

“VST Tillers Tractors Limited
Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the VST Tillers Tractors Limited Q2 FY2020 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Hitesh Bhargava from B&K Securities. Thank you and over to you Sir!

Hitesh Bhargava: Good morning everyone. On behalf of B&K Securities we welcome you all to 2Q FY2020 post results conference call of VST Tillers Tractors Limited. We have with us today Mr. V.T. Ravindra, Executive Director, Mr. Antony Cherukara, Chief Executive Officer, and Mr. G.V. Mahadevan, Chief Financial Officer. I would now hand over the call to Mr. Antony Cherukara for opening comments to be followed by Q&A session. Over to you Sir!

Antony Cherukara: Good morning everybody, I hope I am audible, all of you.

Moderator: Yes Sir, we can hear you, thank you.

Antony Cherukara: We closed Q2 with a topline of Rs.171.15 Crores against last year's Q2 of Rs.160.60 Crores. The volume in respect of Tillers for Q2 was 5609 against last year of 5396 and for tractors it was 2201 against 2087; the topline increased, but the bottomline saw a dip mainly because of the material cost increase that you would have seen already. It was mainly due to the product mix variants that happened, some new product launches and Proto model, and Proto transmission, etc., that was introduced in the last quarter. So that is it from me gentlemen and we are open for taking questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Sir in terms of this Proto model especially on the transmission side that you have mentioned could you give some more sense on that because if we look at the broader mix in terms of what you have supplied in the first quarter not the second quarter, in the first quarter also we had about 60 units of Tractors in the 41 to 50 of HP segment, in the second quarter we have had 67 units so the mix has not changed much on the 40 to 50 HP segment, but obviously the costs in the second quarter are significantly higher and the raw material cost is 72.5% of revenues in the second quarter versus 64% in the first quarter so could you give some more sense on what exactly led to this kind of increase in cost?

Antony Cherukara: Yes, so two things, one is the increase in material cost as you rightly said is in the increase of the higher horse power, if you compared to the previous quarter, the same quarter of last year it has significantly increased, but quarter-on-quarter as you rightly said it is just few numbers that has gone up. However there has also been a product mix increase in terms of the higher horse power that we sell now in terms of the 27 horse power and the 24 horse power, which are comparatively newer introductions in our portfolio wherein it comes at a slightly higher material cost. Secondly as you said we would not be able to divulge all the details, but there has been corrections and there has been modifications and improvements in our gear box , which we are introducing in to specific markets on proto basis, which will be productionized going forward, so that also has increased this cost and that we have done as you know the spraying season is in Q2 so we have had to introduce that in those areas where the spraying season happens and that has happened in Q2. I would not be able to get into which gear and that is something which would involve an expert opinion.

Mukesh Saraf: Not a problem, but so if I look at it in last four, five years our raw material cost as a percentage of total revenue is in the range of 65%, 66%, even in the first quarter we were there now it is 72.5% so do you think it will go back to the 65%, 66% in the next quarter itself or how long do you think this prototyping should be done with and when will we do the commercial production at our end without the prototyping kind of a thing?

Antony Cherukara: Yes, Mukesh as I told in the last call, we will be under certain margin pressure going forward , I expect this to continue for at least couple of quarters more before we can completely come to normal levels of margins.

Mukesh Saraf: So couple of more quarters this kind of cost will be higher right. So there is no other one off in this, no other one off that has only impacted us in the second quarter, no one off expenses?

Antony Cherukara: Not something which is giving you an increase of about 7%, so which is the major thing is material cost.

Mukesh Saraf: And the second thing is on employee cost as well in fact here we have seen an improvement versus 20 Crores in the first quarter it is 18 Crores so this is the kind of run rate we will see or do you think it will go back to the earlier levels?

Antony Cherukara: No, as I said in the first call do you remember Mukesh that I said that we will be controlling costs on all front, so the employee cost will continue to be controlled, but I do not think it will go down beyond a point because end of the day the company's focus is to increase topline and that would need resources both in terms of product development and in strengthening of the front end. So there will be a balance but I do not think that continuous downtrend will continue but definitely it would not go up either.

