"VST Tillers Tractors Ltd Conference Call Hosted by Dhanki Securities"

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MAIN SPEAKER: MR. ANTONY CHERUKARA– CEO, VST TILLERS TRACTORS LTD

MODERATOR: MR. KAUSHAL SHAH – DHANKI SECURITIES

Moderator: Ladies and gentlemen, thank you for standing by. I now hand the conference over to Mr. Kaushal Shah. Thank you and over to you sir.

Kaushal Shah: Thank you everybody for participating in the VST Tillers Tractors Ltd teleconference call. Thank you also to Antony sir for giving us a chance to host this call. I'm presuming, everybody would be aware about the company so we can directly flow into the Q&A. So if any participant has any questions, we can directly go into that. So Stefan, if you can just directly flow into the Q&A.

Moderator: Thank you. So, we will now begin the question-and-answer session. The first question is from line of Anirudh. Please go ahead.

Anirudh: Good evening and thank you for this opportunity. Clearly, your guidance with regards to achieving 3000 crores of turnover has caused a lot of excitement. So, if you could just take us through, how you intend to achieve 3000 crores over a period of the next two, three years, or let's say three, four years and what are the challenges also going to be while executing this growth trajectory?

Mr. Antony: Yes, so, the vision is to, we are running for 3000 crores by financial year 2025. And we've just completed one year of that in FY21. And we are on track, we have got the 42% growth that we wanted in FY21 so the first year milestone is achieved and now we are hoping that this year also we will achieve a milestone. Now, what are the key strategies for that, number one is ensuring that we continue with our leadership in compact tractors, wherein we are launching several new products in the compact tractor segment. So, to maintain leadership in that segment. Second is to ensure that we utilize our capacity in higher horsepower tractors where we have established in our new factory. So, we have got in the new higher horsepower tractors from last year, this year we should be able to double the volumes which is spoken earlier about and we will continue to grow that business exponentially and remember that is a segment of the 900,000 tractor industry last year. Till last year we were operating only in 90,000 of the tractor industry which is the compact tractor segment and by getting into the higher horsepower segment, we are operating in the balance 800,000 tractor industry. So, that is the second point to ensure that we use the capacity in the higher horsepower.

Third is, we are looking at precision implements business where our Mysore facility which was providing precision components for us, we are converting into precision implements, we have already started rotavator manufacturing from this facility. We are scaling it up, we are also looking at the sprayer segment. In the sprayer segment also we are looking at collaboration with various players. And in the whole this farm mechanization or implements business area, we are looking at several collaborations and partnerships which we are in talks with several people.

Number four is, we are moving our small farm mechanization or the power tiller business, into a small farm mechanization business. So earlier as you know, we are the leaders in power tiller business with over 50% market share. Now we are getting into the power weeder, brush cutter, chainsaw, hedge trimmer, so all the small farm equipment business and so the power tiller business is being transformed into a small farm mechanization business. This is the fourth arm of our strategy.

The fifth arm and the sixth arm are recently added arm where in fifth arm is we are talking about a distribution business which we are launching, we are getting into distribution of several related agri products which we will come out in the open few months from now, the work is already on and sixth one is we are investing in the futuristic technologies, which we have already spoken about that we have invested into an electric tractor driver optional Tractor company in the USA. And we have also recently signed a master services agreement where we will be developing the entire power train for those tractors in India and shipping it off to the U.S.. And eventually we want to be ready for electric tractors in India as well.

So these are the five, six strategies that has been clearly laid out to achieve this vision and we are progressing on all this. I hope I have answered your question.

Anirudh: Yes, you have. Just a couple of questions, one is you are anyway in the compact tractors of 90,000 you are already the market leader right. So if I may ask, what is your market share there?

Mr. Antony: Yes, if you talk about the four wheel drive compact tractor which is a niche segment we are at about 30% market share, but if you talk overall less than 30 hp tractors we are talking about 10% market share.

Anirudh: Okay. So, basically you're saying you will drive market share there also?

