



VST SHAKTI

“VST Tillers Tractors Limited  
Q2 FY2021 Post Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to VST Tillers Tractors Limited Q2 FY2021 Post Results Conference Call of VST Tillers Limited hosted by Batlivala & 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 conference, 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. Annamalai Jayaraj from B&K Securities. Thank you, and over to you, Sir!

**Annamalai Jayaraj:** Thanks, Inba. Welcome all to VST Tillers Tractors Limited Q2 FY2021 post results conference call. From VST Tillers management, we have with us today, Mr. V.T. Ravindra, Executive Director, Mr. Antony Cherukara, Chief Executive Officer, and Mr. Pankaj Khemka, CFO. I will now hand over the call to VST Tillers management for their opening remarks to be followed by question and answer session. Over to you, Sir!

**Antony Cherukara:** Good evening everyone and with me Mr. V.T. Ravindra, the Executive Director of the company, Mr. Pankaj Khemka, the CFO of the company are also participation. In Q2 we have had a turnover of 220.39 Crores compared to the previous year it is 37% growth year-on year. The EBITDA has increased to 19.98% compared to the previous year of 8.28% and operational EBITDA if you remove the other income is at 17.12% compared to previous year of 2.43%. PBT is at 40.96 Crores against previous year of Rs.9.6 Crores, and profit after tax is at Rs. 30.33 Crores against previous year of Rs.6.65 Crores. On the sales numbers, in Q2 we did 7924 power tillers compared to previous year Q2 of 5609 power tillers. On tractors, we did 2751 tractors this Q2 against last year 2201 tractors.

The overall revenue for H1 is at 366.63 Crores against last year of 300.56 Crores. The power tiller revenue for Q2 is at 111.85 Crores against last year of 72.41 Crores, tractor at 86.02 Crores against last year of 52.86 Crores, parts at 20.45 Crores against previous year of 19.77 Crores and Mysore precision component division is 1.18 Crores against 1.07 Crores of last year. So, cumulatively Q2 at 220.39 Crores against last year last quarter of 146.24 Crores. So, with this opening remark on the performance of the company, We are open for questions.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nishit Shah from Equitas Investments. Please go ahead.

**Nishit Shah:** Good evening, Sir. Sir, I wanted to know more about the tie-up with Pubert, what is the update recent developments any?

**Antony Cherukara:** Yes, we have started selling VST -Pubert weeders in India. In fact, it has progressed to SKD right now and we intend to start CKD assembly by Q4 of this year.

**Nishit Shah:** And any updates on volume, how many have we sold in Q2 or planning to sell in Q3?

**Antony Cherukara:** We have sold about 903 numbers of power weeders..

- Nishit Shah:** Sir, my second question is, I wanted to understand, how much would be the Chinese inventory of tillers in the system as of now?
- Antony Cherukara:** We do not sell any Chinese tillers, so we do not have any inventory. Industry, it is quite difficult for me to give you a number per se, but I would say that more or less the inventory would have completely run out by now.
- Nishit Shah:** Okay, and now there are no chances of importing, right?
- Antony Cherukara:** Yes, that is what the government regulation says.
- Nishit Shah:** Sir, what is our market share for tractors and tillers for the segment for the quarter?
- Antony Cherukara:** For the quarter, we have increased tractor market share by 0.7% for less than 30 HP segment and we are at 10.6% and tillers, we have increased our market share considerably and we are at 55.4% market share.
- Nishit Shah:** Sir, I wanted to know about dealer addition we did during the quarters and how much would be the dealer inventory?
- Antony Cherukara:** Dealer inventory has gone down substantially from last year same time levels of about 2400 tractors in the dealer inventory we are at about 150 tractors in dealer inventory, so it has considerably come down. The inventory of power tillers again has gone down at a dealer level, the number of dealer additions on tractors this year alone has been about 75 to 80 numbers and on tiller side it has been over 100 numbers this year so far
- Nishit Shah:** Okay and how much would be for higher HP?
- Antony Cherukara:** Higher HP, currently, we are selling it about 100 to 120 dealers across the country. We are not having exclusive tractor dealer for higher HP alone, but for all the tractors we are having dealers, so around 120 dealers are currently selling higher HP tractors.
- Nishit Shah:** Sir, what could be the number of higher HP tractors sold during the quarter versus last year?
- Antony Cherukara:** In H1, we sold about 436 Nos.
- Nishit Shah:** And last year would be?
- Antony Cherukara:** Last year, it was about 260 Nos for whole year.
- Nishit Shah:** Sir, any provision for bad debts we have taken during this quarter?
- Antony Cherukara:** Yes, we have taken the provision of about Rs.4 Crores.
- Nishit Shah:** Sir, how do we see the tractors and tiller market growing?

