



“VST Tillers Tractors Limited Q2 FY-22 Earnings Conference Call”

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**MODERATOR: MR. ANNAMALAI JAYARAJ FROM BATLIVALA &
KARANI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 Earnings Conference Call of VST Tillers Tractors Limited, hosted by Batlivala & Karani Securities India Pvt. Ltd. As a reminder, all participant lines will be in a 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 “*” 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 Aman. Welcome to VST Tillers Tractors Limited 2Q FY22 Post Result Conference Call from VST Tillers Tractors Limited management we have with us today Mr. V.T.Ravindra – Managing Director, Mr. Antony Cherukara – Chief Executive Officer and Mr. Pankaj Khemka – Chief Financial officer. I will now handover the call to VST Tillers management for the opening remarks, to be followed by question and answer session. Over to you sir.

Antony Cherukara: Good evening everyone. And this is Antony Cherukara – CEO of VST Tillers Tractors Limited, and with me is Mr. Ravindra, Managing Director of the company and Mr. Pankaj Khemka, the CFO of the company, I’m very happy to share with you the Q2 results of the company and the H1 results. So, in Q2 we had a revenue of Rs.233.46 crores which is a year-on-year growth was about 6% and an operational EBITDA of Rs.38.39 crores which is a growth of 7.37% year-on-year and the operational EBITDA is 16.44% of revenue. PBT is at Rs.42.82 crores, which is a growth of 4.54% year-on-year and as a percentage of revenue it is 17.5%. And cumulative H1, this financial year the total revenue has been Rs.427.06 crore, which is a growth of 16.5% year-on-year and the operational EBITDA at Rs.63.78 crore which is a growth of about 17.94% year-on-year. And as a percentage to revenue the operational EBITDA is at 14.93% and the PBT is at Rs.74.02 crore which is 16.47% of revenue and which is a growth of 19.62% year-on-year.

Now, coming to numbers in Q2 in power tillers we have done a volume of 8626 numbers vis-à-vis last year volume of 7924, which is a volume growth of about 12.1% year-on-year. And in the tractors, we have done 2325 numbers vis-à-vis last year of 2751 numbers in Q2 and in comparison for H1, in H1 tractors we have done 4373 tractors vis-à-vis last year of 4517 and which is a drop of about 3% and in power tillers we have done a volume of 15,355 in H1 vis-à-vis last year of 13,110 which is a growth of about 17%. We can move on to questions now.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir if you can also share you’ve shared the volume for both tillers and tractors if you can share the revenue numbers also?

Management: So for power tillers the revenue is at Rs.125.38 crores for quarter two, vis-à-vis last year of Rs.111.85 crores. And for tractors it is at Rs.83.76 crores vis-à-vis last year of Rs.86.02 crores.

Kaushal Shah: Sir, if you can in the tractor segment if you may be add some more color on how the market has been apparently the South market did witness some growth. So have we gained any market share and what are the numbers that you've done in the higher HP segment?

Management: I would say it has been kind of flat for, complete H1 if you look at it, it's been kind of flat especially the month of September and October I would say due to festival the expected volume did not come up and the industry also has not grown much in these two months. For us in the compact tractor segment, the industry has not grown. And that is one of the reasons that we have not been able to grow in this segment. As far as higher HP volumes are concerned in Q2 we have done 230 odd numbers of higher HP tractors. And roughly about 400 tractors we have done in H1.

Kaushal Shah: And sir we were targeting about, if I remember that correctly about 1000 numbers in the higher HP segment for the entire full year this year. So that we are on track?

Management: We will definitely cross that number.

Kaushal Shah: Sure. And sir two more questions, one was on the associated products like the weeders, we've, added quite a bit number of new products like rotavator, et cetera. Maybe some more color on that as to how these new products have done in the last, let's say last quarter. And also if you can maybe share the outsourcing where we were supplying to dealers who were earlier dealing with Chinese tillers. So what is the kind of numbers that we have done in that segment?

Management: So, in this financial year we have done about close to 900 numbers outsourcing to importers, who are importing earlier from China. And as far as the power weeder segment is concerned, we are seeing good growth. And this year also we are seeing good momentum in the growth of that segment. And as we had said that we will be closing more than 4000 numbers this financial year we are quite on track to do that.

Moderator: Thank you. The next question is from the line of Mayur from Asian Market Securities. Please go ahead.

Mayur: So, I'm just trying to understand so there has been this ban on Chinese imports. And from what I understand this is a 50,000 odd industry, 50,000 unit annual industry, the tiller industry in India?

Management: Yes.

Mayur: And your presentation is like you would have about 54% market share. What I'm trying to understand is, when this ban happened, I was actually expecting that you would have actually gained quite significantly out of the Chinese share. I believe they were at about 25%, 30% of the market share?