- Mukesh Saraf:** And just lastly on the tax rates we are still at the 33%, 34% tax rate so do you think we are going to go down to the 25% the new tax regime?
- Antony Cherukara:** See as you know there is still time for us to decide so we are evaluating all options and definitely we will take the correct and the appropriate decision, which would benefit the company.
- Mukesh Saraf:** Thank you so much. I will get back into the queue Sir.
- Moderator:** Thank you Sir. We have next question from the line of Nishit Shah from Equitas Investment. Please go ahead.
- Nishit Shah:** Sir I wanted to know the sales number for higher HP for this quarter and last quarter?
- Antony Cherukara:** I did not get the first part of your question, are you asking what are you asking exactly on higher HP?
- Nishit Shah:** Volume numbers of higher HP for this quarter.
- Antony Cherukara:** Q2 we did about 67 odd numbers, it is in the 60s not more than 70.
- Nishit Shah:** Sir what is our breakup of tractor and tillers value wise?
- Antony Cherukara:** Tiller is about 77 Crores and tractor is about 65 Crores.
- Nishit Shah:** Sir can you give me the numbers for dealers inventory for the quarter or the trend?
- Antony Cherukara:** Inventory at dealer level has gone down considerably in September, it is about 200 numbers lesser than Q1 I will just give you the exact numbers. The power tiller is about 2700, tractor is at about 2000 numbers.
- Nishit Shah:** Sir our capex for the first half is around 6 Crores so for the full year what is our guidance for this capex?
- Antony Cherukara:** Capex would be on similar lines, but as you know we are in the midst of expansion in our tractor production for higher horse power so there could be a slightly higher spend in the second half.
- Nishit Shah:** Sir what is the status of subsidy from our major states is it better?
- Antony Cherukara:** See nothing has improved, Odisha, Assam, which are the key states where we are suppose to get subsidy from for power tillers that has not come through yet, but this quarter we are expecting that to happen, it has not happened yet, but there is some movement on that front.

- Nishit Shah:** Thank you Sir!
- Moderator:** Thank you Sir. We have next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir if a precised press release with the highlights of the quarter in absolute manner can be produced just after the numbers that will give more qualitative details of how the numbers look like and Sir secondly about the capex apart Sir your annual report articulated about capex of 210 Crores for the year so where are we in midst right now the capex Sir how much are we going to spend?
- Antony Cherukara:** See the annual report said that the capex of 200 odd Crores is over a period of time, so this is towards multiple heads one is expansion of our tractor production, second is new product development, also improvement of our power tiller manufacturing as well. So as we said earlier around 60% to 70% of that capital has been spent around 30% is remaining to be spent.
- Saket Kapoor:** You did spoke about the new product about the rice transplanter and power reaperr how have these segments have performed for this quarter in the first half?
- Antony Cherukara:** See the rice transplanter there is an increase compared to last year, but we do not see any huge impact of that on the revenue per se. Secondly on the reaper the season is in Q3 and as of now it is looking okay.
- Saket Kapoor:** And Sir if you could give the last point and I will come in the queue. Sir if you could give the color of what the business sentiments are regarding we have seen Pradhan Mantri Gram Sinchai Yojana and the farm mechanization and the vision of doubling farm income by 2022 so in midst of all this where is VST Tillers standing and if you could give the business environment going forward also and how is second half going to shape up and I will come in the queue Sir for my further queries?
- Antony Cherukara:** I will just answer very briefly on this. A lot of things the government is doing in this direction and VST Tillers is participating in every single scheme that is being launched, which is aimed at propagating farm machinery number one. Number two our entire capex and investment towards increasing production and product development pertains that we want to look at tapping into this higher market that is being generated for farm machinery and we are committed to it and we will continue to invest in this area.
- Saket Kapoor:** Okay Sir. I will come in the queue for further questions.

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

Shashank Kanodia: Sir you mentioned that the RM2 sales cost will remain high in the subsequent two, three quarters as well so on the operation front, EBITDA margin front, so is there any cost control measures that we can see or we will continue to report such dismal EBITDA margins going forward?