- Antony Cherukara:** Market demand, at least in the near term looks positive, Q3 looks positive, but it is quite difficult to predict on Q4. As far as supply chain constraints are concerned it is better than Q1 and early Q2 levels it will grow considerably, but still there are issues in terms of supply chain not able to meet the demand that is coming now.
- Nishit Shah:** Okay and Sir, my last question, any update on the subsidy front?
- Antony Cherukara:** There are few states that have released subsidy, which was mostly pending subsidy that is Karnataka is one, then Assam is another one, which has released some pending subsidy other than that there is no fresh subsidy announcement from any state.
- Moderator:** Thank you. The next question is from the line of Hitesh Bhargava from B&K Securities. Please go ahead.
- Hitesh Bhargava:** Thank you for taking my questions. Sir, regarding our market share, you have indicated that our market share in the quarter has increased to 55.4, and on the other side you also indicated that inventory has come down, so from going forward, we can see this going above 60% levels, how is the market share going forward can be this?
- Antony Cherukara:** So, we are focused on actually growing the industry, so as I said last time we are also working with some importers who wanted to continue in the business and hence we will be supplying power tiller to them we have already signed an agreement for supply with one of the main importers. Earlier they used to import from a specific country. Going forward we are also taking to couple of people, so we expect market share to be at about 55% to 60% that is what we expect, but we are going to utilize our capacity manufacturing tillers for various brands.
- Hitesh Bhargava:** Can you give me some quantum, what will be the value in the revenue terms or volume terms, which we got the new orders from our competitors?
- Antony Cherukara:** One particular manufacturer we have signed normally sells 3000 units of tillers in the market and another one we are in talks with sells about 2000 to 2500 tillers in the market.
- Hitesh Bhargava:** And anymore you may get, or you in talk with anymore OEMs as such?
- Antony Cherukara:** No, only these two we are in talks with right now.
- Hitesh Bhargava:** Thank you. Sir, actually in our annual report we have indicated that in 5 years we are suppose to reach a vision of Rs.3000 Crores, can you just give us what are the road map or what are key areas which the company going to concentrate to attain this going forward?
- Antony Cherukara:** Yes, strategically the key directions that we are moving beyond the power tillers business to create a small farm mechanization business that is point number one, point number two, we are focused on building leadership in the compact tractor segment with larger coverage and larger range of products being launched in that segment, point number three is our focus is on higher HP segment is to increase capacity and launch tractors under VST brand and also the VST Zetor product development that I had spoken to you earlier about and number four is we are building

our precision implements business for Mysore facility and we are also looking at rural distribution business to grow going forward, so these are some of the steps that we are taking in this direction.

**Hitesh Bhargava:** Thank you, Sir and regarding the supply of tillers to our competitors who are previously depended on Chinese, so what would be the margin there, will it be similar to what we will be getting in the normal or they are margin dilutive?

**Antony Cherukara:** No, it will be almost the same kind margins that we are getting in the normal business.

**Hitesh Bhargava:** So, in that case are they going to sell these new tillers, which they get it from us, at a higher price than the regular Chinese tillers?

**Antony Cherukara:** Yes, there are some product specification changes.

**Hitesh Bhargava:** Regarding this precision components, which you are talking can you just talk more upon on this and how we go and do there and currently, how much is the revenue share and how much is the future target and how you are going to attain all these things?

**Antony Cherukara:** We have been manufacturing rotary tillers in our tractor plant, so we have shifted the rotary tiller manufacturing to Mysore to lay more focus on that, so rotary tiller, which is attached on the tractor is a big business in India, so we want to exploit that area and also look at possible tie-ups with certain international players in this segment, we are already in talks with them, but it is too early to announce anything, second is we are looking at the sprayer segment our tractors are used in the vineyards and row crops where sprayer is a major application, that are the precision sprays that is available, which is currently imported by our farmers in India which comes at a very large cost, so we are again in talks with few players to manufacture those electrostatics sprayers in the Indian market, so we are in talks on that as well, so these are the two segments that we have identified, but we are looking for more opportunity especially on precision implements.

**Hitesh Bhargava:** Okay, thank you, Sir and can you just talk upon on, how subsidy neutral tiller, which we were working what is the progress on it, can you talk more how it will actually help us in improving market share also?

