

**“VST Tillers Tractors Limited 4Q FY ’20 Post Results
Conference Call hosted by Batlivala & Karani
Securities India Private Limited”**

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the VST Tillers Tractors Limited 4Q FY '20 Post Results Conference Call 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 call, please signal an operator by pressing '*' and 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 Batlivala & Karani Securities. Thank you and over to you, Sir.

Annamalai Jayaraj: Thank you. Welcome to VST Tillers Tractors Limited 4Q FY '20 and FY '20 post results conference call. From the Management side, we have Mr. V. T. Ravindra, Executive Director; Mr. Antony Cherukara, Chief Executive Officer; and Mr. Chinmaya Khatua, Company Secretary. Management will make brief remarks on the quarterly results and the outlook as of now and then we will go for Q&A session. Over to you, Sir.

Management: Good Afternoon everyone, happy to be on this call with all of you today. As you know, couple of days back, we have declared results of the last financial year and the last quarter. From operations, we had revenue of Rs.543.68 crores with other income of Rs.23.58 crores adding up to Rs.567.26 crores against previous year operational income of Rs.614.8 crores and other income of Rs.44.91 crores. Operationally, there is a drop of about 11.5% and the total income there is a drop of about 14%. On PAT, we are at Rs.18 crores against the previous year PAT of about Rs.46 crores, where there is a drop of about 61%. Coming to the volume, we have done 19,302 Nos of tillers against the previous year of 22,547 Nos of tillers and on tractors we have done 7147 Nos against previous year of 8198 Nos of tractors. This is with reference to the last year and for Quarter-4 of last year, we have done 4917 Nos of tillers in Quarter-4 against previous year Quarter-4 of 7271 Nos, and tractors we have done 1470 Nos in Quarter-4 against previous year Quarter-4 of 2123 Nos. This is overall figures for Quarter-4 and the last Financial Year. As we have declared, the April-May numbers have been good. We expect the June numbers also to be good. There are supply-side pressures, there are issues because of COVID-19 lockdown and migration of labor at our suppliers, but we are working towards resolving these issues. We expect this year to be better than the last year. With this, I would open up the meet and invite the questions from all of you. Thank you.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Nishit Shah from Aequitas PMS. Please go ahead.

Nishit Shah: Sir, I wanted to understand what is the value breakup of tractors and tillers for Q4 and Q3?

Management: I will first give you the cumulative value for Q4 and Q3 with Rs.120 crores for Q4 and Rs.123 crores for Q3. Now, coming to power tiller, in Q4 it was Rs.68 crores and Rs.51 crores in Q3 and tractors is Rs.44 crores in Q4 and Rs.54 crores in Q3.

Nishit Shah: What would be our market share, Sir?

Management: Market share in power tillers, we have closed the year at about 46% and in compact tractors segment, we are at about 11%.

Nishit Shah: Sir, I wanted to understand how much is the Chinese import for tillers?

Management: Industry per se would be I would roughly say it would be about 30%.

Nishit Shah: Do you see this coming down?

Management: There are couple of things that has happened in the industry in the last few years, Government of India has made stringent provision for testing of these, for availing subsidy they have to test and get a certification, only then they can sell and get subsidy, so because of which you know the Chinese percentage had definitely come down. I think the same issues continue and currently April-May at least there were some supply issues from China as far as I know and because of which the trend does not look positive for Chinese imports.

Nishit Shah: Sir, we will not be importing significant components from China, right, for us?

Management: VST does not import anything from China.

Nishit Shah: Sir, in this tractors and tillers are the farmers getting funding from NBFC now?

Management: Yes, NBFC funding is okay, but I would not say it is as high as what it used to be in the normal period. Currently, there are challenges because of the operation and doing a first level investigation by the financier itself is tough because the NBFC person has to travel to the village and FI done, because of all these factors due to COVID-19, it is slightly low but I would say in the month of June, it may be better than what was happening in the month of April.

Nishit Shah: Sir, in terms of realization, are we facing any pricing issues, how are our realizations for last one-two months?

Management: We have no pricing issues, our realizations are not under pressure at all.

Nishit Shah: Sir, in tractors in which HP are we seeing higher demand?

Management: We are predominantly a compact tractor player, so we mainly sell tractors from 18 horsepower to 27 horsepower. As you know, we have in the recent past launched higher horsepower tractors, I would say slowly we are building volume on that. In the compact tractors, we are seeing more demand currently for the 18 horsepower and the 27 horsepower.