Antony Cherukara: Definitely there is work happening on cost front. As I said we expect in fourth quarter orders of material cost to be shown higher because we are bringing a lot of new products into the market and that is creating a certain amount of margin pressure, but however we have controlled employee cost, we are looking at other opportunities of cost reduction as well. How much of it we will be able to cover up in terms of improving EBITDA I would not be able to give you a figure right now, but you will see some improvement happening going forward.

Shashank Kanodia: So because we have issue of clocking 17%, 18%, 16% margin consistency in the right and now we are talking about new product launches of margins dropping at 2.5% so even if they recover what is the quantum to which it can recover, but let us say the FY2021 ending, let us not talk about near-term, but long-term basis five, six quarters down the line what kind of EBITDA margins should we end with it?

Antony Cherukara: So let me tell you something, I will be deviating directly from numbers a little bit to answer this question. VST has been investing in new product developments only in the last couple of years. If you ask me had we invested a little earlier we would have had this impact on margins at that point in time and not now and we would have been at 15%, 16% right now so we expect and there is no way for us to compete in the market unless we bring more newer and range of products into the market so definitely going forward EBITDA margin should look better, but as I said earlier I am not able to give you a number as to what would it be, but the damage would have been more had we been not investing on new products.

Shashank Kanodia: Second Sir is there any volume guidance that we can work for this year given that first two quarters have been largely flat for us?

Antony Cherukara: See Q3 October has looked good we have posted the numbers already. November is looking flat, December looking flat, but we are expecting Q4, which will not be as bad as last year.

Shashank Kanodia: So this is roughly for the full year basis we might just end flat again right this year?

Antony Cherukara: It should be flattish or a little above last year.

Shashank Kanodia: And Sir lastly any color on the amortization of land and Whitefield facility since we have moved the manufacturing operations?

Antony Cherukara: Not at the moment.

Shashank Kanodia: Thank you Sir. I will get back into the queue. Thank you.

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

Mukesh Saraf: Firstly is on the tiller volumes itself like you had mentioned that the two important states Odisha and Assam have not announced the subsidy yet and we have been expecting this to come over the last few months, but it has not been coming, so have we kind of had some dialogue with the authorities there and what is the sense you get, why has been there a delay is it just lack of funds or some change in processes that is happening there and do we see this issue being resolved if not this year at least next year subsidies come on time before the peak season so what is your sense there Sir?

Antony Cherukara: To answer your first part we are in continuous discussion with government agencies and as I said earlier we can see some happening already, Assam has moved ahead and probably in this month or early part of December we should see subsidies rolling out in Assam and as far as Odisha also is concerned this month they have started using the DBT platform they have started taking applications for disbursement of subsidy so there is a movement, which was not happening in Q1 or Q2, but right now it is happening so we are quite positive that going forward in the next two weeks or three weeks it should roll out in Odisha as well and coming to the third part the government definitely is probably looking at how subsidy component can be better utilized or minimized going forward so the company definitely is looking at how we can look at markets beyond India and see how the power tiller business can be build up.

Mukesh Saraf: Sir just back to the subsidy question, last year our tiller volumes dropped 25% this year we are looking at it flat so clearly the subsidies have not been announced for like more than now 18 months, so do you see that there will be a steep pent up demand whenever these subsidies come in and is it too late for this year?

Antony Cherukara: See two things I want to tell you, one is the subsidy as you rightly said if subsidy comes on time it is more beneficial for the farmer, but the reality is whenever the subsidy comes the customer lines up to take the subsidy because that is what I am saying the potential for all farm mechanization is so huge in India that anytime you declare there is no dearth of applicant for subsidy, but to go back to what you said if the government gives it on time it is much more beneficial to the farmers.