**Antony Cherukara:** Yes, we had launched the subsidy neutral product in one state, which is in Tamil Nadu, we have got very good response, Tamil Nadu state wherein the government had announced subsidy will not be given this year or very little subsidy will be given this year, hence we decided to launch and it is just one month and we have got very good response in that market and as I said earlier it is not on market share we are more interested in creating the industry because as leaders now we are very clear that the business of power tillers will grow only if the industry grows and we are focused on that, so this will help us grow power tiller industry in Tamil Nadu and similarly we are looking at couple of states where we will be launching in November and also in December.

**Hitesh Bhargava:** Sorry to ask this, Sir, but when you say subsidy neutral tiller, you mean to say that you are going to reduce the price of the existing tiller, can you just talk more on this, when you say subsidy neutral tiller, how does it actually work?

**Antony Cherukara:** Yes, I will explain to you. There is a tiller, which is available at a price of 175000 to the farmer, so typically farmers gets a subsidy of anywhere between 40000 to 50000, so the farmer gets to own the tiller having spend Rs.125000 that is how subsidy works, so what we are trying to do is to make a tiller available to the farmer at about 125000 to 135000 in that range, it is as good as for him getting a subsidy.

**Hitesh Bhargava:** So, are we compromising on something for this on the profitability part?

**Antony Cherukara:** Profitability in the sense, there will be a certain lower profit on this particular unit, but I think which we had said earlier that we run our plants at 50% to 60% utilization so that is what we are focused on increasing the utilization and hence if you look at the whole profitability it does not go down.

**Hitesh Bhargava:** Can you talk about the remaining implements, how is it doing, you are talking about the weeders, how about the rice transplanters and reapers and also the solution business which we were also touching upon in our annual report can you just talk on that as well?

**Antony Cherukara:** Yes, so as I said to your previous question that the strategic direction that we have taken is move beyond power tillers and into small farm mechanization so we want to offer to the farmers all farm mechanization products between 1 to 2 horsepower to 16 horsepower, so this will include weeders, light, medium and heavy duty weeders, it would include brush cutters and we are looking at various other implements and applications in the segment as well. We have already launched brush cutters also similarly then they are looking at the entire power tiller range so this encompasses mechanization from 2-3 horsepower to 16 horsepower, so we will be creating hubs across the country, initial target is to create 1000 hubs across the country and transform this business entirely in the small farm mechanization business that is point number one and your question was on Gro Tech solutions, as I said these are crop specific solutions that we have developed working with some third party company on sugarcane and on ragi, rice, we have particular partner in UP for sugarcane, another partner in Andhra Pradesh for rice and we are increasing the number of farmers who are subscribing to these solutions and eventually we want to evolve this business model aggregating using digital tools this is the way forward, it is work in progress for us at this point in time.

**Hitesh Bhargava:** Okay, Sir, I have two more questions, can you give just give the revenue breakup of this quarter?

**Antony Cherukara:** So, in power tiller it is about Rs.111.85 Crores, tractor it is Rs.86.02 Crores, then spare parts is about Rs.20.45 Crores, precision component division about Rs.1.18 Crores and totally it is Rs.220.39 Crores.

**Hitesh Bhargava:** The last question regarding our gross margin, so over the period it has almost reached to our normal levels of couple of years back, so will the current gross margin may sustain and also our EBITDA margin, what is the sustainability, can you just talk about this, sustainability of the current performance?

**Antony Cherukara:** The margin may come down because we intend to spend for growth.

- Hitesh Bhargava:** Okay, on the gross margin part?
- Antony Cherukara:** Yes, at the contribution level we will get better, but the EBITDA level, we will be slightly lower because we are spending more money on growth in terms of product development in terms of brand building and in terms of market promotions.
- Hitesh Bhargava:** Okay, Sir. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Sir, good evening and thank you for the opportunity. My first question is just continuing on the margins that like you had mentioned that you will improve your gross margins that you had obviously be doing a lot more say brand building ANP kind of activities, so your margins might come off from the current 17% levels, but what kind of margins do you have in mind as a margin range that you think you can sustain at if your gross margin improve, you will be looking to kind of sustain at some level of margins?
- Antony Cherukara:** we have spoken about it earlier, it would be at about 14% to 15%.
- Mukesh Saraf:** Okay, got that and secondly, a quarter back you had mentioned that you had started seeing initial trend of some of the farmers buying the tillers without the subsidy, without waiting for the subsidy because they were in the situation where they could buy it, do you see that continue or was that just one off kind of event where you saw some farmers buy without subsidy or you see that continue even now that people are not waiting for the subsidy to be announced?
- Antony Cherukara:** Yes, that is continuing, but the percentage has come down, see in June and July period we saw it is as high as 45% plus now it is at around 29% 30%, but it is still continuing, which is a welcome change compared to the previous years.
- Mukesh Saraf:** Right, and the third question is on the weeders that you are mentioning that you want to get into a big way currently it is imported, you are going to move CKD from SKD, but when is the plan to start manufacturing, not just weeders even the other implements that you have mentioned, how is the timeline that you plan for manufacturing these?
- Antony Cherukara:** Yes, right now product development is on in terms of manufacturing and also in terms of localizing, so we expect to manufacturer them by next financial year.
- Mukesh Saraf:** The weeders, the cutters, and all of them or just the weeders?
- Antony Cherukara:** I mean, we are not going to do everything that is for sure that there are specific models that we would want to manufacture in India.