Nishit Shah: Sir, other expense this time was higher by 26% than last year?

Management: You know that fair valuation loss is roughly about Rs.12.2 crores and then there is a provision for doubtful debt which is about Rs.8.1 crores.

Moderator: Thank you. We have the next question from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Sir, I have couple of questions, firstly what is our road map for the new products specifically like in tractor segment in compact as well as the new segment, which is more than 30 HP which we are doing in tie-up with ZETOR and what would be our roadmap for new products in tillers?

Management: In the higher horsepower space as you know, we have launched 45 horsepower and 50 horsepower segment we are present now under the VST brand of tractors and now we have tied-up with ZETOR where we are jointly launching products. Currently, these product plans are being drawn up and I have said earlier we will be in the market by end of 2021, and coming to compact tractors, we have launched 30 HP compact tractor also a new variant in the 27 HP for high torque called the high torque variant, 27 HT as we call it. Also, we are seeing 17 horsepower in specific markets, these are the new products that we have launched in the compact space in this month actually. In the power tiller space, we have launched the 16 horsepower power tiller and as I have said earlier we are working on a product which would come to substitute for the subsidy that is being offered by the Government, that we have not launched it now but we will be launching very soon that is in the power tiller space.

Nikhil Rungta: In this financial year itself we will be planning to launch that particular tiller wherein subsidy could be subsidy neutral, right?

Management: Yes.

Nikhil Rungta: Sir, my second question is what are the plans for exports in both existing product range as well as in the future product range?

Management: As probably you know already we have set up our distribution network in Europe and last year and this year we continue to consolidate on our network in Europe and further we want to expand into Eastern Europe, so that has been our primary focus as far as compact tractors are concerned. For power tillers, we are focusing on the neighboring countries as I have said before and we are in the process of appointing distributors in all our neighboring countries.

Nikhil Rungta: Sir, my last question is what would be our CAPEX plan?

Management: CAPEX as we said and declared earlier, we had a CAPEX plan of about 235 crores of which we will be completing the complete CAPEX spend this year. Also we will be spending additional 25 to 30 crores on new products this year.

Nikhil Rungta: So for this year the total would be approximately 260 to 270 odd crores?

Management: No, the leftover of 235 crores which will be roughly about 40 crores and additional 35 crores of this year, so roughly you can take it as 70-75 crores.

Moderator: Thank you. We have the next question from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.

Arjun Khanna: Sir, couple of questions, the first one on the power tiller side, in terms of growth guidance what kind of numbers do we expect for the coming two years, if I look at it in the past five years or may be seven years, we seem to be at the lowest end this year at 19,000 odd units, so what is our sense in terms of subsidy and other payouts and thought process of growth for the year?

Management: You are absolutely right, subsidy is the major driver for the power tiller growth because almost 90% of the sales is decided by the amount of subsidy that is being given by the Government of India, so last year was not good on the subsidy disbursement from the Government and hence we saw the loss of volumes. Also we had a loss of volume due to the abrupt lockdown in the month of March and this year we find that subsidy is likely to be lower than last year because the funds are likely to get diverted for COVID-19 and other purposes of the Government, so we expect subsidy output to be lower. As of now as we have declared in the April and May you have seen the numbers, it is looking up but we are seeing second half which could be quite subdued because of the subsidy not being there, that is our view on subsidy.

Arjun Khanna: Do we have a sense on what kind of volumes we expect for this year?

Management: We are looking at a volume which is slightly better than last year because as I said earlier we have prepared subsidy neutral product which we have not launched it as currently the demand is there, so we would be launching it in the second half of the year, so we expect to grow better than last year.

Arjun Khanna: Sir, in the earlier conference call, we had talked about margins trending higher from current levels, given this COVID-19 environment, do you think that guidance of margins moving up?

Management: Due to COVID-19, there is no influence on margins currently because the Agri segment is looking up and this is not only for us, this is for the entire industry it is looking up, so we are also not under margin pressure but these are unprecedented times and to predict exactly what would happen in Q2 or Q3 would be very difficult at this point in time. Right now, we do not see any margin pressure.

Moderator: Thank you. We have next question from the line of Alok Singh from BOI AXA Mutual Fund. Please go ahead.

Alok Singh: First is in terms of the competition which you used to face from the imported products, what is the status of that if you can put some color? Secondly, when you say subsidy neutral products, so are these any different kind of tillers or you are just trying to rebrand them differently, can you explain that please?

