Transcript of the analyst / Investors meeting held on 19/06/2019 at Registered office of the Company.

Last fiscal was brutal for the company. What do you think happened? What went so wrong?

Mr V.T Ravindra : We had a couple of challenges last year. We are primarily in the business of tillers and tractors. Tillers being our primary business and is subsidy driven. Different state governments had issues with the DBT (direct benefit transfer) scheme. The Central government has mandated that subsidies be disbursed through DBT. Many states are struggling with that and there were various issues with the disbursement and amounts. Also, being an election year, the allocation of funds was also an issue, which brought down the sales. In addition, some of our stronger markets for tractors like Gujarat and Maharashtra went into severe drought last year and that also affected tractor sales.

Subsidy payouts have always been subject to many variables. Do you believe that you need to de-risk your business model so that it is not reliant on subsidies?

Mr V.T Ravindra: Every state government has a budget and unless the state government comes out with a clear policy and saying that they are stopping subsidies, it will continue.

Mr V.P Mahendra: Whether subsidy will be provided or not is very political. The moment we know that subsidy will be provided and there is an allocation for it, we will work for it to get our share of business

Why don't you take up another product (which is not dependent on subsidy payout)?

That's a big call for us. We believe that government of India will continue to provide funds greater than that being provided to other sectors.

You have said that subsidy payouts has been a risk. What made it so severe?

Mr V.P Mahendra: It was a combination of factors as we mentioned earlier.

You have also changed the credit facility to dealers, did that add to the problem?

Mr V.T Ravindra: We are de-risking ourselves from exposing from too much credit in the market. We have a revised credit policy now. Dealers need to get alternative forms of funding for their working capital needs. So stocking of products came down. That was a one time correction and this year should be better.
Mr V.P Mahendra: This was a necessary correction and we consciously took a decision not to expose ourselves to so much credit risk. At the time of emergency we will see what credit risk we can take. This will depend on the situation at a given time.

What has been your product strategy and how is it changing in the current times?

Mr V.P Mahendra: We are originally known as power tiller manufacturers. We started with tillers, but forefathers had ambition of looking at tractors. From 1967-82, we were only producing tillers. And the numbers were not large. We had only one model. The power tillers we produced was one model and subsequently we introduced a new engine that we developed ourselves. We built on that and eventually had a market share of over 50% and we don't see why we cannot retain that. Tillers growth has not been so substantial and therefore we got into tractors as the market was not very strong for tillers. We were the pioneers in compact tractors but perhaps at that time didn't invest too much in marketing. We have turned a new leaf in the last three years. Certainly, the outlook now has changed and we would like to look at it holistically.
Mr.Antony Cherukara: Tractors, as you mention is a de-risking strategy because it is not so dependent on subsidies. Power tillers have definitely given the company returns over a period of time. Last year was a blip. The segment has provided returns. Looking forward to the future, we are continuing our range of products. Compact tractors, where we are pioneers, we are looking at the complete tractor range, we are getting into higher horsepower tractors. We are investing in manufacturing and development of new products. In the compact segment we are looking at products where we can add more value. The other aspect is marketing where we looking at expanding our dealer network. We have 200 plus dealers for both tillers and tractors. Our dealership network is limited to compact tractors. We are looking at new markets like Uttar Pradesh and Madhya Pradesh.

What is the evolving needs of customers and what are the segments you are targeting? Are you open to looking at other opportunities in the agri segment?

Mr Antony Cherukara: India has a large number of needs in agriculture -- from land preparation to post-harvesting. Even food processing is a large opportunity. It is imperative for a company to choose wisely based on its core strengths. Our core strength is to provide crop solutions to small farmers. It started with power tillers and until last year our market-share was over 50% and we hope to get back there. The crop solution package is well accepted by farmers. We have been providing the compact tractors with implement and attachments. We manufacture the implements to go with the tractor. That has been the philosophy. We will continue to look at farm mechanization, and are working with solutions for sugarcane farmers. We have done a lot in the rice segment as well.
We have started going global and entered Western Europe last year.

How easy or hard is it to crack into a new market?

Mr Antony Cherukara: Of course, it is a challenge to enter a new market. But we have been exporting our compact tractors to France, Netherlands and Spain. It is difficult to get into these countries and our products are reasonably accepted there. We have just begun our global expansion and we will continue to make progress. We are looking for distributors and dealers in these markets.

The company is venturing into higher HP tractors. What is the strategy in that segment the company is deploying?

Mr Antony Cherukara: We are looking to provide specific solutions to crops. Right now we have introduced higher HP agriculture tractors. We have invested in capability building. We are looking at launching tractors with unique solutions to farmers.
Mr V.P Mahendra: Our existing dealerships in India also want to have a full range of products as the person walking into a showroom looking for compact tractor also would have requirement for a higher HP tractor. We are expanding our range and growing it. Our intention is not to remain small and we would like to grow.