- Management:** Earlier year, yes they were at 25%, 30%. But I would say towards after 2015 the share would be at about 15%, 20% so let's say about anywhere between 5000 to 8000 numbers annually, was the kind of numbers the organized players, organized importers I am putting that way.
- Mayur:** So, would we be able to, would we have been like captured more than 50% of that share that actually was left out?
- Management:** Yes, on an annual basis we will be doing that yes.
- Mayur:** So, is it safe to assume that your market share by the end of the year should be well above 60% if the market size is just the same?
- Management:** Definitely, the market share as on date is more than 60%.
- Mayur:** All right, great. And sir one more thing, so I also believe you are sitting on a 60,000 capacity for tillers and about 36,000 for tractors?
- Management:** Correct.
- Mayur:** And at this point, of course production is well below limits so, there is no need of immediate CAPEX for any of these products?
- Management:** You are right.
- Mayur:** Alright. So, when your annual report also said that you have a vision of about 3000 odd crore as a five year vision for 2025. But, that actually seems like a very big number compared to our current numbers. So, are we looking at any kind of inorganic growth also coming this way or this is purely we believed to be an organic growth leading to that kind of number.
- Management:** See, we have clearly laid out a strategic direction where we would be investing in multiple product lines, like I've said this before, areas that we are looking at number one is to move from just being a power tiller company to small farm mechanization company, where that is why we have got into power weeders and the brush cutters and the lack of equipment and that is growing significantly and we believe that it will drive growth in the small farm mechanization space for us. Second aspect is gaining leadership in the compact tractor segment. So, we have launched a couple of products this financial year, we will be continuing to launch more products in this space, wherein we will be able to gain volume in that segment, we believe that this segment will continue to grow although currently that industry is not showing growth at this point in time, but as the row crop and horticulture growth happens in this country, which is happening we are sure that industry is bound to grow and we will maintain our leadership there. Third aspect is the higher HP utilization that we have spoken about we, have put the capacity for a higher HP tractors, so the first task is to ensure that the capacity utilization is achieved that is where our joint venture with ZETOR also is coming place and we will be launching those products next financial year. Number four is what I spoke about is the investment into implements business

we have started that business it is initial days for us and it is also growing rapidly and you will hear more on that front from us in the coming times. And the number five what we are looking at is the distribution business that we are starting you will hear more from us in the coming quarters on the distribution business. Number six is what we are looking at investing into newer technologies, where again today we have also announced we have increased our investment into Zimeno Inc which is an electric driver optional US based tractor company, we have increased our investment in this quarter we have made the announcement to the markets today. So that is our multi-pronged strategy in terms of growth which we are pursuing. So, definitely your point is if you just stick on to power tillers and tractors alone, definitely our vision cannot be achieved. So, that is why we have multiple areas that we are working on to achieve this growth.

To answer your second part of the question, are we open to inorganic growth? Yes, we are very much open to inorganic growth, and we are looking at sound opportunities that will come up, which will align with our strategy and growth plan.

Mayur: Great. And if you allow me one more question, so, this is sounding pretty interesting, just that when you say you have increased your investment in the US based company, will that mean that the returns on those investments will actually form part of other income and will fall below EBITDA for you. So, while it may add to your earnings, it may not add to your top line growth?

Management: No, see our investment primary is not from the angle of financial returns that we are looking at what we are looking at is strategic return in terms of technology availability, our commitment to monarch as a supplier, we are already supplying certain critical components to monarch this electric autonomous tractor. So we would like to continue the relationship and strengthen that relationship and kind of bring that technology in India and at an appropriate time. So our target is not financial returns, our basic idea of this investment is strategic and of course as a consequence, if financial returns come in we welcome them.

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

Devanshu Sampat: Two questions regarding, the efforts I just want to understand if the company is doing any efforts in these aspects. So, one is the rental business, directly, indirectly are we looking at this and secondly, when it comes to digital adoption, that is happening within rural India especially, so, how are we looking to leverage on that or what are our plans to cap that area?

Management: To answer question number one, we are not looking at rental business. Coming to question number two on digital, we are doing a lot of work. And the first task has been creating the digital infrastructure within the company. In the last two years we have been focused on that we move to SAP, HANA or ERP infrastructure, we looked at automizing and making our complete operation paperless, which we have already completed. And now we are in the coming quarters, we will be able to share more with you. And it's not the right time to you to kind of share. Definitely one thing I can tell you is digital is one of our key drivers or enablers of growth in the future and we will be at the forefront of it.

Devanshu Sampat: Okay. And balance sheet that seems to have been our inventory pileups, can you throw some light on that?

