



“VST Tillers Limited 4Q FY2017
Post Result Conference Call”

May 26, 2017



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Moderator: Ladies and gentlemen, good day and welcome to VST Tillers Limited 4Q FY2017 Post Result Conference Call, hosted by Batliwala and 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 “*” 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. Good morning everyone. On behalf of B&K Securities welcome to 4Q FY2017 Post Results Conference Call of VST Tillers Tractors Limited. We have with us today Mr. Subbaiah, CEO and Mr. Keshava, Senior General Manger Finance. I would now invite Mr. Subbaiah for his opening remarks to be followed by a question and answer session. Over to you Sir!

K.U. Subbaiah: Thank you Mr. Jayaraj and good morning ladies and gentlemen. I will give you a quick update of the Q4 performance as well as the performance of the whole year. First, I will talk about tractors. In Q4, we registered 34% growth in volumes over previous year in the same quarter in the compact segment category. While the compact tractor segment industry was adverse 5%. During the year, we had volume growth of 26% over last year in the compact segment while the industry growth was 1%. Launch of 27 HP VIRAAAT tractors helped the growth for VST. We sold 2200 numbers of VIRAAAT models during the year. Our market share in the compact segment moved to 16.5% from 13.2%. The overall tractor industry growth was around 16.8% during the year and we registered a growth of 26.3%.

In case of tiller, the industry witnessed adverse growth of around 11% while VST suffered adverse growth of around 7% in the year 2016–2017. However, our market share increased to 58% from 56.7%. The decline in volumes is attributed to drought in southern states Karnataka, Tamil Nadu and Kerala. Delay in launch of subsidy schemes in Andhra Pradesh, Odisha and Bihar, demonitisation and last but not the least the political climate especially in Tamil Nadu. The revenue share from tractors increased to 41% from 34% last year. The tiller revenue share came down to 56% from 62%. The PBT for the company in 2016–2017 is 15% as against 17% last year. As mentioned on earlier occasions, the PBT has come down due to planned increase in expenses in employee cost and sales promotion. The employee cost and sales expenses are well within the planned budget; however, due to revenue shortfall in tiller, the cost as percentage has been impacted.



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In Q4 the PBT is around Rs.27.22 Crores, which works out to 13.63% as against 17.08% in the same quarter last year. The revenue in Q4 is Rs.198 Crores compared to Rs.177 Crores of previous year, which enabled better absorption of fixed cost. We expect this trend to continue during the year. We have recently launched two new tractor models in the market namely the VST Shakti VIRAAT plus and the 17 HP single cylinder tractor VST Shakti SAMRAAT. These two models will enable us to grow the volumes in 2017–2018. We expect a healthy double-digit growth in volumes during the current year.

In case of tillers, we expect this year to be much better than 2016–2017 with the prediction of a normal monsoon and announcement of subsidy schemes in few important states like North East, Karnataka and Odisha. During 2016–2017 we launched a new tiller, 135 DI with additional features. We expect this model to be sold on direct sales in the market. During the year 2016–2017 we also started selling the MTD brand power weeders in the country.

This is a quick overview of our performance of Q4 and for the full year. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. Sir couple of questions. First, can you give a breakup of tractor and tiller sales by value for Q4?

K.U. Subbaiah: Tillers were Rs. 108 Crores and Tractors was Rs. 75 Crores.

Viraj Kacharia: Got it. Second question, if we look at our tiller segment, we have dominated the space for the last many years, more than a decade. Now if you look at last five years of sales has been flattish. Considering the inherent business of subsidy seasonality, if you look at over next three years or five years how are you looking to buck this trend, how are you looking to grow in a more sustainable rate, so where do you see the growth coming from for us, if you can just provide some thought process on that?

K.U. Subbaiah: In case of tillers from period, it has been cyclic in nature. Market research based on interactions with the customers and with the farmers in the field indicates that there will be an average growth of over 5% to 6%. So, riding on this we feel that the tillers will continue to grow, if not in the same level as of tractors. That is why the company is also focusing more and more on tractors and if you had heard me our revenue share of tractors is growing



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year-after-year while the revenue share of tillers is coming down, but the tiller is a space, which we need to continue to play being dominant player in the market and we will go along with how the industry grows.

Viraj Kacharia: But considering the other opportunities in terms of new segment as you talked upon last time about the sub 8 HP power weeder and other export markets which are large because the competition is Chinese, are we looking at any of those areas in terms of making them growth driver for tillers?

K.U. Subbaiah: Yes, as far as power weeders are concerned, I did mention that we have already started selling the MTD power weeders where we have got the exclusive rights to sell in the country. The volume being small, we are not embarking on manufacturing these products now, but as and when the volumes increase we will try and get the manufacturing technology from MTD and if they agree we will start manufacturing it here. Apart from that we are also going to launch a higher HP of power tiller during the year and that will also give us some additional market share in the segment, which we are not playing as on date.

Viraj Kacharia: How big would that segment be?

K.U. Subbaiah: That is around 4000 tillers per annum.