- Mukesh Saraf:** Understood Sir. Thank you for this. Thank you.
- Moderator:** Thank you Sir. We have next question from the line of Govind Saboo from IndiaNivesh. Please go ahead.
- Govind Saboo:** Sir we have been talking about new product launches for the last two, three quarters now and we have done the capex and we have done the prototyping and all these things so can you just give a color of which is a substantial new product, which can have impact on our business topline revenues, which we are expecting in the next couple of quarters.
- Antony Cherukara:** Yes, so one is we are launching the 27 HP high torque variants that is number one, number two we are launching the 16 HP power tiller, which is a new segment that we are getting into, number three in the coming quarters we will also be launching the 30 HP and number four we are looking at a complete new generation of tractors in the compact segment.
- Govind Saboo:** Sir my next question would be that while we are moving in the higher HP tractors so there are already four, five large established players having 80%, 90% market share of the higher HP tractors, so what is our competitive strategy along with those players?
- Antony Cherukara:** Yes, so one clear space that we have found for us to place in the value for money segment. We find that most of the competition players have moved up in terms of their offerings to the farmers. However in agriculture predominantly you operate in a certain gear for the entire operation and we find that the value offering in this segment has huge pull. So what has been happening to the tractors that we are selling currently also it has been well accepted by the farmers and as we are ramping up we will be able to sell more and more volumes, so the differentiation question that you are asking is clearly a space in the value for money segment.
- Govind Saboo:** So you mean is that the larger players have moved up the value chain and there is a market, which has been vacated by those guys, which you want to capture?
- Antony Cherukara:** Yes.
- Govind Saboo:** And Sir lastly I would just like to understand that tractor is quite a regional industry and for every region there is a specific brand pull, which is quite visible so is there a strategy we are working around to crack that brand pull or how are we getting our product accepted in the market?
- Antony Cherukara:** Yes, there is a lot of, to begin with I would say that VST is a known brand across rural especially South and East of India with our leadership in the power tiller segment. So it is a

known brand, but the question I think what you are asking is, is it a relevant brand in the tractor space, so there is a lot of work that needs to be done in terms of building our brand and I am happy to say that while we are on the expansion for tractor dealerships we are seeing a pull for our dealerships that is something that is exciting us to further expand faster in this segment.

Govind Saboo: Thank you Sir. I will come back in the queue.

Moderator: Thank you Sir. We have next question from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir just on this new Proto in the interactions that we have done, is it something because we already had a 27 horse power tractor per se, was there any customer feedback that led us to change to new off the shelf products, off the shelf parts that we did or is there any other reason behind it if you can talk about it a little bit?

Antony Cherukara: As you know in the last couple of years there has been lot of launches in the compact segment and new offerings has been brought into the market so we had to bring in certain products to compete with specific features and offerings that the competition is offering. So that is primarily the reason that we had to do this.

Shyam Sundar Sriram: Sir and just on other expenses part the percentage of sales it has increased from quarter-on-quarter anything one off or anything that is there in sitting in the other expenses that has led to this increased percentage of sales Sir?

Antony Cherukara: Other expenses specifically there is not much that has happened, but let me just look at it, there is a slight increase in travel and admin related expenses, but that is planned expenditure so other than that there is no specific onetime that I can talk about.

Shyam Sundar Sriram: Sir and this capex that we are doing, you did point out to the product development or is there some backward integration that we are also trying to do in terms of the aggregates or anything on that front also are we investing Sir to bring down the cost of the products?

Antony Cherukara: See there is lot of work that is happening on commonalization of parts, as we are launching these products so we are trying to look at how we can make our products more and more modular. We have had an exercise on product variant rationalization these are things that the company continues to do and we are getting results out of it.

Shyam Sundar Sriram: Sir just one last question on the subsidy part from last time you said Tamil Nadu, Maharashtra has announced subsidies if you can throw some color on how that has been progressing and on the tractor subsidies front in the key states anything that you can talk about Sir?

Antony Cherukara: Tamil Nadu, Karnataka is what went in for subsidies and they have rolled out and we have maximized our performance in these two states. Maharashtra as you know went into elections so nothing came out of that state in terms of subsidy. Gujarat is another state, which came out with subsidies and that also rolled out quite well, but the bigger states where larger industry of power tillers are there is Odisha and Assam, which as I explained earlier we are looking forward in this quarter.

Shyam Sundar Sriram: So this is on the tiller side, anything on the tractor side Sir?

Antony Cherukara: Tractor see there has been some scheme in Andhra Pradesh on the Swachh Bharat Scheme there has been something happening in this quarter, but that is for the larger tractor segment, we have been able to tap into that particular scheme wherever compact tractors were required.

Shyam Sundar Sriram: Other than AP any other state has given out any scheme Sir?