Management: Yes, we have increased inventory about 30 to 40 crores in this quarter, which is the festival season, October was festival and November also is a good period. And we might continue this inventory in quarter three and then taper down, see we work on something called theory of constraints for the supply chain model, which we adapted almost one and a half years back. So when we manage the inventory by a methodology called buffer penetration and replenishment. So what that means is if a season is coming, you increase the buffer and increase the inventory. And once the season is over, we will reduce the buffer and kind of reduce the inventory. So you will see this dynamism and agility from the company going forward. And it is very consciously done.

Devanshu Sampat: Sure. Two more questions if I may, so is there any, would you like to revise your margin guidance going forward, because in this tough quarter so, it seems that we have sort of been on the higher side of what our guidance was?

Management: So, I will continue with the guidance, I'm close to the upper end of my guidance I would put it that way, to 14%. So, see as I said, I am focused on investing for growth, and you will see that happening more from the company. So the guidance remains the same.

Devanshu Sampat: And the last question, can you provide some update on what's happening with the investment that we have done with this US company in terms of like you said we are already supplying to them, so if you can just throw some light on how much it is, and maybe if you can share a sense of what the contribution may be, it's a two, three years down the line?

Management: Yes, so these are initial days, we have made series A investment earlier and now we have made a series B investment into monarch or Zimeno Inc, as the parent company is called. Now, we are working with them in terms of we have signed a master services agreement on product development. And we are working together with them on the product development and the various trials that are going on. And we look forward to developing this work with into a supplier partnership in the future.

Devanshu Sampat: No sir, you mentioned this before, you are already been supplying parts to the so is there sort of?

Management: It is product development and supply that we are doing. But regular supply and volume buildup will happen in the future.

Devanshu Sampat: So can you give us a sense of what monarchs plans are or what the expected sort of business is, have they already started selling or is it going to scale up now?

Management: I can definitely share what they've already put out there in the public domain I will see this is a driver, optional electric tractor which has got autonomous capability. That is why it is called

driver optionally. we supply them the drive train, and the cameras, the sensors and the software are plugged in by Zimeno Inc in the US, they have an assembly line there. And then they finally roll out the product and supply to the customers. So they have not begun commercial transactions yet with customers, which I hope they will start sometime in the next calendar year. So that is where we are at this point in time.

Moderator: Thank you. Our next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just, on the margin front the raw material cost seems to have gone down by almost 330 basis points quarter-on-quarter so, can you tell us, like what exactly has changed, what's driving the decline?

Management: Raw material cost as a whole has gone up for all of us. However, in our case, what we have done, we have been able to manage not entirely but to a large extent through cost reductions, and various cost management that we have been able to do in the company. Also, we did a price hike at about 3% to 4%. So to say raw material cost has gone down may not be entirely right.

Sonal Gupta: So the price hike was effected in this quarter, is that the way to look at it?

Management: Yes, in Q2 we had a price hike yes.

Sonal Gupta: Across both power tillers?

Management: Yes you are right.

Sonal Gupta: Okay. And just on the overall market, could you share the parts revenue also for this quarter?

Management: Parts we have done for the quarter two is Rs.22 crores.

Sonal Gupta: Sorry, so just backing back we have seen, like you have also made remarking outline comments that the tractor market demand has been more subdued and we did see that at least in volume terms the tractor volumes have come down on a year-on-year basis, so could you just talk about both the tractor outlook as well as the power tiller industry volume growth overall at the industry level and how you see things?

Management: So, at the industry level, the last couple of months have been particularly subdued, as I mentioned before, and we as a company operate in the compact tractor segment, which is a 90,000 to 100,000 tractor industry out of the 1 million tractor industry that is there. And in the higher HP segment, we have entered only last year, and growth is happening as per plan in the higher horsepower segment. So overall we feel that this year the growth of the industry should be in single digits, and should be around the mid-single digits 5% to 6% is the estimate that is out there for the industry, but it will also depend on how the climate is and how the monsoons are behaving. And right now we have a problem of excess rain in South, which could lead to some

problems if it continues for couple of weeks more. However, overall, the reservoir levels are high, the minimum support prices are in place. Although the cash flow into the farmer's hand has not yet begun, I hope in November and December that would happen and that would create some buoyancy for the industry and should be able to come out of the lull that we have seen in September and October.

Sonal Gupta: Right. So in that context, so like you already alluded to it, but we don't really have an issue in terms of higher channel inventory, even though the festive season has been more subdued.

Management: We don't have channel inventory as I have said before, we work on theory of constraints supply chain model, we work on consumption, and we don't do push sale. So in that sense, our inventory is very much under control at the channel level. And you will see slightly higher inventory at the company level. That we have seen in the balance sheet this time. So that is a conscious decision. As I have said before, and once the season is over, we reduced the buffer that is required and the inventory comes down again. So, that is how we manage, so there is no inventory buildup at the channel level.