Viraj Kacharia: Got it. Second is, if you provide some idea on where key states are with regards to DBT implementation and the subsidy related confusion, which was there earlier, has had been resolved, can you just provide some update on that?

K.U. Subbaiah: 90% of the tiller sales are on subsidy. The type of subsidy varies from state to state. If you talk of full-fledged DBT that has been introduced already in Tamil Nadu, is already there in Gujarat and the new state which has implemented DBT is Odisha. Odisha implemented DBT in the last week of February, which is going to take a positive shape during this year. So, these are the three states, which have full-fledged DBT where the farmers must pay the entire amount to the dealer and take possession of the vehicle and within 7 days or 14 days the government will reimburse the subsidy portion directly to the farmers.

Viraj Kacharia: So that has already been practiced in Odisha?

K.U. Subbaiah: Under implementation



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- Viraj Kacharia:** If we look at our other expenses, as you pointed out, we have been making investments in employee, expenses in sales and marketing, so going forward what is the sustainable rate one should look at in terms of...
- K.U. Subbaiah:** I would say, both employee cost and other expenses put together we will be in the range of about 19%.
- Viraj Kacharia:** If we look at raw material cost we have seen significant increase across the industry in terms of key RM prices moving up significantly, so is bulk of the RM cost already reflected in Q4 results or we do see further pressure in the coming quarters?
- K.U. Subbaiah:** In Q4 some price increases were given, but in Q1 of this year we will see the major impact coming in especially in case of tyres, batteries and all the steel items, casting, forging, etc.
- Viraj Kacharia:** So, has there been any corresponding price increase, which we have taken at least in the start of the year?
- K.U. Subbaiah:** We are working on price revisions.
- Viraj Kacharia:** Right, in the last concall you mentioned about us planning to launch two new models in FY2018, so the ones, which you talked about right now?
- K.U. Subbaiah:** Yes, first we launched last week in Pune are the two models, the VST Shakti 27 HP VIRAAAT and VST Shakti 17 HP SAMRAAT, which is a single cylinder tractor.
- Viraj Kacharia:** I will come back in queue for more questions. Thank you.
- Moderator:** Thank you. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Yes Sir! Good morning and thank you for the opportunity. Sir, just one clarification firstly on the revenue numbers that you gave out, it is Rs 75 Crores for the tillers and Rs. 108 Crores for the tractors?
- K.U. Subbaiah:** 75 crores Tractors and 108 crores Tillers in Q4.



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Mukesh Saraf: Right, so if I just do a simple division here, the tillers' realization per tiller has fallen significantly, is that right because you had around the 1,30,000 mark every quarter, but now you have fallen below the 1,00,000 marks also, is that right, has the realization come down?

P.M. Keshava: No, the realization has not come down. It in fact went up from 1,29,000 per unit to 1,32,398 per unit.

Mukesh Saraf: So, the total tiller volume is around?

P.M. Keshava: 25,515 for the whole year in numbers.

Mukesh Saraf: No, for the quarter was 7,700 Sir?

P.M. Keshava: Correct.

Mukesh Saraf: Coming back on the tractors, how is the outlook in terms of volumes, what do you see in the next two years, how can the growth be in terms of tractors because now you have launched these two new tractors, how is the pan India launch or by then it will be available pan India and how do you see the growth?

K.U. Subbaiah: Yes, we got a very good response from the VST Shakti 27 HP VIRAAT what we launched during 2016–2017 and now the VST Shakti VIRAAT PLUS what we have launched is an improved version of VIRAAT. We plan can double those numbers in 2017–2018. The tractor industry saw a growth of 16.8%, in 2016-17 and only thing is that of the 16.8% major growth came from 41 to 50 HP segment while less than 30 HP segment growth was almost flat. However, the launch of our new model we could get into a new category 21 to 30 HP in which we were not present last year. We continue to have a very positive sentiment about the tractor growth for VST.

Mukesh Saraf: Sir, you said double, so close to around 18000 to 20000 is what you are saying in FY2018 Sir?

K.U. Subbaiah: Our tractor sales?

Mukesh Saraf: Yes, like your target.

K.U. Subbaiah: No, it will be around between 11000 and 12000 numbers.



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Mukesh Saraf: So, the doubling?

K.U. Subbaiah: Doubling the 27 HP tractor segment sales. We sold 2200 numbers in 2016–2017, we are planning to sell more than 4000 tractors in this category.

Mukesh Saraf: Understood and Sir just a question on the A&P spends like you did mention that it is in line with your targets and you also mentioned that employee cost plus other expenses as a percentage of sales you will restrict it to 16% Sir?

K.U. Subbaiah: Around 16% for Employee cost and Sales & Marketing expense.

Mukesh Saraf: So, it is right now closer to above 20%, so this will come down in what period do you see this coming down Sir?

K.U. Subbaiah: By the end of the year. These are all, most of them are fixed cost and fixed cost absorption will be better in the topline growth and unfortunately in 2016–2017 because of degrowth in tiller sales about 5000 numbers, it impacted as a percentage of sales.