Management: Let me answer your first question, as far as competition import is concerned, roughly it is about 30% in the country and predominantly being imported from China in the power tiller segment and there are several names and every year there are some new names because there are some importers who would go and get it from China and then sell it in India, however, with the stringent norms from the Government of India what we have seen as I said earlier is that this trend is coming down because it is very difficult now for these machines to pass the Government test that has been put in place to enroll themselves into subsidy, so because of which the importing trend we are seeing is definitely coming down. Your second question was on the subsidy neutral product, yes, definitely it is something that we have worked on, there is some amount of innovation to it, but it is the same power tiller which is completely functional just as the same power tiller that we are selling today, it will be complete value for the farmer. It is only that through strict cost controls and better mechanism and little innovation on the product front, we are able to bring down cost and hence create a subsidy neutral product so that we can ensure that this segment of farm mechanization keeps growing in this country.

Moderator: Thank you. We have the next question from the line of Sameer Narayan from Invesco. Please go ahead.

Sameer Narayan: Sir, could you just throw some light as to how will the Higher HP market that you launched products in last year which is mainly the 40-50 HP, how are they shaping and how are you facing competition there?

Management: Last year we sold about 268 of our larger horsepower tractors which was from the previous year roughly 60-70 tractors we sold, . This year definitely we want to scale up production of these tractors to above 1000 tractors that is how we are going about scaling up these products in the market. The key driver is that we have to expand our channel because we had no presence with our channel in the predominantly higher horsepower markets like Uttar Pradesh, Rajasthan, Madhya Pradesh, and entire northern belt , so these areas we are building our network now.

Moderator: Thank you. We have next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: The first question is just a clarification, so this 12.2 crores plus 8.1 crores of mark-to-market losses plus provision for doubtful debts, all this is being done only in the fourth quarter or is there something of this which was done in the previous three quarters?

Management: Fair market valuation is totally dependent on the market fluctuations that you know; so if you are asking me about the provisions for doubtful debt, out of Rs.8.2 crores roughly about Rs.7 crores has been provisioned for in Quarter-4 and this is as per our credit policy.

Mukesh Saraf: The 12.2 is entirely in this quarter only, the fourth quarter only?

- Management:** It is based on these quarter-on-quarter fluctuations, exact amount in Quarter-4 is about Rs.9.62 crores..
- Mukesh Saraf:** My last question is regarding the gross margins, for last two-three quarters we have been mentioning that there are certain prototyping cost involving that and hence the raw material costs are higher, so this quarter it is about 67%, so when could this say go down to your earlier 64%-65% range that it usually was at so from when can we see that these prototyping expenses would no longer be there?
- Management:** You would have seen a downward trend as far as the raw material costs are concerned and this will continue. We expect better results in Quarter-1 and this is what I have told you couple of calls before, we will be back to normal levels by Quarter-1.
- Mukesh Saraf:** Okay, so we are on track for that?
- Management:** Yes, we are on track for that. We are roughly at about to per se say we are at 64.6% in Quarter-4 already, so I just got the figures out, it is 64.6% although material cost per se looks 62.6 on the results, but there is a valuation adjustment of about 2%, so it is about 64.6%.
- Moderator:** Thank you. We have the next question from the line of Kunal Sabnis from VEC Investments. Please go ahead.
- Kunal Sabnis:** Just wanted to understand this fair valuation loss is entirely on TEE in equity investments?
- Management:** Mostly, it is on equity and there is something on the MF side as well little.
- Kunal Sabnis:** In terms of these bad debts, if you could throw some color, is this in the normal course of business or this is something specially related to some specific problems that has happened?
- Management:** We have earlier also mentioned to you subsidy not coming through in certain states, so this payment has not come through even in the last year and this is the reason based on our policy we had to provide for this amount.
- Kunal Sabnis:** Is there any more back log left in terms of subsidy, if you can provide a number or something?
- Management:** There is little more left, but hopefully, fingers crossed, we should be able to recover this whole thing, but we will continue to follow our credit policy and accordingly look at this. We are not saying this money is never going to come, but it is from the Government so it is going to come, but we will follow our policy and accordingly provided for in the doubtful debts.
- Kunal Sabnis:** In terms of the tractor sales, especially on the compact side, have you seen any pickup in Gujarat-Maharashtra which are your major states for sales?
- Management:** Yes, in the first quarter we are seeing a pickup in this financial year and predicting for the next quarter in this juncture is very difficult.