Mr. Antony: Yes.

Anirudh: Okay. And in the higher tractors you have presently got absolutely. And what is the kind of capacity we have created here?

Mr. Antony: We have created a capacity of 25,000 tractors in Hosur, that is why we have moved from Bangalore to Hosur and this is the first range of products that we have launched from the VSTs table, as you know we are also working with Zetor**,** we will be launching those range of products next year. Both these range of products will come from the same plant.

Anirudh: Sure. And initially what are the challenges that you see while launching a product, let say VST at least people know but when it comes to the other brand, your distribution network probably doesn't know that. So how difficult is it to let's say push through the larger tractors, the higher HP power tractors for you?

Mr. Antony: Few obstacles, I wouldn't say obstacles or maybe the word is challenges, one is VST didn't have a network in North India, because that is where mostly the utility or the higher horsepower tractors are sold UP, MP, Rajasthan these are the big market. So, the first step that we have taken is increase our network in these markets for high horsepower segments. So, we are continuing to grow our network. Last year we have increased our tractor network by about 110 dealers, the power teller network also we have grown by about 155 dealers last year, this year we are continuing to grow that and we should be looking at about 500 to 600 tractor dealers by the end of this year and close to 700 to 800 power teller dealers by the end of this year. This I'm talking about two years back we had only about 200 dealers of tractors and about 150 to 180 dealers of power tiller.

Anirudh: Okay. Just one last question from my side before I come back in the queue is, given the massive scale, the change in scale that is happening, what according to you will probably be the top two or three challenges that you will have to manage?

Mr. Antony: First I told you is the network challenge that I have already spoken to you about in the market. Second is ensuring that there is a healthy transition to this massive scale. That is why we are implementing theory of constraints based supply chain model wherein the inventory will be controlled and managed. It is not like kan-ban or just in time it is slightly different. The theory of constraint based model which is more suited to the pandemic kind of situation wherein we have a buffer stock, but at the same time the buffer is dynamically controlled through software systems. So, that is one, the second one is ensuring the scale happens through efficiency that the second one. Third one is of course the leadership bandwidth that is required in the organization to cause this change. And that is something we are very consciously working on both organically and inorganically. So, one is we are focusing on ensuring key talent that is brought into new areas of business that we are starting. And also ensuring organically that how do we grow people within the organization through training programs, through horizontal movements, through better talent management, those kinds of activities have also begun in these last two years.

Moderator: Thank you. Next question is from the line of Nikhil Rungta. Please go ahead.

Nikhil Rungta: Sir just a couple of questions. First is, can you talk a bit more in detail about this recent tie up with Zimeno?

Mr. Antony: Zimeno is the company which makes the monarch brand of electric driver optional tractors based in California. So we have invested in Zimeno a couple of months back along with several other investors. And Zimeno has made an agreement with us for development and supply of the power train to them, power train is without the electric motor and the batteries and the center. Without that everything else is a power train which we will be supplying from India to California. So this is the crux of the.

Nikhil Rungta: Sure sir. And what type of potential do you see from this agreement say in next three years' time horizon?

Mr. Antony: It's too early to say that but what I can say is, in California there is high demand for this tractors and monarch has publicly come out and said there is huge amount of bookings that they have, we wouldn't want to disclose any figures now unless that really starts, we are expecting the launch to happen early next calendar year. So, we will wait until then and then we will start declining numbers.

Nikhil Rungta: Sure sir. And if I talk about next three to five years' time horizon, you mentioned a lot about this distribution type of agreements. So, what type of potential do you see from that type of potential basically, how are the margin in the distribution domain?

Mr. Antony: In the distribution we are already in the parts and lubricants business where the margin is pretty good, we are also build this funnel, the funnel of distributors and retailers into rural India. So, we don't have any fixed cost addition that is there, what we would be doing is only utilizing this funnel to distribute more products. So, I would say, we are kind of using that infra and scale that we have built up. So margins will be better than, will be quite decent I would say because there is no fixed cost involved.