Sonal Gupta: Got it. And sir could you share the Q2 number for B2B sales for power tillers?

Management: I have shared the numbers roughly around 900 numbers for H1.

Sonal Gupta: Sure. No, my question was more from the point of view that even like we're seeing a similar trend on the power tiller side like we have seen on the tractor side again demand is subdued?

Management: Yes, demand is subdued but the growth in power tiller is driven by VST. So the industry is like we have 60% market share. So what we are doing right now is introducing newer products, we have launched a 16 HP earlier now last quarter, we have launched another new product enter 9 HP level. So that is getting good response. So we expect, like I have said this before this year we should end up with anywhere between 20% to 30% growth in the power tiller segment. And we should be around 10% to 15% growth in the tractor segment. So, I am sticking to that same numbers that I've said before on these two segments.

Sonal Gupta: Yes sir. No, so that is why it is coming from because if you look at the first half growth, and clearly Q1 was a bit of a low base last year. But beyond that, like we've seen a substantial slowdown in Q2. So you're 30% growth in power tillers looks quite aggressive in that context where we are in Q2?

Management: Yes, because the seasons are still on for power tiller, the Rabi crop November, December season is pretty big for the power tiller industry. So we are quite optimistic on achieving this growth that I've shared with you, actually we are already at 17% growth. So achieving 20% and being closer to 30% is still achievable.

Moderator: Thank you. The next question is from the line of Hitesh Bhargava from B&K Securities. Please go ahead.

- Hitesh Bhargava:** Sir, I am going back to the same question which Sonal sir has asked so, if you look in tractor segment till October we have degrew around 5% but for the full year, you're saying that we are targeting a 10% to 15% growth, but if we look at the commentary of the other players are also if you look at the 2H of last year which is very high base and when the base is lower itself we have not able to do a growth. But in the second how the confidence like we are able to do a very high growth and reach 10% growth rate of full year?
- Management:** Our base for last year second half is pretty low, that answers the question.
- Hitesh Bhargava:** Okay. And in tillers also last two, three months if you look at even October is one of the very strong seasonal month, but we were able to do 1800 units.
- Management:** So October for power tiller is a very strong month, for power tillers it is not driven really by festival, see power tiller you will see Q3, end of Q3 and early December, January is largely the bigger reason for power tiller.
- Hitesh Bhargava:** Okay. And in this year did you see anything on the subsidies spends from the state government, any improvement from last year, is that also going to help you?
- Management:** See we have not seen any improvement in subsidy but there is some talk in the Northeastern states and in Karnataka, but we are not sure of that. These guidance is not based on subsidies coming or not coming. The 17% growth of H1 is also not based on subsidy so.
- Hitesh Bhargava:** And regarding our network expansion, how did our network expansion have been in 2Q both in Make in India and outside India?
- Management:** So, we have done roughly about 60 dealer additions in the tractor space. So we are over 320 dealers in tractors right now and we have done 157 dealers in the power tiller space, we are having more than 530 dealers now in power tillers like I've shared with you before, our target is to get 1000 number of dealer network in power tiller segment and at least 700 to 800 numbers in the tractor segment. So we still have a long way to go.
- Hitesh Bhargava:** Is this in different geographies or in existing geographies majorly in tractor segment I am asking?
- Management:** See in tractor segment, we were never in the North. So we are trying to expand in the North with our higher horsepower segment coming in. So that is where we are having higher growth of dealerships. And also we are in the markets where we have a strong brand, which is mainly the West and the South, we are having certain areas where we didn't have adequate coverage, we are adding dealers there as well.
- Hitesh Bhargava:** Okay, one last question this is from P&L front. Our other expenses in this quarter has gone up sequentially so is there any one off or this is the run rate going forward?

Management: No, I assure you would have looked at year-on-year basis. So if we look at last year, it has been a quarter where the travel didn't happen much at all in last year Q2, because of COVID, and all that. So this year, it was different so the advertising, sales promotion expenses, and the traveling expenses were quite normal. So in fact, I am happy that we were able to manage our costs, and were able to pass on a certain price increase and able to manage our margins, despite the fact that we had a commodity inflation ranging between 6% to 8% and also the fuel cost.

Hitesh Bhargava: Okay, and what is the commodity inflation you're seeing in this quarter. You said last quarter, we have taken 3% to 4% price hike and you said like 6% to 8% is the impact. So what is the impact in this?

Management: Yes, as of now we have seen kind of a mixed situation that is in certain steel, the prices have tapered down. But in certain areas, like steel it is a little high and we don't see much movement on the other commodities, but the diesel tax reduction, or the excise duty reduction is going to help all of us, because that will definitely drive inflation down and also operating expenses in terms of running the paint booth where diesel is used in a big way. So, in that sense, I would say that the inflationary trend has kind of stabilized. But, I would put up a cautionary note that it is becoming highly unpredictable.