- Mukesh Saraf:** Right, understood and the reaper that venture of yours that is going as per plan and you start doing the initial manufacturing sometime end of this year, beginning next year?
- Antony Cherukara:** We are in the product development phase now, so as I said it will be available in the market only by FY2022 or early FY2023.
- Mukesh Saraf:** This is the last question, the previous quarter you had given a basic outlook of 15% to 20% growth in tillers and 10% to 15% growth in tractors, how do you see that now, any kind of change in that outlook?
- Antony Cherukara:** Right now, we are clocking better growth than I had told you, but even as I said to the previous person that Q4 is a little hazy to us right now, I think as we move forward it will get clearer and typically in terms of the harvest and the procurement that is happening now whether it will continue in the Q4 is what we are looking at that is one, secondly there is an aspect of subsidy, which normally comes in March, which may not come this year, so these are 2 aspects that we are looking at in Q4.
- Mukesh Saraf:** Got it. Thank you, Sir. That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Kunal Sabnis from VEC Investments. Please go ahead.
- Kunal Sabnis:** Thanks a lot for the opportunity. So, my first question is on the tiller volumes, the previous speaker with that most of the sales were dependent on subsidy and that basically was completely opposite what happened in the first half of the year, now to the previous speaker you mentioned that the proportion of sales from non-subsidy, tillers has gone down, but is the thought process changed in this particular segment that can sale still happen without subsidy or I mean how can you explain such high amount of sales that happened on non-subsidy basis?
- Antony Cherukara:** Yes, so definitely there is a trend change wherein sales is happening without subsidy being announced or released that is very evident otherwise, the growth that we are seeing now would not have happened, now what has aided is I think two things, one is the need of farm mechanization because non-availability of labour and secondly better cash flow in the hands of the farmer in the first 2 quarters of this year with better procurements happening and better minimum support prices and overall better cash flow to the farmers, so I think these are major drivers that we have seen and as I said to the previous person also the trend has definitely changed compared to previous years.
- Kunal Sabnis:** Right, if subsidy neutral products tiller also playing a role in the sales or that is still a minuscule portion of Q2 numbers?
- Antony Cherukara:** No, it is a minuscule portion of the Q2 numbers, but our theory is holding good because of first state that we launched and the only state we have launched so far, we are getting extremely good response.



- Kunal Sabnis:** Right and as you mentioned that you are not sure how Q4 will shape up, but this change in farmer level should aid, I mean there should not be a drastic drop in volumes right is that thought process correct?
- Antony Cherukara:** Yes, that is what we are expecting.
- Kunal Sabnis:** Got it, so on the margin front, explain a bit this 17%, the bump up was much higher than the steady sales guidance, which also looked kind of out of reach 2 quarters before, so what has driven this 17% margin?
- Antony Cherukara:** I think we had discussed this earlier and I had told that we will be almost back to normal, but while having said that yes, definitely there is 3% to 4% cost reduction in this COVID time because travel is not happening, because certain marketing advertising sales promotion event that we had planned is not put in place, so definitely I would subscribe 3% roughly on that, so we are at about that 14%, 15% that I have been talking about.
- Kunal Sabnis:** Got it, perfect, my question was on that extra 3% to 4%, but that is because of the cost factor, so my general question on the other income, is there a portion of mark to market investment in that 9 Crores odd?
- Antony Cherukara:** Yes, 4 Crores for Q2 on mark to market.
- Kunal Sabnis:** Great, that is all from my side. Thanks a lot, and all the best.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Thank you for the opportunity and congratulations on the great set of numbers. Sir, most of my questions have been answered, I had one question on the new dealer additions, so you mentioned you added around 80 dealers for tractors and 100 dealers for tillers, so is that number correct?
- Antony Cherukara:** Yes, that is right.
- Kaushal Shah:** Okay, these are exclusive dealers, I mean when I say mutually exclusive in the sense is the total number 180 or there would be dealers who would be selling both the products?
- Antony Cherukara:** No, total addition is 180, it is exclusive independent dealers for tractors, independent dealers for tillers.
- Kaushal Shah:** Okay and just for very I would say basic math that let say these 100 new dealers you know they would potentially do may be even 5 tillers in a month and through the remaining part of the year we have lets about 5 months left, so potentially can we see an additional sales around maybe 2000 tillers coming?