Mukesh Saraf: Understood, so most of your A&P, etc., might remain at the same level in terms of absolute terms is what you are saying?

K.U. Subbaiah: No, the sales expenses will not remain same in absolute terms, and the employee cost because due to salary revision, which is implemented. We are expecting to grow much better, expecting a good monsoon and good government schemes to come in, we believe that this should be the target with which we will work and we are confident that we will come somewhere close to that.

Mukesh Saraf: Great and just one book keeping question Sir! Your non-current investments have gone up from Rs.16 Crores to Rs.57 Crores if I look at it this year versus last year.

P.M. Keshava: The clarification, it is because change in the accounting standard, which stays as our investment property. The land where we have invested, which is not used for productive purpose must be shown under non-current investment, that was around Rs.20 Crores we have shifted from fixed assets to these non-current investments that is basically land.

Mukesh Saraf: Understood Sir! Thank you. I will get back in the queue Sir! Thanks a lot.



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Moderator: Thank you. We have the next question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Good morning Sir! In the beginning of the year you mentioned that there were some changes about tiller the way you deal in that segment with the dealers. In fact, the working capital cycles were come down because you are giving discounts to the dealers there, but receivable days has increased Sir, how is the working capital cycle changed for you just in the tiller division maybe it is impacted due to tractor's performance to 25% growth that you have had?

K.U. Subbaiah: I agree with you during the beginning of the year we have said that we are going to change the credit policy and offer discounts to the dealers wherein they take a product on cash and carry. Initially lot of dealers did take products on cash & carry, but unfortunately the subsidy payment from the government got delayed hell of a lot and even as I speak today all the dealers put together, I think, they must get almost Rs.30 Crores of subsidy from the government. So that has really impacted their working capital and in turn overdues to the company.

Srinath Krishnan: Sir you also mentioned that this new tiller 135 DI that you would be launching or launched recently, what is the significance of this product Sir and the market space that it will cater to?

K.U. Subbaiah: We launched it early last year. It is an improved upgraded version of the existing 130 DI tiller. It has got some special features, which is not there in 130 DI.

Srinath Krishnan: Sir and lastly, you had mentioned in the previous call that during FY2018 you would have a capex of about Rs.120 Crores that is largely towards the tractor segment, when would the benefits of that come through Sir?

K.U. Subbaiah: Of the Rs.128 Crores of capex f we have allocated about Rs.77 Crores for new product developments. You can understand, when the new programmed get launched automatically it will have a positive impact on the revenues. However, the full benefit out of these programmes will come in the next financial year. Then coming to infrastructure and machines the investment is for the Mysuru plant, which is a component plant and then for our new plant in Malur wherein we will be expanding our capacities and then some infrastructure improvements in our existing tractor plant in terms of office area, quality improvement etc.



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Srinath Krishnan: Just to reconfirm of the Rs.120 Crores spend, Rs.38 Crores to Rs.40 Crores would be towards infrastructure and rest would be towards product development, right?

K.U. Subbaiah: Yes.

Srinath Krishnan: And the benefits of the Rs.80 Crores spend would be visible some time during FY2019?

K.U. Subbaiah: FY2019 onwards you can see very visible, FY2019 onwards because in this investment there is something for the long-term future also.

Srinath Krishnan: So, you would bring more models in the higher horsepower segment?

K.U. Subbaiah: May be.

Srinath Krishnan: With this Rs.80 Crores investment?

K.U. Subbaiah: Yes

Srinath Krishnan: Lastly on dealership expansion in tractor Sir!

K.U. Subbaiah: Yes, that is ongoing and whatever I committed during the last call that by 2021 we will be having close to 450 dealers from the current level of around 250 dealers.

Srinath Krishnan: Thank you Sir!

Moderator: Thank you. We have the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: Yes hi, thank you for this opportunity. Sir, our current tractor capacity would be 30,000?

K.U. Subbaiah: Yes, we have an installed capacity of 36,000 this is purely an assembly capacity. That is a flexible capacity, as and when we want we can increase. Currently we are we are building about 10000 to 12000 tractors.

Sagar Karahan's: Right and for FY2017 Sir, our largest selling model would be which one?

K.U. Subbaiah: In case of tractors or tillers?

Sagar Karkhanis: Tractors Sir!