Nikhil Rungta: Right. And sir in our last call you had mentioned that we would also be looking at any inorganic expansion if it comes on the way so, would this revenue of 3000 odd crores what percentage do you see coming primarily from the inorganic side from the current say 1000 odd crores of revenue level to 3000 crores in four years. 3x basically, how much do you see from organic, how much do you see from inorganic?

Mr. Antony: So, I have not built anything into the 3000 crores from inorganic because as you would know that we don't want to be pushing an inorganic opportunity just to get to a certain number that is definitely something we would not do. But at the same time, we are looking at good opportunities. We are studying certain areas that we can get into where we can use the cash that we have appropriately so to answer your question the 3000 crore doesn't have any inorganic plugged in. It is purely organic, but that doesn't mean that we are not looking at inorganic.

Nikhil Rungta: Perfect sir. Sir just last question from my side. You mentioned doing a lot of things on the talent management side. So if you can elaborate slightly more on that and also do we also have an ESOP policy and so on?

Mr. Antony: Yes, a couple of things first as I said, new areas of business we are recruiting new talent from outside because we don't have that talent inside VST. Second is, we are looking at horizontal growth plans and vertical growth plans for the talent which is already there and creating a carrier plan for these high potential performers in the company. Third, is we are ensuring certain educational programs for identified people so that they can take larger responsibilities, including creation of profit centers. So that is something we have consciously created in the last year. Number four is we are creating a pool of talent that we want to recruit from engineering colleges in the country and groom them for future growth plans of the company. So that is something we have started this year.

Moderator: Thank you. The next question is from the line of Sonal Gupta. Please go ahead.

Sonal Gupta: This is Sonal Gupta from L&T Mutual Fund. So, just wanted to understand two, three things. One was on the power tiller side, how do you see the growth of this market, like you've mentioned in previous calls that there's been a significant shift away from subsidy driven demand to like more sustainable stuff, but still 50% is subsidy driven right now. And you are also potentially benefiting this year from some of the importers moving to U.S. supplier. But just trying to understand beyond this year how do you see the growth in this market, are there some change in trends in terms of farmer usage or do we see more penetration of power tillers just want to understand that?

Mr. Antony: Yes, so largely 70% to 80% of India's small and marginal farmers. And see the only affordable mechanization for them is a power feeder or a power tiller. Actually, most of our farmers cannot afford a tractor which comes upward of Rs.5 lakhs, Rs.6 lakh. And that is the segment that we are targeting, people who have two to five acre farms and who is also looking for earning money through renting out these equipment and this comes much more affordable than a tractor at about 1.7 to 2 lakhs depending on whether you are buying a 12 horsepower or now in fact we have launched the 9 horsepower as well which is much lower in cost. So, up to 2 lakhs, which goes up to 16 horsepower power tiller. So, for now the key is to expand the market and we are working on that, that is where the network growth that we are doing is proving to give us that growth. I spoke about the quarter one growth where we have grown at about +30% in power tiller segment. And out of which the OEMs to whom that we are supplying who were earlier importers from China is only very lucky, which I would say is in few hundreds and even this quarter we have seen a growth although subdued compared to the first quarter. So, the growth of this quarter is at about 9% in volumes on the power tiller side but then I expect it to pick up in the coming quarters and all this growth is happening without subsidy. In quarter two also, in quarter one also there has been no subsidy release that is happening from the government. So the industry is definitely expanding.

Now, as I mentioned before, three, four aspects of this growth is one is creating awareness. So awareness, availability, accessibility and affordability so, these are the four A's that we are focusing on and ensuring that the industry growth happens, we already have 54% to 55% market share in this segment in fact in quarter two, I don't have the final figures yet but we should be more than 60% in market share. So, one is the fact that we will have to grow the industry for the industry to grow and we are growing which means the industry is also growing. Second aspect is we are working on these four A's that I spoke to you about creating affordability by launching multiple products, creating non dependence on subsidy by using a subsidy neutral product. So all these are leading this growth and I think to the same target number and guidance figure that I said in power tiller 20% to 30%, we'll continue to achieve this year and next year as well. So, this is one area where there is huge potential in the country which is being untapped so far.