- Antony Cherukara:** Yes, that is something we have a sort of a speculation, but our effort is to increase sale at every dealership and we do not see any fall of farm mechanization requirement, so given these two demand drivers I think your assumption should be right.
- Kaushal Shah:** Just one last conformation on the EBITDA margin, did you say that around 14% to 15% range is sustainable?
- Antony Cherukara:** 14%, 15% looks sustainable unless there is a particular event that will get us to spend more to sustain the business.
- Kaushal Shah:** Sure, this is very helpful. Thank you and congratulations.
- Moderator:** Thank you. The next question is from the line of Devanshu Sampat from Yes Securities. Please go ahead.
- Devanshu Sampat:** Sir, good evening. Just wanted to know what does the total dealer count as of date and what is our targets for the end of the year and maybe next year if you have something in the mind?
- Antony Cherukara:** Yes, so dealer count is at about close to 300 for tractors and about 330 to 340 for tillers, we are continuing to grow the network at about 15 dealers a month for tractors and about 20 dealers a month for tillers and we will continue to grow, which I had shared with you for tractor, we are looking at growing to about 700 dealers and for small farm mechanization we are wanting to grow up to about 1000 numbers.
- Devanshu Sampat:** In terms of your vision to grow by 6 times over the next 4-5 years, so just wanted to understand, which strategy do you expect to continue substantially from by then from the one that listed out and weeders exports or contract manufacturing stand within the strategy or in terms of expectations?
- Antony Cherukara:** I think these kind of growth can happen only if we fire on all cylinders so growing in a market place, so increase coverage and increase network is one of the four strategic directions I have already spelt out to you, so working on compact tractors, increasing the range of production compact tractors is equally important, getting to grow the small farm mechanization by creating a range of products between 2 horsepower to 16 horsepower is equally important, the exploiting the potential in precision implement is equally important, also creating a distribution business using our spare parts distributors and retailers is equally important, so these kind of growth is only possible if we fire on all cylinders so the focus is on each of these businesses to grow as fast as possible and we have created the profit centre concept to drive the business individually, finding leaders for driving these businesses that has already been put in place so I think that answers your question.
- Devanshu Sampat:** Okay and any update on the contract manufacturing deal that you are planning with the company in France?
- Antony Cherukara:** That I answered, yes, I will repeat again. We have signed a contract with one particular supplier or brand in the market, which is about 3000 in number and he does about 3000 tillers.

- Devanshu Sampat:** No, that is about the tillers, I am talking about the French company that you have talked with?
- Antony Cherukara:** The power weeder, as I said we have moved to SKD and now we will be moving to CKD by Q4 and eventually we want to increase the range and start manufacturing also, so that work is in progress.
- Devanshu Sampat:** Okay. Thank you very much and wishing you and everyone very Happy Deepavali.
- Antony Cherukara:** Same to you as well.
- Devanshu Sampat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chetan Cholera from Pragya Equities Pvt Ltd. Please go ahead.
- Chetan Cholera:** I hope most of the questions are answered, I just repeating, I think you might would have answered even in 50 HP and up to maybe 75 HP, will be ready by which year?
- Antony Cherukara:** End of FY2022 or early FY2023.
- Chetan Cholera:** So, I think initially we were planning quite earlier, right?
- Antony Cherukara:** No, this is being the timeline, we have had 2 to 3 months delay, but that is more than recoverable because of COVID-19 and you know we could not travel and get things done, but I do not think that has affected the project.
- Chetan Cholera:** Any thought process on selling any surplus land we hold?
- Antony Cherukara:** No plans.
- Chetan Cholera:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Krishna Nagpal from Latin Manharlal Securities. Please go ahead.
- Krishna Nagpal:** Sir, my question was that you have a cash of Rs.71.49 crores plus with the investment of Rs.220.79 crores, so how do you plan to deploy this fund so that the 220 has been put at what rate of return?
- Antony Cherukara:** Yes, Rs.220 crores you know we have investment in mutual fund, so based on that you know the returns in the stock market today, it looks soft now, coming to the cash in hand we have a capex plan, which we are implementing on development of products for capacity so that is continuing this year as I had announced earlier we have an Rs.85 Crores capex plan, so this cash will be utilized for that.
- Krishna Nagpal:** Okay, Sir.

