the price you decide to sell it, so there is no regulation per se, number one. Number two, the good thing is this year the government has actually come forward because of the commodity inflation we asked the state governments to re-look at the prices that was sanctioned earlier based on the earlier tenders, which is almost a year back and now almost all the governments have revised the prices based on the commodity inflation.

Karthik Keyan: Super, the second question is with regards to your vision guidance whatever you want to call it, so you answered to an earlier question that you are looking at least 10% contribution from exports, that seems rather a low target given that you will have both products of your own selling abroad as well as get a product selling abroad, so I am just trying to understand why are you being conservative on that number and partly of that question is, is that sufficient potential for you to grow so large in India in the span of just four years?

Antony Cherukara: Yes, so the first year milestone we have already achieved at about 42% growth, which was the last financial year and I mean we are on track this year as of now only challenge that we have in front us is the COVID and related disruption caused by that, coming to export question, see the segment that we are operating in which is the Compact tractor segment is limited in the industry side and as I said that Europe market is very highly competitive with all the brands from across the world competing in that market so there is a certain level of growth that we are expecting and which we are getting, second is the large opportunity in Africa or the small and marginal farmer and power tillers that is some thing that we have started exploring and we are seeing that we are getting considerable traction there, this year already we have appointed about eight to ten distributors across Africa especially in Western Africa and Southern Africa, we are also hoping that this year we will be able to cover Eastern Africa as well, so that is another area and the third aspect of growth in these continents are the higher horsepower, now the higher horsepower in Europe is a very different game, like one of the earlier speakers asked me about the technology and all, so the higher horsepower in Europe is a very different game with electronic, sensor controlled and the brand play which is much larger than in the smaller segment, now coming to Africa, there is an opportunity for higher HP play which we will definitely explore as the years go by and definitely the visibility of about 10% at this point and we will keep exploring and see where else we can get growth and especially with the alliance with Zetor, how we can scale up faster is something which we will keep working on.

Karthik Keyan: But I thought that the partnership was for both domestic market as well as Zetor requirements which is really why I said your number seem rather conservative?

Antony Cherukara: Yes, VST Zetor I am not counting it at this point really because that is something in the works and probably it will be a very different operation that we are looking at nothing is concluded, so I cannot, right now product development is going on and we should be able to launch the product in the next financial year as I said before and I will keep you updated what is the model, what is the factor, and what will be the methodology of the business so that is work in progress.

Karthik Keyan: Great, thanks so much and very best wishes.

Moderator: Thank you. The next question is from the line of Vimal from Union AMC. Please go ahead.

Vimal: Sir, thank you. I just missed the revenue from tractor and tiller this quarter, rest of my other questions have been answered?

Antony Cherukara: The tiller revenue is 94.47 Crores and tractor is 69.41 Crores, tiller registered a growth of 30%, tractor registered a growth of 31%.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you for the opportunity. Firstly, as you guided for this 3000 Crores turnover by 2025, so you gave some understanding of how the export would likely be, how the spare part would look like and that should be directly proportional to our installed base, so what is our current installed base and are we catering to only the products sold by us as spare or we are catering to other players also in the spare part business?

Antony Cherukara: Spares business we are catering to our installed base, we are not catering to other players at the moment; however, we have a lubricant business wherein we are catering to the larger market, so that is the only play we have outside our installed base and you are right with the installed volume base increasing the parts business will grow and you can see in the first quarter, we had grown our parts business by about 44%, so I think that growth will continue and second is we want to build the distribution business into rural India that is one work that is going on from apart from the work going on in the core tiller and tractor business.

Saket Kapoor: What should it be likely on a hypothetical of a 1000 Crores base, what kind of...

Antony Cherukara: I will tell you roughly, I mean it is a rough estimation, on an 800 Crores turnover we did about 80 Crores of parts and lubricants, so around 10% is what we are looking at and probably there will be an upside as the network increases further, so I would say around 15% is what we can utilize.

Saket Kapoor: And this is the highly profitable one, is it not in the base margin of 13% to 14%?

Antony Cherukara: Parts and lubricants that definitely is having better profits.

Saket Kapoor: Sir, in the annual report the dealer deposit and lease is mentioned, if you could explain and what kind of interest is given for the dealer deposits, if you could explain the matrix?

Antony Cherukara: I ask the CFO to give you the interest rates.

Saket Kapoor: Sir, I was talking about the dealer deposit of 42 Crores and lease liability provision for this year, so if you could explain what is dealer deposit matrix all about what is the interest accrued to it and explain how is it created and about the lease liability also?

Pankaj Khemka: See, what we do be for the dealer deposit we pay an interest which is linked with SBI rate, right, so it is 1% less than the SBI base rate it is that way connected with SBI, so if the SBI rate goes down the dealer deposit interest rate also goes down.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Kotak. Please go ahead.