Sonal Gupta: Got it. And just on that, because again the financing availability is relatively low in this segment compared to tractors. So, just wanted to understand like, has this growth therefore been dependent on like other stuff like kisan credit cards, and higher?

Mr. Antony: Yes, kisan credit cards are definitely helping in terms of down payment nowadays. In fact, what we have done is, we have installed Paytm machines in most of our Power Tiller dealerships, enabling them to buy brush cutters, enabling them to buy things like power weeders by using their Kisan Credit Cards. So that is something that we are doing very consciously then in the last two years, and we are seeing that scale of transaction is going up. Secondly, on the retail percentage on power tillers is also improving with various new banks like Jana Small Finance Bank we have a tie up with them, Samunnati we have a tie up with them. All these banks and NBFCs have come forward now to finance power tillers. And we are working very closely with them. But as you rightly said, it's pretty much, much lower than what is in practice. And if it goes up the growth figure from 20% to 30%, it can go up even further, that's what we're working on.

Sonal Gupta: Got it. And my other question was on. You talked about the distribution business, as well as the precision implement. And, I'm just trying to understand how much synergy is there, can we just use the existing channel of tractor dealers and these dealers for power tillers because ultimately like you said the power tiller is small farm mechanization business. So, everything sort of syncs in together right?

Mr. Antony: Absolutely there is lot of synergy, implements for example are those implements which gets attached on to our tractors. Also, we will distribute to other competition so there is absolute synergy on the channel front similarly, in the small farm mechanization also these dealerships can also start displaying all the distribution products and also sell through their counters. So all that synergy is absolutely happening.

Sonal Gupta: Right. So, just trying to understand then can we see that we don't really see like even if I look at some of the largest farm equipment players in India, this implements business is only around 500 crores. So, do we see an advantage for ourselves being more, like being in the power tiller space has been able to leverage that much more or how do we because ultimately like saying that even this large players have not really been able to significantly have some significant size of business.

Mr. Antony: Yes, so the impacts the largest player in the market also started to the implement business only, 2010, 2012 when I used to work there and created that business, and it has grown from there. But again, it is focused on couple of segments that they are operating in. I am not saying that, we would be at that size faster than them, what I'm trying to say is it's a very large opportunity, and what our focus is currently on building our business in two segments. One is the rotary tiller segment, and second is a sprayer segment. And these two segments, we expected to grow very fast. And the figure I said is by 2025 we want to be a business of at least 300 crore in these two segments.

Moderator: Thank you. The next question is a follow from the line of Anirudh. Please go ahead.

Anirudh: Just wanted to understand what is the subsidy portion now in your tiller side, what portion is it subsidized and what is the non-subsidized portion?

Mr. Antony: In the last few months the subsidy portion would be only about 20% of the sale.

Anirudh: Okay. So basically what you're saying is generally people are ready to buy tillers even without subsidy?

Mr. Antony: Absolutely, while I have said that, I've said this before also, it is not as if the farmer is not applying for the subsidy, he's 100% of the subsidy application is placed by the farmer, see earlier what used to happen, the farmer would come forward to buy a tiller only if subsidy was declared. Now, the scenario is change, everybody is buying and then placing for subsidy.

Anirudh: Okay. And what has changed for a farmer to go ahead and buy a tiller, in spite of probably the likelihood that subsidy might not get a go ahead. Is it that the home dynamics, for the income dynamics?

Mr. Antony: I would say two or three things. One is the fact that last few years he was not getting subsidy, and then the realization that why wait for it that is number one. Number two, I would say today it is DBT. He knows that, he doesn't have to run around to collect it's subsidy amount, it will get directly related to his account. Okay, so he know that it will come into this account. So, these are the two reasons what I can think of.

Moderator: Thank you. The next question is a follow from the line of Sonal Gupta. Please go ahead.