- Moderator:** Thank you. We will take the next question from the line of Anjani Agrawal an Individual Investor. Please go ahead.
- Anjani Agrawal:** Sir, I like to know in your aspiration target of 5000 Crores in 5 years, how much can be the services part like non-manufacturing?
- Antony Cherukara:** The vision target is 3000 Crores by 2025, we have not come out with a figure on the services part, I look at the services and Gro Tech solution as more of fortifying the brand across markets, so we have not put a figure to that yet.
- Anjani Agrawal:** In how many quarters can we see a decent contribution from services in your revenue any insight on that?
- Antony Cherukara:** I think FY2024-FY2025 where you can say we will be having something substantial to say on that front.
- Anjani Agrawal:** Okay, and you are talking about growing the industry, focusing on growing the industry, so how you see the industry itself say for tillers, say in 5 years how do you see the market work is presently, the size of the market?
- Antony Cherukara:** Yes, the power tiller industry has not been growing much for the last 4 to 5 years and I expect growth to happen this financial year at least 5% to 6% it should grow and going forward I see a trend where the affordability is a key driver for small farm mechanization wherein you will see more growth happening in power weeders and small machinery, so there already growth is happening at a rate of 30% CAGR, I think that will continue and power tiller should do about 4% to 5% CAGR.
- Anjani Agrawal:** You talked about the 30% for the other part, that you think for the next 5 years is possible on a compounded basis?
- Antony Cherukara:** Potential wise, yes, it is possible, but if the demand drivers are what it is today in the cash flow is what it is today definitely, I think we will see the growth continuing.
- Anjani Agrawal:** Sir, any further plans for anymore tie-ups like you have done with Zetor and Pubert?
- Antony Cherukara:** Yes, we are looking for tie-ups in the precision implement space.
- Anjani Agrawal:** Will that be sizable like presently it is nothing right that has contributed to your revenue, so you aspire to have sizable chunk from there?
- Antony Cherukara:** Yes, it is a huge opportunity, so as you had rightly said it is nothing in our books today, but we want to build on that.
- Anjani Agrawal:** Okay, thanks a lot.

**Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

**Jayesh Gandhi:** Sir, congratulations on good set of numbers. One bookkeeping question from my side, in the cash flow statement if you see tables have gone up from 1370 lakhs to 7019 lakhs, it says it is net of fair value adjustment on deposits, what exactly is that, I am not able to understand what is that?

**Antony Cherukara:** It is just purely trade payables, which is supplier payments that is there, this is Rs.70.19 Crores.

**Jayesh Gandhi:** It has gone up from 1370 lakhs to 7019 lakhs?

**Antony Cherukara:** Yes, considering the huge demand in the market we consciously took a call to build inventory in the month of September so that is why it is looking like that. Considering the festival season of October and November and buoyant demand in the market we took this decision.

**Jayesh Gandhi:** Okay, Sir, that is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Jeevan Rath from HnS Capital. Please go ahead.

**Jeevan Rath:** Thank you and congratulations to the team for executing on whatever you have been promising in the past 3 conference calls. My first question, I just wanted to do a fact check on the current tractor facility, the compact tractor capacity that we have currently, it is around 30000 right, if I am not wrong?

**Antony Cherukara:** Yes, you are right.

**Jeevan Rath:** Okay and the expanded capacity by when it is expected to commission?

**Antony Cherukara:** Q4 this year that is January period.

**Jeevan Rath:** That would be about, what would be number there?

**Antony Cherukara:** 25000 tractors in three shifts.

**Jeevan Rath:** So, Q4 of this year, we will have combined capacity of about 55000, right?

**Antony Cherukara:** Correct.

**Jeevan Rath:** Currently, we are selling about 1000 per month, so will be right seeing that we can affectively 3 times more without any further capex?

**Antony Cherukara:** You are right.

**Jeevan Rath:** Do we have any internal plans, by when will be in position to do this kind of ramp up in terms of volumes?