Moderator: Thank you. The next question is from the line of Sushant Kanojiya from ICICI Securities. Please go ahead.

Sushant Kanojiya: Sir, earlier talking about the gross margin front, so most of the auto OEMs have reported depression in gross margin despite taking recent price hikes. So, I was just wondering, is there any one off in the raw material expenses that we should note off?

Management: No, there is none.

Sushant Kanojiya: So all the raw material price increase have been passed on to the customers now as on date?

Management: Like we said, now we had roughly 6% to 8% price increase depending on what you are dealing with. So, what we roughly were able to manage is passed on about roughly 4% to the consumer, 2% to 3%, we have been able to manage through better cost management.

Sushant Kanojiya: So then given that at the quarterly run date of volumes network guiding so then this should be a new normal range of EBITDA margin for us. So why are we really scaling down upon the margin?

Management: There will be several operational expenses in terms of driving avenues of new growth. And that is why I'm still maintaining the margin at the guidance that I've given earlier.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: So, you have been talking about FY20 target of about 3000 crores and in one of the previous calls. You had mentioned that it could include about 1000 crores top line from tractors and 1000 crores from tillers and other products.

Management: Yes.

Rahul Jain: So, just to understand on the sector segment sir first, so for last 10 years when I see our numbers, our tractor volumes have been on an average they have been in the range of around 8000, 8500, the highest number in last 10 years was 11,300 in FY18, else most of the years we have been averaging around 8000. So, going ahead two parts to it one you have said the compact segment which we have been there for a long time now. And secondly, you have spoken about going into the higher HP segment. So, first of all sir what are the steps we are taking or what gives us the confidence that from a top line of around 300 crores 250 to 300 crores range of tractors we can go up to 1000 crores the next three years, how do actually what is the kind of roadmap to achieve this. So, considering in the higher HP I do understand that the market size is much, much more larger.

Management: Yes, you are right. So, let us understand what do I need to do to get 1000 crores therein lies the answer I don't have to become the market leader or I don't even have to sell 50,000 tractors to get 1000 crores, you get my point right a single unit of tractor goes at about rupees six lakhs to seven lakhs in the higher HP space. So, if you sell close to about 8000 to 9000 tractors, you are talking about adding revenue roughly of about 500 to 600 crores. And, we already do a revenue of close to 400 crores in our compact tractor business. So, this is a rough, I am giving you a rough picture of what we intend to do. Of course, we have to safe guard, as you rightly said the competition is very intense, getting to 8000, 10,000 numbers is not that easy and nobody is going to give us space to kind of occupy that. But what gives me the confidence is today I'm operating with about 320 dealers, any higher HP player in our country has a dealership network of about 800 to 900. Now, VST has never been able to enter into the Northern market because we didn't have products that the Northern market needed, which is the higher horsepower segment. Now with products being there and the initial experience of ours in markets like UP, MP, Rajasthan where our products have started selling and people are coming forward to take our dealership we are pretty confident that we will be able to build our network to 800, 900 numbers and this network increase and coverage increase is what will drive the numbers that I spoke about enabling us to get to 1000 crores.

Rahul Jain: So, do I understand that the change which is now happening in last 12 to 15 months is basically the product which you have developed and also the distribution network which you have developed and are further developing these two things will help you to get to the...

Management: Absolutely and product is just not these two products that we are launching, we are going to launch a slew of products in the higher horsepower space. That is why we started with VST - Zetor so you will see the first variants of those products in the higher HP segment coming from

VST- Zetor stable in the next financial year. And you will continue to see launches happening again in the next financial year itself because I can't give out the details right now, but you will see as bringing a large range of products in the higher HP space and Zetor is known for higher HP tractor. So, we are confident that we will have products both at the premium segment level and at the value for money level from the VSTs table. So both these two, we are confident and the distribution network, we are confident that we will be able to achieve your objective.

Rahul Jain: Sure. So if you could similarly guide us on the 1000 crores which you are targeting from the tillers and other products because tillers today is around 400 crores of top line. And for last 10 years again over there also, somehow the average number has been around 21,000 on the highest being again FY18. So, what are we doing over there and how do you get to that number of 1000 in the power tiller segment from 400?

Management: Yes, so we are growing the power tiller industry that is why I said last year we grew 40%, this year we will be growing close to 30% and we are pretty confident about that why, because we launch new products, we are again we are increasing distribution. Today we are at more than 500 dealers in the power tiller segment and all these growth you're seeing in H1 at 17% growth is coming from business which is not dependent on subsidy. So, this gives us confidence that we will be able to grow the business despite subsidy and to get 1000 cores we are looking at doing roughly about 50,000 to 60,000 tillers which will give us a turnover about 550 to 600 crores and then we are looking at building this entire power weeders, brush cutter, chain saw range that we are working on, we have launched the entire range now, so that will also yield about 250 to 300 crores in the next three years.