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- K.U. Subbaiah:** In case of tractors it will continue to be our 18 HP model four-wheeler drive.
- Sagar Karkhanis:** And is largely selling in which geography?
- K.U. Subbaiah:** Gujarat, Maharashtra, Karnataka and Andhra Pradesh.
- Sagar Karkhanis:** And Sir in the VIRAAT and VIRAAT PLUS, how many did we sell in FY2017?
- K.U. Subbaiah:** VIRAAT was sold last year, we sold about 2200 number and VIRAAT PLUS is just launched this year. We expect that we will be able to sell more than 3500 numbers during the year.
- Sagar Karkhanis:** That is useful Sir! Thank you very much. That is, it from my side.
- Moderator:** We have the next question from the line of Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** Good afternoon Sir! First, I would like to ask on the DBT scheme in Maharashtra and you said Tamil Nadu, Gujarat and Odisha is full fledged, what about our major states of Maharashtra?
- K.U. Subbaiah:** In Maharashtra, there are two sales channels One through MAIDC, which is a state government owned entity and the other is direct retail sales. MAIDC makes us the full payment within the credit period. In case of Gujarat, the farmers buy the tillers or tractors and then they put in their application to claim the subsidies. So there again for us it is almost like a retail sales.
- Srinath Sridhar:** And Sir you said that Rs.50 Crores of land, which you will have, is that the Malur facility, which is now sitting in non-current investment?
- P.M. Keshava:** Not Rs.50 Crores, it is only around Rs.20 Crores.
- Srinath Sridhar:** That shifted to non-current investment?
- K.U. Subbaiah:** Malur will not sit there, there are many others which are accounted in the non-current investments.
- P.M. Keshava:** Land buying the company has got that is shifted, it is an investment property.



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- Srinath Sridhar:** Fine and when can we expect the shift to happen to Malur?
- K.U. Subbaiah:** Malur is mainly an expansion facility and we hope that sometime during early next financial year we should be able to start our operations there.
- Srinath Sridhar:** H1 or Q1?
- K.U. Subbaiah:** Q1 of next financial year.
- Srinath Sridhar:** And the current facility we will be selling out?
- K.U. Subbaiah:** No, current facility we will continue because that is what I said, we are expanding our capacities over there.
- Srinath Sridhar:** But Sir this is the power tiller facility, right?
- K.U. Subbaiah:** Yes.
- Srinath Sridhar:** But since the demand is weak, because you are indicating 5% to 6% growth?
- K.U. Subbaiah:** No, but there are other products, which we intend to manufacture there like reapers and other things, which are currently not in our portfolio.
- Srinath Sridhar:** And Sir, tractors we can see at least 15% growth right, next two years?
- K.U. Subbaiah:** That is our target, I think we should be able to in my opinion looking at what our performance has been 2016-2017.
- Srinath Sridhar:** And Sir any light on the GST front?
- K.U. Subbaiah:** Yes, we have certain updates. Mr. Keshava will give an overview.
- P.M. Keshava:** Regarding GST tractors and other things rates have been announced, we are yet to get the rates for our tiller. Most probably it may be in range of around 5% or so being an agricultural implement.
- K.U. Subbaiah:** For tractors, it is 12% on the product and the input is 28%.
- Srinath Sridhar:** Input is 28%?



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- K.U. Subbaiah:** Yes, input on the components.
- P.M. Keshava:** Input GST.
- Srinath Sridhar:** Sir is it going to be neutral or will there be a price hike?
- P.M. Keshava:** Since the value getting added, it is around 68% of the metal cost. So, on the sale value it is likely to be around neutral only, what input tax we pay and what output tax we pay, are neutral.
- Srinath Sridhar:** Fine. I will get back in the queue.
- Moderator:** Thank you. We have the next question from the line of Ritika Garg from Equitas Investments. Please go ahead.
- Ritika Garg:** Hi Sir, could I have the realization for tractors and tillers in Q4?
- P.M. Keshava:** Tiller, it is 1,32,398 per unit and tractor it is 2,81,656 per unit.
- Ritika Garg:** And Sir what is the market share in tillers in FY2017?
- K.U. Subbaiah:** FY2017 is around close to 59%
- Kritika Garg:** Yes, for tillers and now for tractors?
- K.U. Subbaiah:** Tractors we are around 16.5% in the compact segment.
- Ritika Garg:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.
- Pankaj Tibrewal:** Good morning gentlemen. Couple of questions, one, cash flow has been very healthy this year also, so congrats on that, but can you help us understand that now Rs.240 Crores to Rs.250 Crores of cash on the balance sheet how do you plan to utilize because dividend payment somewhere is not great, so if you can just help us the deployment of cash, which you guys are thinking about?



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- P.M. Keshava:** Around Rs.200 Crores additional investment coming up in the next three to four years.
- K.U. Subbaiah:** Yes, we have five-year plan of over Rs.200 Crores
- P.M. Keshava:** Most probably we will be using the surplus cash for investment.
- Pankaj Tibrewal:** But when you look at your cash generation also...
- P.M. Keshava:** That is also getting generated. We have around Rs.200 Crores investments also.
- Pankaj Tibrewal:** Yes, I am just trying to understand that Rs.85 Crores you are generating operational cash per year post working capital and you have cash balance of more than Rs.200 Cores already there. So, internal accruals itself will suffice you for the next three four years of Rs.200 Crores of deployment on your internal capex. So, what is the plan from additional cash perspective, you are looking for anything inorganic or are you looking to distribute at some point of time?
- K.U. Subbaiah:** The investment committee of handles this subject.
- Pankaj Tibrewal:** The second question if I heard you guys rightly is that the other expenditure and the staff cost, which is currently above 20% you want to bring it down to 16%. Just one observation that over the last two years, your staff cost has incrementally moved by 100 basis points from 7.4% to 8.5% today, but the real change in the other expenses has happened, which has moved from 9.5% to 13.5%, so can you just explain us that when you are saying that 16%, where will that 4% extra delta come from because if you increase your sales, yes, I appreciate that staff cost would get absorbed, but the other expenses, which also needs to support sales probably may not go down as much as you like it to be. So, can you just give us more clarity because that will be very important from a margin trajectory perspective?
- K.U. Subbaiah:** Yes, as far as the employee costs are concerned, I think, you are right. As the topline goes up it will taper down to about 7%. As far as the other expenses are concerned, it was a conscious decision that we must increase our allocation towards Sales promotion and marketing expenses. That means we must create more brand consciousness in the market and the sales spend will continue to be in the same quantum while the topline goes up and that is where we envisage that 1% savings will come from the employee cost, and another 2% should come from the sales and marketing expenses and other overheads.