Sonal Gupta: Sir so just on the heavy horsepower, the higher horsepower above the 30 HP, it is clearly a competitive segment. And we have seen very stable market shares and it's been sort of difficult for people to even the more established players to even gain market share. So, what is the strategy that you were looking to adopt in the higher HP above 30 horsepower segment?

Mr. Antony: Yes, so, the higher horsepower segment as I said before, we are not looking at any market share, my simple-minded focus is to ensure that my capacity utilization as a team. So that is about selling 25,000 tractors as early as possible. So, for this we have taken two approaches, one is we have created range of tractors the VST is under the VST brand, which will be value for money tractors. Second is we are coming out with VST Zetor, which is a premium range of tractors which will compete with premium tractors if it is available in the market. So very clear positioning, value for money, premium and ensuring that we are using a supply chain based on TOC to attract the dealer to come to us because we will not be building any inventory and creating the interest burden or working capital on the dealers. So these two, three key activities are showing results for us. We are getting dealers to come to us, also we are the seventh or eighth brand in the tractors, but still we are getting good number of dealers to join us and that's what it is.

Sonal Gupta: Got it. And clearly tractor is an extremely profitable segment for everyone who's operating in that market. But given the scale that you are looking at is that going to be like accretive what you think that initial years we may have to sort of be at a much lower margin in this business, given the smaller volumes?

Mr. Antony: Yes, so the volume doesn't stand alone in terms of the higher HP tractors with any of our suppliers, our existing suppliers of compact tractors. So in that sense, but then you can't compare with the scale of the market leader or the number two player or something because the numbers are much, much lower than that. So yes, compared comparatively it will not be the same, but however it will be quite competitive.

Sonal Gupta: Got it. And sir lastly just want to understand is export also part of your strategy, like how are you looking at the exports?

Mr. Antony: Exports is definitely something that we are looking out and working on. In fact, we have got a good distribution network in Europe. Last year I spoke about getting into Eastern Europe, now this year we have got into Eastern Europe. We have got our distributors in Romania, Bulgaria, Croatia, Serbia, and Slovenia. So all these five, six Eastern European countries we have put our distributors this year we will continue to expand in Eastern Europe. The second geography we looked at for exports in Africa and in Africa we have a network in West Africa and Southern Africa these were done this year. And next year we hope to do for Eastern Africa as well.

Sonal Gupta: Okay. But any targets here that you're looking at 10%, 20% of the volumes coming from export?

Mr. Antony: So, we are at about 5% to 6% of international business revenue right now, maybe some milestone is to get to 10% of that revenue, which we will hit by 2025.

Moderator: Thank you. The next question is from line of Nikhil Rungta. Please go ahead.

Nikhil Rungta: Sir, just one question from my side, sir historically we have seen the promoters, the management of VST Tiller to be basically growing at a stable rate, all of a sudden you coming in a year and a half, two years back and things changing a lot and now we are targeting growth rate which is significantly higher than what we have seen in the past five years or 10 years in the history of the company. So, how is it that we are able to implement such a change and are the promoters basically ready to give the entire control to the professional management or was the involvement of promoters now, so just wanted your view on that?

Mr. Antony: Yes, so first and foremost the fundamentals and values of this company very strong and nothing has changed with respect to that, what has happened is two years back when I decided to join, we had a discussion with the promoters and I was very clear to them, and they had a clear objective for bringing me in to get this company on to the growth path. So, I have 100% support of the promoters and when and where required of course their involvement is there. However, there is full autonomy for me to run the company and it's all absolutely fine. So the objective of the promoter is definitely there and that is causing this transformation and as I said before, the values or the ethics or the foundation of this company is as strong as ever. And nothing has changed on that front.

Moderator: Thank you.

Kaushal Shah: The interaction has been fairly good. Since there are no further questions we can conclude the call. So thank you again sir for sparing the time and thank you to all the participants.

Mr. Antony: Thank you, everyone.

Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you all for joining us and you may now disconnect your lines.