Rahul Jain: Sure, that is quite helpful sir. And on the export front, you had mentioned about reaching tiller around 10% of sales, the targeted 3000 crore sales. Currently, correct me if I'm wrong, we are somewhere around 40 crores of export sales as for FY21. So, similarly, what are we doing over there again probably African and some of these regions being quite competitive. So what exactly are we doing on the export front strategically to greet that number of 300 crores?

Management: So on the export front, first again we are consolidating in Europe, especially in Western Europe, I am very happy to say that in H1 we have grown more than 200% in exports. That is the largest growth we have seen and we are also expanding in the Eastern Europe, we have entered Romania, Bulgaria, Croatia, and Slovenia. And there is still markets which we have not entered typically the Scandinavian countries we have not entered. Secondly, the other Eastern European countries, which include Ukraine, Serbia, all these and which are all trend three a market which is similar to Indian emission norms. Those markets we have not entered, Turkey we have not entered which is the third largest tractor market in the world. So in Europe, there is still a large opportunity that we are pursuing, second continent that we are focused is on Africa, where we have entered the Western part of Africa and the Southern part of Africa this financial year. And we are seeing good momentum in terms of both the tractor business as well as the power tiller business in Africa. And also Africa is a larger higher horsepower market. So with the launch of higher horsepower products from our stable, we will be able to grow those markets further. We

are also in talks with our partner Zetor to expand into other markets, especially Latin America and the North American markets. So that is also under discussion.

Rahul Jain: Sure. And sir one last question with regards to the management bandwidth. So, we are talking about going from about 750 crores to 3000 crores in a span of three, four years. So what kind of management bandwidth do we have today and what kind of other additions do you need to do to get to this number?

Management: Yes, we need leadership bandwidth. So if you have gone through our annual report in our mission statement, we are talking about 5x leadership. Now, this 5x leadership has been thought out that we need at least five times the leadership that is in the company today. So, we are working on that and in the last two years, we have recruited people from tractor industry itself and the automobile industry in general for various functions for HR or finance. And the leadership in the power tiller segment and in the other areas of tractor business as well. So, yes it is an ongoing work for us. There is still a long way to go because considering our growth plans, we need more leadership and we are working on that.

Moderator: Thank you. The next question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Few questions from my side. One is that I joined the call a bit late, have you mentioned how many power tillers do we sell on a subsidy basis, can I get that number, the percentage?

Management: Subsidy percentage is very low now it could be about, it's a rough number kind of, I'm telling you, it's about, let's say, 15%.

Prolin Nandu: Sure. So, just wanted to ask for the past few quarters we have been mentioning that with the change in **(Inaudible) 45:37** amount in farmers they no longer wait for subsidy right, it might come after they make this purchase, has that trend now, the very firm trend now and you see that eventually 15% number will become zero in a few years' time and then we will not have discussion around subsidy and all that is that a fair way to look at it?

Management: I don't know about zero, because the government has to stop using them, but I don't think they will stop. So, but the trend is like this, I can tell you this, this trend is very much here to stay. The only reason I'm saying is the customer is getting direct benefit transfer today he is getting the money into his account. So that is the biggest difference that has happened and which is helping the industry. Because earlier, what used to happen is that the customer was dependent on the dealer to get his subsidy money today, he is not so if the subsidy comes he knows it will go into his bank account. So he's not worried.

Prolin Nandu: Sure, but that DBT also you're saying that is a 15% approximate ball park number?

Management: Why I said 15% is because see the government has to do subsidy allocation, only then subsidy comes. So this year allocation has hardly happened. So that is why the entire industry is working

practically without subsidy now. But that doesn't mean that these customers won't apply for subsidy, they will apply.

Prolin Nandu: I understand that, no longer waiting because it's coming directly in their account, I take your point. But a larger question to that was that we were trying to see whether we can get some sort of financing deal with some of the banks as well right for power tillers. And one of the challenges was there is no chassis number so to say for a tiller in sometimes, and if I'm not wrong in the past conference call, we have mentioned that we have tied up with a small finance bank, kind of small finance bank if I'm not wrong, so anything on that so, my point is in other segments, what we are seeing is that as soon as financing becomes available, the size of the opportunity or the size of the market is huge and it just expands a lot and in a market like India, where the agriculture is dominated by small and marginal farmers, the size of tiller industry is extremely small right in some sense. So, do you think that this financing can help solve this problem and agree being the leader what are we doing to ensure that such kind of **(Inaudible) 48:17** happen?