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Pankaj Firewall: So, during the year as you move towards the year in the current financial, which is FY18 this improvement should start showing us right?

K.U. Subbaiah: Absolutely it should start showing.

Pankaj Firewall: Great and the last question is on the raw material cost? Do you think that the 400 basis points, which you guys are targeting from staff cost plus other expenses for this year, can get a bit negated from your raw material cost as you consider?

K.U. Subbaiah: Yes, the raw material cost from the base cost of 2016-2017, will go up by 2%-2.5% due to price increases in commodity, but we will have to offset the increased cost through various measures like VAVE and some material cost savings. Our team is hopeful that the net material cost increase may be about 1% with the internal efforts what we are putting on VAVE and cost savings and so on.

Pankaj Firewall: So, net-net what you are saying is, that during the year, when we end FY2018, 300 basis points of margin improvement should be there on the overall company wide basis, is this a fair assumption?

K.U. Subbaiah: Yes, that would be fair, I will say somewhere between 200 and 300 basis points.

Pankaj Tibrewal: Fair enough. Thanks, and all the best guys.

Moderator: Thank you. We have the next question from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

Ravi Purohit: Hi, thanks for taking my questions, two questions, one is if you could throw some light on this tie-up that you have with MTD products, can you just throw some light on what this company is all about and does it open the doors for us to explore more products that this company may or may not have jointly or in terms of manufacturing because this is something new that we have, if you could just throw some light to shareholders?

K.U. Subbaiah: Yes, MTD is a US based company, which I understand is one of the pioneers in the manufacture of power welders. MTD approached us to use VST channel and sell this product. We also felt that it is a good idea because rather than we manufacture in this power weeders, because the volumes are not big enough for us to manufacture this power weeder, so we entered an engagement with them where they have given us the exclusive rights to distribute and sell these power weeders in the country.



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- Ravi Purohit:** Does it also open doors for us to look at some of the other products or how does it work?
- K.U. Subbaiah:** Yes, in the range what they have right now we will be marketing the 4.5 HP and 7 HP power weeders, but there are many other products also available with them. We will see whether these products are also suitable for Indian horticulture use and if there is a use we can ask for those products also to be sold in the country.
- Ravi Purohit:** Sir, one clarification on this new facility that we are putting up at Malur. In the last call, we had mentioned that we are looking to shift our existing tiller facility and set up a new tiller facility there. This call we are saying that it is an expansion, so the current manufacturing set up in Whitefield will continue, would not that be like duplication you already have like more than 30,000 capacities at Whitefield to put large capex there?
- K.U. Subbaiah:** No, we are not putting a very large capex there. This is an investment on the land and building which is an investment for the future, but as far as the capacity is concerned we are not spending a significant amount of money. We have planned to use this facility for the models what we are getting launched, 135 DI and for some other higher end tillers as well and the reapers we intend to manufacture on our own. All these we could expand in Malur rather than expanding here because we do not have the space to expand here. Even Malur is not all that big enough that it can accommodate the entire existing tiller manufacturing facility and the new product lines.
- Ravi Purohit:** This place has 50,000 capacities, the Whitefield one?
- K.U. Subbaiah:** Yes, two shifts, if you work around the clock you can produce 60,000 tillers.
- Ravi Purohit:** Yes, and as of now we are producing I would say 60% of that about 27000 – 28000?
- K.U. Subbaiah:** As of now we produce on an average about 2500 tillers a month.
- Ravi Purohit:** So, which leaves ample capacity right for us, I am just trying to say because what it will do is essentially it will move your fixed cost further up because if this is not being 100% utilised and we are putting up another one there, there will be fixed costs associated with that facility as well as this facility, so just wanted to...
- K.U. Subbaiah:** I understand Mr. Purohit. We have been deliberating on this subject and we will take an appropriate call at the right time, what needs to be done. As of now we are still looking at



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various options, but this is what it stands as of today, but we will take your views and see what needs to be done.

Ravi Purohit: Fair point Sir! Lastly on this subsidy issues, which were there in the tiller segment last year, are the states already on course to basically announcing their plans or subsidy amounts this year for this current monsoon season, upcoming monsoon season?