- Kunal Sabnis:** Finally Sir on the exports front, how long will it take for us to tap ZETOR supply chain and sell through that?
- Management:** We are already working with them especially for Eastern Europe, so we should be able to enter into the Eastern European market may be this year.
- Moderator:** Thank you. We have next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir, just wanted a quick clarification, this fair value MTM is received from other income, right?
- Management:** Yes.
- Shashank Kanodia:** Secondly Sir on the power tiller market share, two years back we used to enjoy 58%-59% market share and now we are reporting 46% market share, could you please help us understand why such a decline for us?
- Management:** In FY '19, we had only 44% market share. In FY '20 in fact we have improved market share by about 2% at 46%. In fact until February we were at about 50%, however, in the month of March to the abrupt lockdown we could not complete billing compared to some of the other players who could do that, so the final market share was at about 46%, however, I am happy to say April and May we are back at above 50% market share.
- Shashank Kanodia:** But Sir from FY '17-18 to 55% plus levels, what led to the sharp decline to 44% in FY '19?
- Management:** We have shared this before, FY '19 we did a credit control during the year FY '19 and in fact some period of FY '20 we continue to do that, now we have adopted and transited it to a completely new credit policy that we have implemented, so specific reason in FY '19 is tight credit controls.
- Shashank Kanodia:** Sir, lastly on the margin front so the FY '18, we used to clock healthy 15% plus margins, we stuck to roughly 5% adjusted this year, what is the kind of trajectory that you are looking going forward and what are the key results for such a sharp decline in margins over the last two years?
- Management:** As you know already, we had material cost pressure due to several new launches which I have said before, now we are kind of stabilizing on that. The one-off expenses that we have had in terms of provisions for debt and also fair market value loss all this should be one-time is what we presume and we expect to be back to normal sooner than later.

Shashank Kanodia: Sir, just last one thing, supposedly if these have anti-dumping duty on Chinese imports, so how well are we placed to capture this opportunity and also are we open to contract manufacturing for other players who are selling under their own brand?

Management: We are open to that, in fact we are in very preliminary talks with couple of people on that front, so I cannot divulge anything at this point, however, anti-dumping duty I am not too sure how it is going to because the power tiller industry has already stopped importing as I said because of the stringent test measures that was put in place by Government of India, so I do not know how much influence that will have on the industry going forward. One thing I can tell you as far as Indian consumers are concerned, I am quite sure being in the rural market for all these years and people have already tested and tried Chinese imports and most of them are getting back to better quality products and they clearly understand the difference and they are kind of recognizing that much higher today than previous I would say three years back it was quite different, but I can see today that there is large amount of awareness among rural consumers about Chinese products.

Shashank Kanodia: Sir, I think the company's CFO resigned two days before the company reported the results, anything that the investor should be worried about?

Management: No, it is coincidental that he left few days before, it is purely due to his personal reasons.

Moderator: Thank you. We have next question from the line of Ritika Gupta from Equitas Investment. Please go ahead.

Ritika Gupta: Sir, I wanted to know whether dealers for John Deere etc. have opened up in the rural market, like is it import substitution that is currently favoring us?

Management: No, not really as I said repeatedly, 30% used to be the imports in power tillers earlier, now it is coming down.

Ritika Gupta: I am talking about tiller alone?

Management: Tiller, the trend is lower and lower every year and I doubt going forward, imports would play a larger role in the power tiller industry. Secondly, are we benefiting from loss of imports, I do not think so because, the mechanization in the small and marginal farmer friend is still very low in our country and large amount of farmers, there are few hundred million farmers who are involved in farming, but roughly the tractor population is only about 4 million that is about 40 lakhs, so there is a long way to go in terms of adequate mechanization happens in this country and leave out the tractors, if you look at only smaller marginal farmers, which is roughly about 70% to 80% of farmers in India still do not have affordable mechanization so I do not see this dropping, but I see definitely a shift happening towards more affordable machines and that is where we are talking about subsidy neutral product, we are talking about power weeders and stuff like that.

Ritika Gupta: Also do you think that downgrading is happening that is why the tiller market is growing?