Antony Cherukara: Karnataka has come out with a scheme for a particular section of our society yes.

Shyam Sundar Sriram: Okay Sir. Thank you Sir.

Moderator: Thank you Sir. We have next question from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: I just wanted to know on the other expenses front, we had almost 6.5 Crores of provision for bad and doubtful debts last year in FY2019 as we see from the annual report, is there anything in H1 or do we expect any provision of bad and doubtful debts in H2 in FY2020?

Antony Cherukara: I will request my CFO to answer this.

G.V. Mahadevan: As far as H1 is concerned whatever has to be provided as far as the policy we have made provisions, but the quantum of amount is not as big as that, that is there was a small amount of provision, which we had to do that has been provided and we do not see any big changes in the subsequent quarter also.

Sabyasachi Mukerji: And on the dealership that you have been expanding to new states UP, Haryana, MP so how has been the response in the new markets?

Antony Cherukara: Yes, the focus areas for us currently is MP and UP. We are having good traction in both these states in UP as well as MP we are appointing more dealers, in UP by the end of this year we are expected to have more than 30 dealerships and in MP also we are expected to have more than 20- 25 dealerships.

- Sabyasachi Mukerji:** What kind of impact will this have on your market share because if I see your market share has been in the compact tractor segment is down from 16%, 17% to 10% right now so when will you believe that you will gain that number again?
- Antony Cherukara:** See two things we are looking at one is definitely the dealer expansion and the coverage increase that we are doing there will be an effect of that on the market share. If you compare it with last year's market share we are slightly up this year. Second is the product launches that we are talking about it is a new refresh series, which we will be launching early next year that should also enable us to make large ground in terms of market share.
- Sabyasachi Mukerji:** Thanks, if you can help me with that the provision of quantum, yes?
- Antony Cherukara:** Yes, we will give you that figure.
- G.V. Mahadevan:** Yes, the provision as of September is about 1 Crore.
- Sabyasachi Mukerji:** Okay.
- Moderator:** Thank you Sir. We have next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir under the cash flow we observed that there is a provision written back of around 10 Crores 39 lakhs what is this all about Sir and how will you explain this?
- Antony Cherukara:** See in the previous for a few of the expenses especially relating to the marketing schemes and other amounts, other heads the provision has been made, which we found is no longer required so those are all after ascertainment of those amounts are reversed in the current year.
- Saket Kapoor:** More provisions will arise in the second half also going forward or we have done it for the year itself?
- Antony Cherukara:** I think more or less we have completed in FY18- 19 whatever were the excess provision that they have happened we have completed, so there could be smaller amounts in few other items, but otherwise I do not think that kind of a quantum will be there in the H2.
- Saket Kapoor:** Sir the benefits from the Mysore facility we made investment of 24 Crores?
- Antony Cherukara:** Yes the investments are mostly complete as you know the auto component sector has been did badly by the current downturn in the industry so however we are working with several OEMs and we expect some results to come out of it in the next couple of quarters.

Saket Kapoor: And Sir what kind of contribution for this year we are envisaging in an optimum level what will this facility going to contribute?

Antony Cherukara: See right now the facility is not working to full utilization. What we want to do is build Mysore as a completely independent P&L that is what we want to create, to that extent it is not a captive source for us so Mysore has started working in terms of looking at other opportunities that is there in the market; however, as I said earlier since the downturn is there that going has been a little difficult, but we are working very closely with few OEMs we expect that to turnout well in the next couple of quarters.

Saket Kapoor: And Sir that will be BS-VI compliant and all engines that you are talking about in the similar trend?

Antony Cherukara: We can do all of that, we have the machinery to do all of that, it depends on what the OEM wants to work with us for.

Saket Kapoor: Sir coming to the NCD investment of 20 Crores that we have done in VST Motors and one more investment of 5.5 Crores in the MHI VST Diesel Engines how are these investments going to nurture and be fruitful to us, what exactly is the purpose for investing in the NCD for VST motors and VST Diesel Engine MHIs?