K.U. Subbaiah: Yes, some of the states like Karnataka, Andhra, Odisha, Gujarat, NE and Mahashtra have announced, the planned allocation comes to around 52000.

Ravi Purohit: In that sense FY2018 if rainfalls are normal then you should not only enjoy growth in volumes for both tillers as well as tractors and improvement in margins because of the operating leverage because the expenses are not likely to go up as much?

K.U. Subbaiah: Right.

Ravi Purohit: Thanks a lot Sir! That answers my question.

Moderator: Thank you. We have the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good afternoon Sir! So, sir, this year you said the plant allocation is roughly for 52,000 units, right?

K.U. Subbaiah: That is what our market research says.

Shashank Kanodia: Sir, what was this allocation in the last year?

K.U. Subbaiah: Last year also the plant allocation was similar numbers, but as you know because of lot of factors it did not come through.

Shashank Kanodia: The industry size for power tillers in FY2017 were close to about 44000 units vis-à-vis 48000 units in FY2016, is this the correct assumption?

K.U. Subbaiah: In FY2016 is it or year which has gone by?

Shashank Kanodia: The year gone by was 44000 units vis-à-vis 48000 FY2016.



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- K.U. Subbaiah:** Yes, in 2016–2017 the overall industry was 43200 units.
- Shashank Kanodia:** And corresponding figures for FY2016 would be?
- K.U. Subbaiah:** We expect that it would be for FY2015–FY2016 was 48000 units.
- Shashank Kanodia:** And this year it is expected at?
- K.U. Subbaiah:** We are hoping it will be around 50000.
- Shashank Kanodia:** Around 50000 units?
- K.U. Subbaiah:** Yes.
- Shashank Kanodia:** In the normal monsoon years and with the government support the power tiller segment has witnessed good 15 odd percent plus growth right, and now you are kind of guiding us that industry will grow 5% to 6%, so is there any calibration by the government or the industry players to curtail down the industry or something of that sort?
- K.U. Subbaiah:** No, the government is encouraging the industry, but then the issue is the farmers are inclined to buy these machines only based on the subsidy.
- has hank Kanodia:** True, but the government has increased the allocation towards this mechanization in this budget, so why this muted guidance for the industry growth rate?
- K.U. Subbaiah:** We must see how much of that really comes into mechanization. It is a big cake what they have given, but how much of the piece of cake comes to mechanization, again in mechanization how much towards tillers, how many towards attachments. so, we do not know the fine print at all.
- Shashank Kanodia:** So as such from the farmers Sir, is there any preference apart from the subsidy angle, so are they kind of transforming themselves towards small tractors or it is just the subsidy angle attached to it nothing else?
- K.U. Subbaiah:** See, it is an economic viability for a farmer. For a farmer owning less than two hectares of land, buying a tractor will not be economically viable for him. So, the formula is such farmers who have marginal shareholding, less than two hectares, the tiller becomes a viable option for even not a tractor.



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Shashank Kanodia: Secondly on the power tiller sales that will be put monthly, there is a lot of volatility that we witnessed right, so in March it was close to 4500 units, in April it is falling again to 1500 odd units, so what expense such huge volatility in the power tiller segment sales volume?

K.U. Subbaiah: See, power tiller, both power tiller and tractors are driven by seasons. In the sowing season, it peaks up and then also peaks in the festival seasons. So that is where you see the volatility and sometimes the festival season, as you know, falls in for example, Diwali, sometime may fall in November or even December or October. So, it is the seasonality and the festival seasons, which create the volatility in the demands.

Shashank Kanodia: Sir, given the fact that June is going to be the major sowing season going forward, so how are we seeing the ramp up on the ground as far as June month is concerned?

K.U. Subbaiah: We are well prepared; our production is well prepared and our sales team also feels that June should be a good month. Hopefully if the monsoon hits on June 1, 2017 I think it should be a very good month.

Shashank Kanodia: Thank you so much gentlemen and all the very best.

Moderator: Thank you. We have the next question from the line of Avinash Kumar from Moody's Analytics. Please go ahead.

Avinash Kumar: Hi good afternoon. A couple of questions from my side, what would be your expected volume and realizations for both tractors and tillers in Q1 FY2018 and for the full year FY2018?

K.U. Subbaiah: The volumes I mentioned to you that we are looking at, at least two double digit growth or better than the industry

Avinash Kumar: Conditions for tractors?

K.U. Subbaiah: For tractors and in case of tillers, I just heard that we are expecting the government allocations to be around 50,000 and if that happens then with our market share we are looking at something close to 29000 to 30000.

Avinash Kumar: For the full year?

K.U. Subbaiah: For the whole year.