- Antony Cherukara:** That is our vision to get 3000 Crores wherein we intent to get to about 30000 plus tractors by 2025.
- Jeevan Rath:** Okay, I was just looking to the conference call and the previous question posted in tiller you mentioned that as part of the market growth strategy and also to cater to all the geographies, you are distributing the tiller through existing players who are primarily dependent on Chinese imports first, I do take the point, but what I want to know is see assume we have 55% market share now if we add the volume, which we are doing through this distributors, will our market share be around 65%?
- Antony Cherukara:** Yes, mathematically you are right.
- Jeevan Rath:** Okay and Sir, the Tamil Nadu example, which you are talking about where the government mentioned that there would not be any subsidy and we getting excellent demand on our subsidy neutral product, I just wanted to know what is the stands of other key areas where we sell, what is the stands as far as subsidy is concerned?
- Antony Cherukara:** Now, except Tamil Nadu nobody has openly declared.
- Jeevan Rath:** Do you sense this is becoming more going forward considering that the finance is a challenge because of COVID?
- Antony Cherukara:** I think so, because I do not see subsidy, over the last 4-5 year subsidies are coming down year-on-year, I do not see any change to the trend, which is going to happen in the future, so I think it is about innovation, it is about creating more affordable products for the segment of farmers that will keep us and keep the industry growing.
- Jeevan Rath:** Okay, and excluding the power tiller and tractor segment, the rest of the segment, which you were explaining in detail the small farm mechanization, which you want to build in the company, if I exclude power tillers and tractors, numerically if you would be able to give a number what kind of contribution we can expect in FY2022 to a turnover from rest of the segments?
- Antony Cherukara:** At least 10% in FY2022.
- Jeevan Rath:** At least 10%, okay and Sir, bad debts, which you mentioned earlier in the call of around 4 Crores, I think we did about 4 Crores last year also provisioning, so total I think we have done 8 Crores so far this year, how more is left with the provision?
- Antony Cherukara:** There is something more left, , it all depends on whether we can do as we are doing as per our credit policy, so if the money does not come and you know we are also set before about the Andhra Pradesh subsidy and the Assam subsidy, which has not come, so we are following our policy and provisioning for it, so some more are left in the subsidy to be provisioned, but we do not know for sure we will provision it or not because the government is talking to other manufacturers also on paying that amount, so we are expecting some moment to happen on it so to specifically tell you how much more is less may not be correct for me to say, but if you ask me something in subsidy still left, the answer is yes.

- Jeevan Rath:** Sure, I got the point. Sir, on tractor sales will you be in position to give me the geographical breakup like what percentage of the tractor sale is in south and what percentage in south plus west versus north?
- Antony Cherukara:** Yes, our 85% to 90% of the sale is in the west, north and east now, but north is very insignificant at the moment.
- Jeevan Rath:** Thank you and wish you all the best for the future.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Good evening and thank you for the opportunity. Firstly, you talked about the capex to be 80-84 Crores for this year.
- Antony Cherukara:** Yes.
- Saket Kapoor:** And we had capital work in progress of around 55 and another 30 is going to spend and that is all about?
- Antony Cherukara:** Yes, total capex spent for the year is Rs.85 Crores, out of which around Rs.35 Crores to Rs.40 Crores is carryover on the capex spend that is happening so fresh capex spend is about Rs.45 Crores to Rs.50 Crores.
- Saket Kapoor:** Sir, you talked about the capex is on the tractor segment wherein the capacity will be going up by another 30000 tractors and that will happen in this March quarter?
- Antony Cherukara:** Correct.
- Saket Kapoor:** But we will be scaling up the sales in 5 years' time, this is what you explain?
- Antony Cherukara:** Yes, the entire Rs.85 Crores is not on tractor, so one portion of it is on tractor and yes, the volume will be less than 5 years' time.
- Saket Kapoor:** Just wanted to understand that we are increasing the capacity at one go and the scaling of the sales will happen over a period of 5 years, so how does it plan about?
- Antony Cherukara:** So, the infrastructure is in place, but the install capacity may not be to the full extent that we do right now, so going phases we will control first and we will ensure that the margins are not affected, but we cannot built building two times, right.
- Saket Kapoor:** Okay, Sir, that is it and can you tell the utilization levels for the products right now in the tractors and the tillers what all our currently utilization level of the H1 and for the second quarter?
- Antony Cherukara:** Yes, utilization is about 60% for tillers and the compact tractors we had it about 40% to 50%.