Antony Cherukara: No, that money is basically one of the avenues of investment of surplus money whereas we did not want to, we wanted to earn interest on that money so a portion of the money was given to one of the group companies and as far as the MHI is concerned originally it was a joint venture company that was incorporated and later Mitsubishi has almost taken over the company and whatever the current shareholding that is actually having sort of a return so that is how we just did not want to exit the holding so it still continued to be held in the balance sheet.

Saket Kapoor: For VST motors you say it is a type of loan only that has been given to the company in the form of NCD?

G.V Mahadevan: It is an NCD actually it is a debenture.

Saket Kapoor: And what are the terms for the same Sir, how much interest have we accrued, are we accruing interest or actually looking the same by cash received for the same?

G.V Mahadevan: No, it is accrual actually so we are booking interest periodically in our accounts.

Saket Kapoor: And what has been in raw material part we are seeing that all raw material prices are in declining stage so if you could give the color of what the raw material basket actually looks like even in your annual report we are finding it raw material expenses only and no granular details are mentioned?

Antony Cherukara: Yes, see primarily we are depending on steel, castings, forgings, these are the primary items and of course then the proprietary items as well like fuel injection equipment, tyres, etc., so there is a decline in terms of prices on steel, on casting, on forging. We are continuously working with them and bringing it into account for ourselves. The second work that is happening, which I have already shared with you is work on modularity and all of that. The third thing that we are doing is working on rationalization of suppliers and this is probably the right time to do it with the capacities, which are lying unutilized. So several fronts work is going on; however, as I said since the amount of work that we are doing in the new product development space is unprecedented we will continue to be under pressure for couple of more quarters.

Saket Kapoor: And Sir on topline terms we may look to match the last year numbers, but the bottomline will have strains so that should be our conclusion?

Antony Cherukara: It will be under pressure on the bottomline for a couple of quarters yes.

Saket Kapoor: So because in the other income part also if we compared the September 2018 to September 2019 there is a significant decline from 16 Crores to 10 Crores how will you explain this Sir?

Antony Cherukara: I think looking at Q3 we should gain better right.

Saket Kapoor: What was the decline attributed to sir for the second quarter from 16 Crores last year comparison to 10 Crores for this quarter what led to this decline Sir?

Antony Cherukara: You are asking about the quarter-on-quarter?

Saket Kapoor: I am talking about the last year comparison Sir September 2018 to September 2019.

Antony Cherukara: In the previous year there was some dilution of investment has happened, which is resulted in a significant profit about 7 Crores and all, which is not there in the current year that is one of the main reason the change has happened.

Saket Kapoor: For the year as a whole last year number of 44 Crores would be there or it would be lower adjusted 7 Crores down only and we should adjust the whole year number also to that tune only?

- Antony Cherukara:** That is for the overall you are saying.
- Saket Kapoor:** And one more point on other current asset also there we are seeing a figure of around 69.41 Crores there the one item was mentioned at last year balance sheet was indirect tax recoverable if you could explain what is this item all about?
- Antony Cherukara:** Indirect tax recoverable is the GST recovery that is still to be adjusted, if you see the last year annual report there is a mention of about 41 Crores of GST input credit because of the inverted tax structure the company has to get the money refunded from the government a portion of that only gets refunded because of the rules of the tax actually. So that is the reason. As far as the liabilities are concerned you are just asking for some details on the noncurrent liabilities is it?
- Saket Kapoor:** The other financial liability of 51 Crores therein I needed the breakup for outstanding expenses that need to be paid and incentives marketing expenses.
- Antony Cherukara:** Majority of the items the provisions were extended so individual breakup, yes we will just get the individual breakup, in the meanwhile if there is any other question.
- Saket Kapoor:** Other than that what you are trying to explain to us is that the company is working towards more product diversification developing newer products as per the market needs and we are in a transition phase wherein we are trying to build a portfolio is my understanding correct Sir?
- Antony Cherukara:** Yes two things one is the portfolio and the second thing is expansion of the network itself in India and abroad.
- Saket Kapoor:** Currently what are the teething problems for the industry as a whole Sir we hold a dominant market share in the power tillers of 44% if I stand corrected so what are exactly the teething problems we are facing in the segment that is acting as different to the growth?
- Antony Cherukara:** See in the power tiller segment we have gained back the loss market share of last year, currently we are at 50% market share and I think we have discussed multiple times is the subsidy, which is the key issue as far as the power tiller industry is concerned, there is no dearth of demand, but then the entire small and marginal farming segments does not get easy retail finance and hence they are hugely dependent on subsidy and because of which that industry has not really grown in India that is the one and the biggest problem for the power tiller industry.
- Saket Kapoor:** And DBT is not getting transformed and it is not transforming the system at the route level already being spoken in spirit that it is the direct benefit transfer that may change the picture altogether?