What about expansion into other states? Do you wish to be a pan India player?

Mr Antony Cherukara: We will enter all states. Our strength has been Gujarat, Maharashtra, Tamil Nadu and Karnataka. Now with higher HP tractors, we will look at entering Andhra Pradesh, Uttar Pradesh and Madhya Pradesh. Even Maharashtra is a large market for higher HP tractors. That's a huge opportunity that will give immediate results. We want to be present across India.
Mr V.T Ravindra: The new strategy will have challenges as we enter new markets. That's part of the challenge.

What kind of investments are you likely to make to follow this ambition?

Mr V.T Ravindra: We have already lined up Long term investments for Rs 230 crore some three years ago for product development and capacity building. 70% of the same has already been utilized and balance will be spent in next two years. Part of that plan will cover plans for new products and brand building which we need to do to counter big players.

Is that sufficient for a pan-India plan?

Mr V.P Mahendra: We have started on it. We are gradually appointing the dealers in all areas. We will first get the products in place and then go full scale.

In FY20 how many states will you be present in?

Mr Antony Cherukara: The Rs 230 crore allocation has been primarily for product development and capacity building. Along with that we have been entering all large markets. We have started appointing dealers in UP and we will increase dealerships as we scale. We are already present in the Northeast. We are looking at every state.

The four southern states you mentioned are big enough markets for higher HP Tractors?

Mr Antony Cherukara: Yes, the states are big markets, especially Andhra Pradesh, is a big market. Maharashtra and Gujarat are large markets again for higher HP tractors.

It is very hard to break into the tractor markets where existing players are deeply entrenched as brand preferences are strong?

Mr V P Mahendra: See how other manufacturer has broken that theory. You can break this monopoly if you have a suitable marketing set up.

Mr Antony Cherukara: Our focus has been compact segment and we want to continue to be leaders. Our rightful share is 15-16% as there are 6-10 players in the segment. We would not go after growth for the sake of it, we will chase profitable growth. A large global market is available for compact tractors and we will continue to grow that. In the higher hp tractors, it took other manufacturer many years to break the monopoly. We have to figure what are the financial structures we need, to break even at low volumes. We cannot chase market share without having a model in place. The idea is to build a frugal business model.

What is the kind of crop solutions are you plan to offer?

Mr Antony Cherukara: In different parts of India cropping patterns are different with varying yields. We are working with some farmers to identify that what is helping the farmer get higher yields. We are helping them with the mechanisation. We can take such solutions to other parts of the country for other cash crops.

Adding to the stickiness in the tractor brands. Is that changing with the new generation of farmers?

Mr Antony Cherukara: This is the question we keep asking our product development team why should a farmer buy your product. The older generation did not shift to new tractor because they did not see any value in anything else but if somebody had shown them the extra-value, then they would have shifted to other ones. It's got nothing to do with the farmers. It is an error to say that rural people don't change. Rural people do change, if they see value in that change. It happened in the rotavator industry. In the early 2000s the industry size was hardly 20,000 to 30,000 but today it has a size of almost 3 lakh. These factors shows that farmers do adapt to new things but you have to prove its value.

That is why we are confident that our compact tractor market leadership will remain intact because we add lots of value to the farmers wherein the solutions are giving more productivity to the farmers. This is not easy for any new player to replicate.

How do you see your revenue mix going forward in the next 4-5 five years? How do you see the shift happening given that solution-based products are now being offered? What is your long term ambition?

Mr Antony Cherukara: Going forward, tractors will be larger in the overall revenue mix in the long term. But having said that we are also looking at providing more solutions to the small farmers. For example, rice transplanters, power reapers, power weeders and power tillers because small farmers cannot afford large machines. We will keep the focus on building products for small and marginal farmers. However, in the revenue terms the tractors will eventually be larger than the power tillers.

When can we see that happening?

Mr Antony Cherukara: May be a couple of years.

In India on the mechanisation front only tractors have grown traditionally. But globally tractors forms a smaller part of mechanisation where there are many other farm equipment which plays an important role too. Do you see that sift happening in India too?

Mr Antony Cherukara: The answer is yes but a lot of inventions are required. This is because many solutions offered globally are not practically possible in India due to the land size & machine size constraints.

Mr V.T Ravindra: Tractors in India are not just used for farm equipment but also as a source for mobility.

Mr Antony Cherukara: In some parts of India it is also a lifestyle statement wherein you park a large tractor in front of you house.

How has your higher powered tractors done? You have been testing the market and what has been the response to it? What are your plans and ambitions?