Management: Tiller market is growing typically because today many people are adopting mechanization due to multiple reasons. One is availability of labor is scarce, cost of labor is high, affordable mechanization in terms of 15 to 10 horsepower range, the only thing that is available is the power tiller, so all these issues put together that is the reason the power tiller industry will grow, however, the subsidy has played a large role, because I have tried to explain this before also in one of the calls because in the rural setting, getting a subsidy is not only about affordability, but it is also a matter of pride.,

Ritika Gupta: You think financing is available for the farmers right now in rural India, is it amply available or do you think they are having issues?

Management: Financing as I said has improved from April to June, definitely there is a definite improvement because people have found out at least some areas they have found out digital ways of working to make financing available, but still the FI has to be done physically so the person has to travel to village, so every company, every NBFC is taking precautions using masks, using sanitizers and all of that maintaining social distance and still visiting villages that is still happening and I see it improving.

Ritika Gupta: I know but this year anyway we are looking tough for the Government to pay or to clear subsidy?

Management: As it is a State subject, it may differ from state to state.

Moderator: Thank you. We have next question from the line of N. Puranik from ENAM Securities. Please go ahead.

N. Puranik: I have a question relating to the new broader plants you have talked about recently three products, I want to understand about the design engineering, has gone through to launch this product and especially the supply chain, how do you manage supply chain, volumes, and cost and is it a durable product as per as subsidy battle is concerned?

Management: In the last three to five years, we have been investing heavily on R&D. We have a large R&D team of more than 60 to 70 engineers. We have a complete proto-shop equipped with all the softwares that is required, we have all the physical testing machinery, we are upgrading it including engine testing, transmission also we are putting up, so R&D related we have set up a complete end-to-end R&D to roll out platforms from our R&D facility and of course all the products that we build are durable and looks at unique value proposition that we want to offer to our farmers. For example, in our 30 HP compact, this is the most technologically advanced compact tractor in the 30 HP segment, with a complete synchromesh gearbox, which is fully indigenously developed by VST design engineers. We have developed our own hydraulics both in the 500 KG and 750 KG category. Also in the higher horsepower products, we have a complete range of tractors in the higher horsepower which is a 45 HP and the 49 HP, which is

also indigenously developed and we have also tied up with ZETOR to jointly develop products wherein the product will be jointly developed between the engineers of VST predominantly and with input from design engineers from ZETOR.

N. Puranik: What is the volume on the new launch that you have made, the tiller the new launch that you talked about, the zero subsidy product?

Management: This we are launching in this year, so the volumes we will declare it probably in the subsequent calls and also the new tractors also we have launched only in the first quarter, so we will probably in the subsequent calls we can revert to you.

N. Puranik: In a period of two years' time, do you think the whole company will move towards the low-cost efficient product portfolio?

Management: Yes, we are working towards ensuring that we are up to mark in terms of emissions and in fact that definitely does not look like a problem to us at all.

N. Puranik: The receivables, your selling terms are getting better now?

Management: Definitely yes.

N. Puranik: What are the credit terms you are offering, how many days your receivables are getting paid?

Management: It is based on the security of what is being in the credit policy, we have talked about bank guarantee and deposits as security, so we do not want to extend any free credit, it is all securitized credit we will be offering in the market.

Moderator: Thank you. We have next question from the line of Ronak Vora from AUM Fund Advisors. Please go ahead.

Ronak Vora: Sir, I joined latter end of the call, can you give me the volumes for the tractors and the tillers for the current quarter and the year?

Management: We have launched the 30 HP, 17 HP, and 27 HP high torque variant, these are the three products that we have launched in Quarter-1 in the compact tractor space and on the power tiller, we have launched the 16 HP power tiller, so these are the launches in Quarter-1 and also, I have said that we are ready with the subsidy neutral product in the power tiller segment, but we have not launched it yet. Now, coming back to numbers for you, last year we did 19,302 tillers cumulatively and 4917 tillers in Quarter-4 and in tractor we did 7147 tractors and 1470 tractors in Quarter-4.

Ronak Vora: Okay, for the current year?

Management: Current year, we have declared in April and May figures for April, the figure of tractors is 328 and May is 633 and for power tillers is 761 and 1750.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, due to time constraint, that was the last question. I now like to hand the conference over to Mr. Annamalai Jayaraj from Batlivala and Karani Securities for closing comments.

Annamalai Jayaraj: We thank all the participants, we thank VST Tiller Management for sparing time for the call and providing us the opportunity to host the call. Thanks.

Management: Thank you very much.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.

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