Antony Cherukara: There is definitely some amount of impact because the amount gets directly credited to the farmers account, but then state to state the way this scheme is implemented is different, for example in Gujarat it is very simple that the farmer can apply after buying a power tiller also and he can avail subsidy as it comes. Now for example in Odisha the farmer has to apply for the subsidy first and then only buy the power tiller so that becomes totally subsidy dependent so in every state the way it has been implemented varies and accordingly the impact is also different.

Moderator: Thank you very much. We have next question from the line of Saurabh Shah from QRC. Please go ahead.

Saurabh Shah: Sir just a quick question, can you please tell us what are your capacity utilizations level across tillers, compact tractors and higher HP tractors?

Antony Cherukara: See for the tillers we are at about 50%, for the tractors we are at about 40% - 45%.

Saurabh Shah: And out of the tractors the higher HP will be a significantly lower number is that fair to say?

Antony Cherukara: Right now it is very low number .

Saurabh Shah: At what kind of capacity utilization do you breakeven on the higher HP tractors and start to make maybe company level or close to sort of let us say double digit margins at least?

Antony Cherukara: See for the higher horse power tractors we currently continue to produce in our Whitefield facility so we have not yet move to our Hosur main factory where we intend to produce the higher horse power. However coming back to your question at about when we move to the Hosur facility we are expecting a breakeven at much lower volumes than what is normally the practice in the tractor industry because we are only expanding on the current facility that is already established for the compact tractors. That is what I also spoke about in the first quarter call that we are building a model, which will give us breakeven at very low volume we are working towards it, I do not have an exact number to give you right now, but we are going forward we will definitely share that with you as well.

Saurabh Shah: On the compact tractors since you have moved to household at what level did you achieve a breakeven then on the compact side just so that we get maybe some color on what we can expect?

Antony Cherukara: Compact tractor from day one we were at breakeven in Hosur.

Saurabh Shah: And when do you expect to make this shift for the higher HP tractors as well?

- Antony Cherukara:** It might take us till the end of next year.
- Saurabh Shah:** Till the end of FY2021?
- Antony Cherukara:** Correct.
- Saurabh Shah:** Finally how much is Kukje's involvement in the new higher HP tractors and I guess how is the relationship likely to be going forward is there scope for increasing role for either of the parties or if you can maybe just give us some more detail on that?
- Antony Cherukara:** See as far as the relationship with Kukje is concerned is only on technology transfer of one particular model, which is the 47 HP model that we have bought from them and I do not think there is any further work that we intend to do with Kukje going forward.
- Saurabh Shah:** But is it because you think that there is enough of a learning where you can sort of broaden out your product portfolio went through internal development?
- Antony Cherukara:** We are looking at possible other partners whom we want to work in the higher horse power space.
- Saurabh Shah:** Sir beyond the 60 odd Crores of capex that you have remaining from the 200 Crores that you announced a couple of years ago is there a plan to spend more if you are developing further sort of portfolio or products in the even higher HP tractor because from what we understand it seems that the smaller HP tractors are likely to lose favor with the farmer over time just given fertilizer use has made the land very hard and it seems that farmers are finding affordability aside sort of higher utility and the higher HP tractors is that a fair assessment?
- Antony Cherukara:** I do not completely agree on that front why I am saying so is two reasons, one is we are seeing the lower horse power segment increasing, the two segments in the tractor industry what is increasing one is less than 30 horse power segment and a greater than 50 horse power segment so that is why I said partially I agree and disagree. The 50 horse power segment is increasing typically because of usage of higher implements, implements which need larger horse power for example the zero till seed drill that is being used in Punjab, which needs a 60 horse power tractor, so the usage is increasing on that front similarly on combined harvester those things so it is an application driven reason. Now if you come to the smaller horse power segment, which is less than 30 HP the growth is happening because the operational land parcels of most of the farmers are decreasing across the country and they can very well make do with a smaller tractor. We see a lot of trend from people moving from power tiller to a smaller horse power tractor. We also see a trend where the first tractor they buy is also a smaller horse power tractor so two segments that are

expanding one is the smaller horse power segment and the other one is the larger horse power segment the mid segment is what is actually degrowing.