Management: Yes, we have done already tie-up with Jana Small Finance Bank and Sammanati and Jai Kisan so we have tied up with few of them and more work is happening on this front to increase finance. Till today, the issue is the coverage of the bank across the country, especially rural parts is not significant compared to the nationalized banks like SBI or the bigger banks. So, that is a constraint today, but we are making good progress on this front and you're right that this will be one of the major drivers of growth for the power tiller segment.

Prolin Nandu: Sure, but right now what percentage of our tiller sales happen on?

Management: 5%

Prolin Nandu: Okay. And is there any challenge why we are not able to tie up with somebody who has a national spread, it could be bank, it could be NBFC?

Management: See, the problem that we are facing is one you yourself said one is the registration of the team itself. Number two is the effort of the field officer for doing 1.5 lakh finance vis-à-vis the tractor which is a five lakh finance is the same. So, at the ground for the branch manager to meet his target, he is focused on a larger ticket rather than focusing on a smaller item.

Prolin Nandu: Right. So, have we tried, talking to some of these MFI small finance bank where ticket size is much more similar?

Management: That is precisely what we are doing, that is why I say Jana Small Finance. So, you will hear a lot more about it earlier this finance used to be at 2% now, it has moved to 5%, our target is to take it to at least 25% by next year.

Prolin Nandu: That would be great. Okay, so looking forward to see more such tie ups. And also again, now the question on tractors and our ambition of reaching 1000 crores there and I completely understand 1000 crores in overall things is very, very small and we don't have to achieve great

market share there, but what we have realized is that the brand loyalty in tractors is extremely strong and it's very, very region specific or district right next to each other will have two different brands, which are extremely strong there. So, apart from the features and value for money offering, what are the other sort of, what are the other things that you are working on, which will make the farmers use our tractors versus a brand which is already established there.

Management:

Yes, so like what I said is the brand is having acceptance of roughly about 10% share in markets like Maharashtra, Gujarat, Southern markets in the compact tractor space so, there is a certain equity. Now, definitely, we will take advantage of this equity and drive sales in these markets for our higher horsepower as well. But having said that, the larger chunk of the higher horsepower market is the Northern market where we don't have brand equity. So, what we are focusing on in these markets is how to build our brand, how to build brand VST in these Northern markets. So, a couple of things what we are doing is, we are rolling out advertising, we are rolling out a lot of digital campaigns in these segments and these markets, and that is one definite thing that we are doing and as I said you don't have to even take 10% share to get 1000 crores.

Prolin Nandu:

I take that point. Sorry, you were saying something.

Management:

No, what I was saying is, so the focus is on the Northern market how to build the equity and how to build the VST brand presence in these markets. And that definitely is happening because we see the dealerships are getting appointed, even though the brand was not present in this market earlier. One of the key differentiators which I kept on emphasizing in earlier calls also is the fact that we are not touching inventory.

Prolin Nandu:

And if let say for example, a farmer wants to get VST tractors in high horsepower finance in a Northern market will he get at the same rate what is a leader in that particular market?

Management:

In the Northern markets we are not getting the same I would say quantum of loan, interest rate is the same, suppose the market leader gets 90% financing and new brand in that market gets only 70% financing. So, that difficulty we are facing, but we are working with the banks to overcome that by working other proportional schemes with the bank.

Prolin Nandu:

Sure. And because we don't have a track record and hence we don't have the vintage record as well right or resale value so to say right is that also a challenge which we need to overcome through branding and other such other things?

Management:

It is very specific to market we don't face that problem see we are getting 90% finance in markets like Maharashtra, Gujarat and even in the Southern markets. We are facing this problem only in the Northern market where we were totally absent. So, that is where we are giving confidence to the same banker see, an NBFC who finances in Maharashtra at 90%, why should he refuse 90% in UP for example. So that is working and because it has to happen at the field officer level, at the branch manager level.

Prolin Nandu: Understood. And anything on this Zetor tie up, there were some visits which are pending from their end to take this MOU further. Now that travel have started, can we see some progress on that front?

Management: Definitely, you will hear a lot from us in the coming quarter.

Prolin Nandu: Sure. And last question, is on the land that we own in Bangalore while in the past we have said that we have no immediate plans but anything has changed on that, because that's a very prime land and I am sure that you also must be tracking the real estate cycle in Bangalore. Any plans on that, anything that has changed from the point of view of force on that particular aspect?

Management: No, not at the moment.

Prolin Nandu: Okay, but any thought process that we have as to how do we intend to monetize that?

Management: Definitely, we will do it, like I've said before, we will have to monetize it at an opportune time. And that will happen, but we have not decided anything at this point in time.

Moderator: Thank you. The next question is from the line of from Hitesh Bhargava from B&K Securities. Please go ahead.