- Saket Kapoor:** And which is the likelihood for the third quarter also as you have told that you will see what the third quarter is shaping up?
- Antony Cherukara:** Yes, third quarter also we should be around that level.
- Saket Kapoor:** Around these levels only, not lower, but in the fourth quarter the visibility will be available when we speak in the third quarter?
- Antony Cherukara:** Correct, you are right.
- Saket Kapoor:** Sir, we take the cash, which we have on the books whether it is in the mutual fund invested, what are the way in which you can look to reward yourselves as a shareholder, the cash component you are holding and even the cash, which you are generating, and one more question on the precision part I think so, one Crore is the turnover we did generated for this quarter, this is the Mysore unit?
- Antony Cherukara:** Yes, Mysore precision component, you are right.
- Saket Kapoor:** And the collaboration, which we are trying to do we have envisaged that what kind of opportunity will it open up going forward and how will be the utilization levels move up, you must have some thought process behind it, any time line?
- Antony Cherukara:** Yes, we are working on it, very difficult to tell you a specific time line given this COVID-19 because both ourselves and foreign partners are not able to travel and sit across because in some case we have been able to do it on video conferencing like with Pubert we were able to do that, but we may not be able to do that with every partner, so for me it is very difficult to give you a time length, but yes, we are looking at this huge opportunity because in India, precision implement is a space, which nobody is really in the game on, so we want to enter into that phase and create an opportunity because we feel that productivity in precision implement is going to drive growth for this organization in this country.
- Saket Kapoor:** And this statement will cater to all segment?
- Antony Cherukara:** For example, there is normal spray, then there are electrostatic sprays. Electrostatic sprays can be considered as precision because the usage of the pesticide or the nutrient that is being sprayed will be limited and controlled and will be precise so that is one example, so similarly there are several examples, sensor controlled rotatory tillers, which can be used on tractors, which is not available today, so there are so many areas we are looking at, so couple of examples I have told you and opportunity is there and I would put it this way, we are not looking at basic implement as a business that we want to build on.
- Saket Kapoor:** 3% margin benefit, which you have got due to the spending on advertising and the travel, this will go away as soon as these problems fade away in the near future, so the normal margins will be in the vicinity of 10% to 11% only or we can adjust to the new normal of 14% to 15% margin, Sir?



- Antony Cherukara:** See, we are looking at sustaining is about 14% level and currently, we are at about 17% plus level, so that 2% to 3%, there are certain learning's we have had not it is not only us I think the entire business community has had wherein some of it we will be able to sustain going forward also, but more importantly what we are looking at is we have a huge growth ambition and you very well know that it will not happen unless the certain amount of spend is there so we look at that as well and hence I am mentioning about 14%.
- Saket Kapoor:** Correct, about rewarding the shareholders the point how is you looking?
- Antony Cherukara:** I am sure our shareholders definitely will be more interested on investing for growth and giving more.
- Saket Kapoor:** Correct.
- Antony Cherukara:** I am sure we have enough opportunity to do so having said that it is not my decision, the board may consider the options.
- Saket Kapoor:** Thank you for considering and thank you and all the best.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will take the last question, that is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.
- Shanti Patel:** Sir, my question is what is the return on capital and return on equity today and after this expansion you are talking about gets over that returns which will be maintained in the future also?
- Antony Cherukara:** Yes, currently in H1, the return on capital employed is about 24.29%, we want to sustain this return on capital employed.
- Shanti Patel:** Return of capital employed, not and return on capital expenditure.
- Antony Cherukara:** Yes, correct.
- Shanti Patel:** Return of equity?
- Antony Cherukara:** Return on equity is 20.07%..
- Shanti Patel:** Are you planning to maintain or increase in the future because of this expansion?
- Antony Cherukara:** Definitely we intent to sustain, one of the things that you would have noticed this capacity we has not only built for today, but for the future, so if you look at in a way it is good for the company that most of the investments is already being looked into and already accounted for, so in that sense if you ask me both the ROC and ROE both is likely to be better in the future.
- Shanti Patel:** What is our PAT margin today?

**Antony Cherukara:** Profit after tax in terms of percentage is Rs.47.1 Crores on Rs.366.63 Crores, which is about 12.82%.

**Shanti Patel:** And the last one because of our Modi government policy focusing on rural area they are trying to double the income of our farmers, what will be the impact on the industry and on our company can you tell me from your past experience?

**Antony Cherukara:** Yes, all the policies of the government has been positive, the amendment of bills that has happened or the new bills that has been introduced that is a farmer produced trade and commerce bill, the farmers agreement of price assurance and farm services bill, and the third is the essential commodities bill, so all the three bills I think is in the positive direction and in the long-term definitely will help the farmer and this is definitely one way of ensuring that there is free enterprise and capital flow that will happen into agriculture and I think that is a need of the hour and I think with these policies that will definitely happen and it augurs well for the industry I mean the whole industry and whoever is related in agriculture.

**Shanti Patel:** So, the primitive method of cultivation can translate into mechanized farming slowly and slowly?

**Antony Cherukara:** Yes.

**Moderator:** Thank you. I now hand the floor back to Mr. Annamalai Jayaraj for closing comments. Over to you, Sir!

**Annamalai Jayaraj:** Thank you all the participants. Thank you VST Tillers management for taking timeout for the call, thanks Sir.

**Antony Cherukara:** Thank you very much.

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

**Note: there was a Con-call organized by Dhanki Securities on 25/11/2020. All the discussions are similar with this transcript. So, no separate transcript was made.**

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