Mr Antony Cherukara: We are bringing higher horse powered tractors with 39 HP, 45 HP, 49 HP. We are also bringing up 47 HP in technical collaboration with Korea's Kukje Machinery.

What is you strategy from the pricing point of view as you enter new markets will you be disruptive?

Mr Antony Cherukara: We will compete in the market but are not necessarily looking at pricing as an entry strategy. We are not going to be the cheapest.

The outlook for the tractor market is around single digit growth for the next 10 years. We are looking at the 8-9 per cent tractor market growth. Within this how do you see yourself growing and what are your expectations?

Mr Antony Cherukara: On a base of 8-9 lakh tractors 8-9 per cent growth is pretty huge. We have not looked at it in terms of certain market-share, what we have looked at it is as how do we break-even the fastest, how can we build a business model which is meaningful in terms of the investments which we have made. This is our focus. Having said that we will aim for a larger market share. How will we do that ? I think that is too early to spell out the strategy but definitely there is a play that we are planning. We have now the product development capability and have the capacity. These are two levers that we have to utilise for the future growth.

Mr V.P Mahendra: We have the staff to do that and we have a product that is on the way. This is how it begins.

In the last one year you sales have not been great compared to the market at large. What is the reason for that?

Mr Antony Cherukara: For the compact tractor sales which we have, the strong markets has been the Maharashtra and Gujarat. Maharashtra has been struggling with drought and Gujarat has its own issues wherein the industry dropped and we couldn't do so well. The other entrants in the compact tractors had a larger presence in the other parts of the country. There they were able to sell and, hence, we lost certain share of the market. But if we see specific segments in these two states, in some segments we have actually gained some market-share. Coming to the larger tractors this is the year when we are actually launching our products. you will see significant progress from us in the later half of the year.

If you are looking at more contribution coming from tractors then do you think you margins should improve going forward compared to the previous normal years?

Antony Cherukara: With new investments happening, margins will be under pressure. That is the challenge we have.

You don't expect a repeat of last year? This year the monsoon is likely to be weak.

Mr V.T Ravindra: No, we are not expecting a repeat because we are also going pan India.

Financing has played a very big role in driving the automobile sales in the last five years. Do you think finance can play a big role in farm equipment or is it just monsoon which enhance the decision making?

Mr Antony Cherukara: Yes, the financing part is a big driver. The monsoon influences the purchase decision; however, finances shortens the purchase decision period. The cash flow is typically half yearly. The only other option available is finance. Therefore, in the absence of finance the purchase is prolonged even if he needs the product.

How are you looking at helping the farmers to get the finance?

Mr Antony Cherukara: We have tied up with almost all the nationalized banks and quite a few NBFCs also.

Is the ongoing liquidity crisis impacting the decisions on disbursals or not?

Mr Antony Cherukara: Talking of the industry at large, I have seen many NBFC in states like Maharashtra completely switching off the lending and shifting to just collections, it has impacted the finance industry and hence us as well.

There was a fraud which was reported the company? What happened there?

Mr Antony Cherukara: There was a system issue which allowed some financial transaction to happen authorizing the person to transfer money. Now we have changed the complete system and are moving to SAP. There was a part recovery and the process is still going on.

So what is your long term view on power tiller?

Mr V.P Mahendra: We see it growing at 5-6 per cent year on year.

Mr Antony Cherukara: We see it continue to grow year on year but if retail finance is made available then we can grow faster. For a small farmer getting that Rs 1 lakh finance that is where he is struggling. If that picks up and it becomes as easy to get as automobile loan then the industry will expand. The issue is that machines cannot be registered unlike a tractor.

Other than subsidy and monsoon what can derail your growth plan going forward?

Mr Antony Cherukara: I don't see any huge disruption in the industry.

What is the behavioural changes due to the loan waivers etc happening?

Mr Antony Cherukara: Yes, in the short term it may give relief to farmers but in the long term it becomes an issue. The NPA also goes up and then the disbursement becomes a problem.

Last year revenue was low whereas cost was in higher side, especially employee cost?

Ans: With anticipation of expansion in Tractor business, the company had taken adequate manpower to explore other areas in which our presence was not there. Due to lower volume of Tractors Sales, per unit, cost was more. We hope this will be covered up during this year.

Revenue sharing between Tractor & Tiller?

About 60% from Tillers and 40% from Tractors.

what was the overall tiller market and our market share last year?

The overall industry was around 50,000 Nos and our market share marginally decreased to 44%.

regulatory environments, political instability and input costs. The Company, therefore, cannot guarantee that the forward looking statements made herein shall be realized. The Company does not undertake any obligation to update forward looking statements that may be made from time to time by or on behalf of the Company to reflect the events or circumstances after the date hereof. The Company undertakes no liability/obligation for decision taken by the Investors on the basis of the data mentioned in the Presentation.