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- Avinash Kumar:** And any uptake we can expect for the realizations, in terms of realizations?
- K.U. Subbaiah:** In terms of realizations I would only see there could be some stress because of the commodity price increases; however, we are trying to negate it by material cost savings and working with the government wherever the rate contract has not been fixed to get a price increase. It is too early for me to comment about the reality.
- Avinash Kumar:** I got your point and secondly if I got it right your capex guidance is Rs.120 Crores for FY2018 and Rs.40 Crores will go into your NPD and remaining for capacity in Malur and **(inaudible) 48:32.**
- K.U. Subbaiah:** Yes, for the infrastructure.
- Avinash Kumar:** Yes, and 70 would be your product development?
- K.U. Subbaiah:** Yes.
- Avinash Kumar:** So how much would be that cost of the capex will be front loaded, I mean in the first half of 2018 or if you can provide some colour on that?
- K.U. Subbaiah:** I would say that it will be uniformly spread across, probably we will see a more investment coming in the second half of the year.
- Avinash Kumar:** And in terms of raw material cost, the components prices are going up, so what is your target in terms of percentage of sales, if you can provide some colour for the first quarter as well as the whole year, what is your target you think should be as a percentage of sales for the raw material?
- K.U. Subbaiah:** The whole year when we worked out based on the past increase, it might increase the material cost by about 2%, but we have some internal control measures where we will do some extended VAVE programmes and then cost savings through alternate suppliers and so on. So overall our net material cost increase will be about a percent.
- Avinash Kumar:** And any EBITDA guidance that you have for the whole year for FY2018, at what range you are looking at?
- K.U. Subbaiah:** We should have better EBITDA than the current year. Current year, as you know, due to investment in employees and brand building and business development expenses the



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BITDA which was lower than expected, but this year with a good volume growth coming and the expenses remaining in the same levels, I believe that EBITDA margins will improve.

Avinash Kumar: And just one last question from my side is, there is a good monsoon forecast to be 96% and 97% of the LPAs and all, so what is feedback you are getting from the government especially from the southern states like Karnataka, Tamil Nadu, which have been reeling under drought for the last two three years, so how have been the market feedback from these states because Karnataka again components high percent of dealer sales and all, so basically from the dealer side I want to understand how is the market shaping up for this coming year FY2018?

K.U. Subbaiah: Tamil Nadu is still not very positive I would say very gloomy plus the political climate there and we really do not know, but Karnataka I would say is a mixed feeling. People say that with a good monsoon yes, there will be lot of buying happening.

Avinash Kumar: So, a good feedback coming from the ground.

K.U. Subbaiah: Yes.

Avinash Kumar: And just one last question, in the 27 HP you have sold down 2200 for the FY and you expect it to be somewhere around 3500 for FY2018?

K.U. Subbaiah: Yes, around that.

Avinash Kumar: Thank you so much.

Moderator: Thank you. We have the next question from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

Ravi Purohit: Sir, just one suggestion on the monthly volume numbers that we share on tillers and tractors, if you could also give the corresponding year ago numbers, it basically helps us do the comparisons well.

K.U. Subbaiah: Yes, we will do that, not an issue.

Ravi Purohit: Thank you so much Sir!



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

Mukesh Saraf: Yes Sir! Thank you for the followup question. Sir, you had mentioned that Odisha moved to or rather is looking to move to DBT and I think in February they started this process. Being one of your largest states for tillers, I just want to understand how the farmers now fund the entire amount upfront, how is it happening in the states that have already moved and do you see any difficulty there for the farmers because bank loans might be difficult for these low-ticket sizes and the farmers might not have all the documents and things like that. So, is there something that the company is doing there, tying up with some newer financing options there for these farmers?

K.U. Subbaiah: The company is tying up with both banks and NFBCs also and we have had good support from State Bank of India especially in Odisha and we already have some few cases where the loans have already been approved, so the retail financing we do not see as a big issue for DBT scheme as of now.

Mukesh Saraf: That would not be a detriment in terms of your growth guidance? You do not expect that? What I was asking you to do not see the farmers funding to be any detrimental impact to your growth guidance, you do not see that to be an issue at all?

K.U. Subbaiah: Too early for me to comment, but the initial reports say that we are not finding any detrimental effect, but I would say after this quarter we will know exactly how it is moving?

Mukesh Saraf: Secondly on the GST itself earlier obviously we are not under excise, but we obviously also could not claim any input credits, now under GST because we can claim input credits could it be a benefit for us now at these rates?

P.M. Keshava: As far as the present situation whatever duty we are paying we were unable to take the credit because the final product was exempted. In the upcoming GST regime, everything whatever we pay is going to be allowed as credit to us. To that extent yes, we will be in a beneficial position, but the government says antiprofitteering needs to be passed on the benefit to the end customer. As far as tractors are concerned yes, I already clarified we will be into a neutral situation, we are yet to get the rate announced, only on that we can say.

K.U. Subbaiah: Tiller and Tractors being a farmer oriented product the government may not allow us to keep those benefits.