Hitesh Bhargava: Sir, I have one clarification, you have indicated that tiller purchase are happening in despite the subsidy being released, so that the farmers are buying from us and later they are applying for the subsidy. That's what the trend going on for the last one year or so, if I am right. So, my question here is like, considering that from the last one year we are seeing lot of purchase like this and there is a lot of farmers waiting for their subsidy to be released, they have made the purchase. So, we are not waiting for anything, but the farmers are waiting for the subsidy getting released. So, as we go on and considering the states are also facing challenges on the fiscal policies. So, if this trend goes on like there are a number of farmers looking for another one, two years more, do you see these farmer purchasing may come down, do you see this is going to impact our volumes not in the....

Management: No, purchase happens because of the need, nobody will purchase anything because subsidy available, the purchase is happening because the farmer wants to use the machine in his farm. Now, the whole concept of subsidy is, it kind of eases the purchase decision because he doesn't have to approve that much capital because the share of the capital is coming from the government. So, what it eases is the purchase decision or his burden, I would say financial burden, but that doesn't mean he is buying the power tiller because subsidy is available, he is the buying power tiller because he need it in farming and that has become predominantly high because labor is scarce or labor has become costly. So, because of these reasons people are buying and people are using it in the farm number one, number two, once he use it in the farm and there is a large segment of power tiller users who rents out his power tiller and typically what we understood is two to three seasons, he recovers the cost of the power tiller wherever renting is prevalent. So, once the earning potential is realized and once he realize that he has to

pay much, much lesser interest costs compared to a tractor which otherwise becomes a huge financial burden for him in terms of interest that has to be paid. Now, the power tiller is increasing and with 16 HP where the farmer can sit and drive and use the power tiller like a tractor, where the fatigue is not there for farmer to use when he is walking behind, we see the sale increasing. So, to kind of answer you people are not buying because of subsidy people are buying because of need. And if you can reduce fatigue, if you can reduce the burden, it becomes a catalyst for more purchases. That is what I'm trying to tell you.

Hitesh Bhargava: Okay, sir my question is basically not, what I was trying to find is like considering that there is a lot of farmers spending, and government may not cater to everyone. So, I am trying to find because in one point, there might be a stage where the government may not be able to cater for everyone because of the pending order of higher member. So is there a purchase vision being changed from farmer end do you think that may happen?

Management: I don't think so.

Moderator: Thank you. We'll be taking one last question, that is from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: Thank you for the detailed discussion during the call. Firstly, on this capital working progress part the figure of 30.47 crores what is it attributable to and when is this going to get capitalized?

Management: So, we have some product development which is under progress, which will be capitalized as soon as it is done.

Saket Kapoor: And the benefits of the same will acute going forward in the coming year?

Management: Absolutely.

Saket Kapoor: Okay, can you give some more color, what will it lead to more product?

Management: See, for example we have certain range of engines that we are sourcing from outside. So that sourcing will stop, those kind of things will happen, which will help the company financially.

Saket Kapoor: Sir you mentioned that H2 last year was lower in terms of business and profitability. So the competitive number for this year H2 is likely to be better, this understanding of mine is correct, you answered the earlier question?

Management: Yes.

Saket Kapoor: Sir last year also we have this employee benefit expenses of 82 crores that included some VRS part, this will not be here for this year. So that will be an addition to what you were saying, that would be one of the factors.

Management: Correct, that was a onetime expense, you are right.

Saket Kapoor: Sir when we look at this other income component also sir, we are into this manufacturing business part but still sir 1/3 of our income is coming from our investment related activity. So looking at this top line, figure of 3000 in the year two to five, how will our investment profile likely to look sir when we look at the returns, looking at what the eight curves are today. What should we look in terms of the other income components are going forward also and sir lastly on the component business part also, at Mysore, we were developing some new products to improve our bouquet of components. So where are we in terms of that?

Management: Yes, so to answer the first question, the capital investments, it all depends on how much capital we are carrying at that point in time. And I'm sure the company will take the decision to maximize returns on the capital at that point in time. I can't comment, we don't have a business plan on capital returns five years from now that we don't have because you very well know, you have rightly pointed out we are a manufacturing company. So, we are not planning for that but at that point in time the capital that we have will be utilized appropriately to maximize returns number one, so that can answer the question number one and for question number two, which is Mysore yes, I mentioned to you we have converted that into appreciation implements division, where we have started manufacturing rotavator and these are initial days for that but it is profitable and doing well and we will be able to talk more about it in the coming quarters.

Management: Thank you everyone, and thank you for your time.

Moderator: Thank you very much. Mr. Annamalai Jayaraj, would you like to add any closing remark?

Annamalai Jayaraj: So, we thank the VST management for taking time out for the call. We thank all the participants, have a good day.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines. Thank you.

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