Arjun Khanna: The first question in terms of the trend forward, the change in norms for tractors, could you help us understand what is the impact on us while we export to Europe I assume norms would be higher, what would be the price increase that we need to take or have we already taken it or what is the timeline and would it impact even the tiller piece or it just impact the tractor piece?

Antony Cherukara: So, there is no impact in the tiller space because the regulations are very different compared to the tractor, so there is nothing there and in the Compact segment we are already ready our tractors that we sell in Europe for example is already in stage five which is up to 27 horsepower we are already ready, now coming to higher horsepower going to stage 5 that is likely to happen in 2026 and we will be ready for that, as of now we are not, but we will be ready for that, work is in progress.

Arjun Khanna: Sure, the price increase that we would need to take would it be in the region of 5% to 10% or it could be higher?

Antony Cherukara: It is too early to say of course there will be competitive comparison is also happening apart from merely the cost, there could be a shift in horsepower, for example today the largest growing segment is the 40 to 50 HP segment, now with this whole regulation shifting and changing my belief is that the segment that will grow will be beyond 50 horsepower because the price differential will be hardly anything in the customer would prefer to buy a 50 to 60 horsepower rather than going for a 40 to 50, so there is going to a lot of shifts happening and that is expected as I said there will be a competitive comparison also, but yes, you are right, the kind of cost increase would be in the tune of about 15% to 20%.

Arjun Khanna: Sure and the impact on Compact tractor should not be that high right, in terms of the cost?

Antony Cherukara: Compact tractor as I said it is already ready so what I see the less than 40 HP segment will start growing in India and then the 50 and above will start growing in India, so this is what I kind of see happening because of this price differential that we get created.

Arjun Khanna: But, I just coming to get the second part because what you likely point out that people may move for even higher HP how we have seen the trend globally that we may be compete later, we do not really have a product right now so given your level of thinking do you have product with higher HP is that something that you are aiming for?

Antony Cherukara: Exactly that is the reason why and we started working together with Zetor.

Arjun Khanna: Sure and just in terms of the engine capability right now or most of the engine capabilities in house but for the higher HP would we see brought out our product or we have to some technology we can buy?

Antony Cherukara: As of now we are buying, in our higher HP it is a bought out engine, however, I am very happy to say that we will have our own technology in all ranges of engine and our work with Zetor involve sharing of technology not only engines, but transmission, hydraulics everywhere, but what is optimum for India is what we will do because their technologies may not be what is optimum for our requirements in India.

Arjun Khanna: Sure, my question last question and the second question was in terms of subsidy, if you could just talk about state subsidy or how is the allocation been this year or how do you see that pan out while we have given the guidance of maybe 30% growth in tillers obviously there are two elements to it since we are recruiting some of the Chinese tillers so just on a core or how you see the historical business, how do you see company tiller outlook going forward and earlier had taken bad debt or had written off or taken provision for late payment from a number state government, so as this money is coming with the possibilities of write back for that?

Antony Cherukara: There are multiple parts to your question, I will go one by one, this year the subsidy for power tillers has not come through expect in Assam, that has come through in some particular scheme, I would not say all the schemes so the subsidy dependency as I have been telling is reducing as every quarter goes by and we do not see much influence of subsidy in the power tiller business as it used to be earlier, however, any subsidy declared by the state government is always welcome because it increases cash flow in the customers hand and that helps them to invest more into farm mechanization and definitely helps, second part of your question in terms of, can you just come back on that question again because I wanted to be very specific.

Arjun Khanna: Sure, my second part was in terms of the subsidy which we have written off last year and the year before of bad debt provisions, do you expect payments are there and potentially could those be written back going forward given that they are from the state government?

Antony Cherukara: So, the receivables mostly are from the state government to the dealers and then through the dealers to us, so as of now the payments have not come from the state government especially the Andhra Pradesh government, however, the Andhra Pradesh government recently has acknowledged the receivable that is pending from their end to all the manufacturers that has happened, so I do not know when it will happen, but hopefully sooner than later they should start paying something, but we know it is again totally unpredictable.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Sure, just wanted to check on I mean you have given the revenue numbers for this year, could you repeat the revenue numbers also for last year's corresponding quarter for all segments?

Antony Cherukara: So the power tiller segment last year was 72.41 Crores, the tractor segment was 52.86 Crores and the parts was 19.77 Crores for last year.

Sonal Gupta: And the parts you include everything as well like the other rotavator and all these things will go in parts?

Antony Cherukara: No, that comes separately, I have not given any figures on that right now because it is just about starting, so probably in the next quarter or the quarter after that we start declaring for that as well.

Sonal Gupta: Sure and just one request, I mean like in your press release if you can at least include the quarterly volume numbers for various categories that would be helpful.

Antony Cherukara: Okay, sure, we will do that.

Sonal Gupta: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Antony Cherukara: Thank you very much everyone for joining us today. I look forward to meet you the next time. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala and Karani Securities India Private Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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