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- Mukesh Saraf:** I think this is all I needed. Thank you, Sir, Thanks a lot.
- Moderator:** We have the followup question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Thanks for the opportunity. You mentioned about tractors, crew trade target of somewhere around 11000 to 12000 tractors and primarily coming from doubling of 27 HP tractor to somewhere around 4000. Now if you look at in FY16 and FY17 we have 22 and 18 HP tractor, which is more than 70% of your current volume mix, has largely being flattish and basically what you are seeing in FY18 also that largely we will be flattish again, so are we hit the peak in terms of coverage and applications for these tractors and incremental growth will come from new productions, is that the right way to think about this?
- K.U. Subbaiah:** If you look at less than 20 HP segments we have only had 18.5 HP and 22 HP tractors. Now we launched 17 HP tractors. Therefor the 20 HP segment also will grow for us. Both the segments are going to grow for us.
- Viraj Kacharia:** Also, you have been making this investment in the incentive scheme for DBT, which we done in FY17, so the operating leverage or the moderation in season marketing and centers, which you are talking about in FY18 would also include the DBT incentive, which will be pulling back or it will continue to be in FY18?
- K.U. Subbaiah:** I did not get your question.
- Viraj Kacharia:** My question is we used to offer 1.5% of sales as an incentive for dealer's associates.
- K.U. Subbaiah:** We will continue that because even in DBT the dealers may not pay us within the credit period so we will encourage our dealers to pay within seven days and we will continue to offer that 1.5% discount because it will help us in our cash flow.
- Viraj Kacharia:** In terms of the states can you just highlight, which major states where the rate contracts are finalized and the states are we still in the process of negotiations?
- K.U. Subbaiah:** I would say Karnataka the rate contracts are finalized. In Andhra Pradesh, it is for tractors it is I think under finalization. Odisha, the rate contract has been finalized and Gujarat, they have said, no price increases. Couple of states, Maharashtra has said no price increases. So, it is mainly Telangana, Andhra, these are the states where the rate contracts must be finalized.



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- Viraj Kacharia:** Last question was you have highlighted about the medium-term growth for tillers being around 5% to 6% so is that purely for the 8 to 15 HP which you are referring to which is in your traditional segment or the overall industry which you are talking about?
- K.U. Subbaiah:** The overall industry which will continue to grow at that rate.
- Viraj Kacharia:** But if we look at the evolution of tillers in other countries where the land dynamics and the farm owning is pretty much like what we have in India, we have seen a significant explosion of sub-8 HP tillers or weeders in those markets so basically just wanted to understand why the 5% to 6%?
- K.U. Subbaiah:** It is mainly driven by subsidy as I said whether it is 12 HP tillers or sub-8 HP tiller. It is all highly subsidized. So, the farmer waits for the subsidy and based on the subsidy only he will sell. The day government stops the subsidy we believe that in a couple of years the demand will go off. So, then I think they need this power tillers because the labour is becoming scared, the labour costs are going up, so they must go and they must embrace the mechanization as much as possible.
- Viraj Kacharia:** Thank you.
- Moderator:** Thank you. We have the follow up question from the line Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** There is a 3.31 Crores exceptional item in the P&L. Just wanted to know what that is?
- P.M. Keshava:** First and all the land at Whitefield, Bengaluru unit has been acquired by BMR Steel for metro. So, the market rates compensation they have paid that is the capital gain we earned out of that acquisition.
- Moderator:** Thank you. We have the follow up question from the line of Avinash Kumar from Moody's Analytics. Please go ahead.
- Avinash Kumar:** Thanks for the opportunity. I might have missed what was your volumes – in terms of volumes your tractor and tiller sales for FY2017? I might have missed on the call earlier.
- K.U. Subbaiah:** What is that question? You are talking of the volumes for 2017-2018?
- Avinash Kumar:** Yes, the year gone by.



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- K.U. Subbaiah:** We sold 9635 tractors and 25515 tillers.
- Avinash Kumar:** Just one last thing, what I wanted to understand is as you are saying that last year your other expenses and employee cost went up especially in terms of your other expenses went up because there were lot of travelling and sales happening, so have you reached an inflection point where your sales team is strong enough for you to venture into the new markets especially the northern states and you will get benefits from what investment you have done or you would still think there is scope for you to increase your sales force on ground and look for a higher market share especially in the tractor segment and also the tiller one?
- K.U. Subbaiah:** I would say the major sales force expansion has happened. There will be a few additions in the year 2017-2018. In such states where we have not fully populated, but it would not be as aggressive or as much as what we have done in the last two years.
- Avinash Kumar:** In terms of freight, if you can just give some guidance as to how much in terms of percentage basis points increase you are expecting in your sales expenses basically, your sales and marketing for FY2018?
- K.U. Subbaiah:** Sales and marketing expenses will be around 8%.
- Avinash Kumar:** 8% increase over FY2018?
- K.U. Subbaiah:** It could be an increase. It would be around 8% of the total sales.
- Avinash Kumar:** 8% of the total sales.
- K.U. Subbaiah:** Yes.
- Avinash Kumar:** That is what your target is?
- K.U. Subbaiah:** Yes.
- Avinash Kumar:** That is all. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Annamalai Jayaraj for his closing comments. Thank you and over to you Sir!



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Annamalai Jayaraj: We thank all the participants. We thank VST Tillers and Tractors Management for sparing time for the call and providing us the opportunity to host the call. Have a good day.

K.U. Subbaiah: Thank you everyone.

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

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