Saurabh Shah: Thank you and Sir the other thing just on tillers there has been some increase in competition till those sellers brought in as that had any impact because I guess in your last call you have sort of explained that you stop funding the wholesale channel and did some credit corrections and that is why market share was down, but now you are saying that is back up to 50% historically which has been as high as 60% so in sort of a flat industry we have lost this 10% percentage points of market share is it because of other players being more aggressive or is it sort of still a corrective mode and you are hoping to get back and how quickly?

Antony Cherukara: See as I said we have already gained back our market share, which was 50%. The highest ever market share we have had was about 55% so we intend to gain that also. We are also entering into new segments like the 16 horse power, power tiller that we are launching, which we believe will gain us more volume and market share in the power tiller space.

Saurabh Shah: Just final question again our understanding is that implements will play a bigger and bigger role forward in the agri machinery space anything that we are doing can do or something that will sort of put us in a good way in that space?

Antony Cherukara: See actually we are the only tractor manufacturer who is giving a rotary tiller attached with the tractor, into the market. So it is a factory fitted rotary tiller we are giving along with the tractor we are the only ones in the country and we have been doing this for the last several years and that is the reason why I said that our performance is much better in terms of the compact tractors. Now we are looking to expand this rotary tiller manufacturing, we are working out options and because getting into the higher horse power tractor industry there is a large opportunity that we see we can explore in that area.

Saurabh Shah: And finally Sir as we are going into these new markets where you are signing up dealership and I guess developing products, which cater to those northern markets how are we going about creating the awareness if you can maybe just give us qualitatively or quantitatively what is it costing us and how are we sort of creating the awareness that because today on the higher HP side essentially one dealer is selling one tractor a quarter or one-and-a-half tractors a quarter if you were just sort of do the math of 50 tractors by divided by 40 dealers so how does that throughput for the dealer go up so that he has a profitable business and what are we doing to support that?

Antony Cherukara: I will just answer your question in two parts. One is how we have progressed in terms of higher HP, so the initial 20- 22 dealerships that we have launched is roughly doing about 2 to 3 tractors a month now in terms of volume and there is definitely a demand that we are seeing and most of the increase in number of dealerships we have done in the last four to six

weeks simply because we are ramping up our production now. Number two coming back to how to build a brand in the higher horse power space our focus has been as I said earlier promote this product as a value for money to the farmers and the key work that we were doing is on the ground demonstrating the performance of these tractors and saying how the ROI is better for him if he invest in this product and we have been hugely successful in that and as we move forward and the volumes ramp up we will look at using all the other medium in terms of building the brand.

Moderator: Thank you. We have the last question from the line of Govind Saboo from IndiaNivesh. Please go ahead.

Govind Saboo: So Sir most of my questions have been answered, just I wanted to understand more about this Kukje JVs so the higher horse power tractors, which we are manufacturing are they under the technology agreement from Kukje or we have some other in-house technology been developed for it?

Antony Cherukara: See as far as Kukje is concerned it is not a JV we just bought the technology from Kukje for one particular model for 47 horse power of course we are indigenizing it and adapting it in terms of technology.

Govind Saboo: So all the large HP tractors, which we are selling and manufacturing now are basically from indigenous technology?

Antony Cherukara: It is indigenous technology correct.

Govind Saboo: Okay which has been improvised on the Kukje technology, which we have acquired?

Antony Cherukara: No, it is indigenous independent technology, Kukje technology will be a different range of tractors we will launch in the future.

Govind Saboo: And how many models have we launched in this?

Antony Cherukara: We have launched 45 horse power and 49 horse power two models.

Govind Saboo: Fair enough Sir. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Hitesh Bhargava from B&K Securities for closing comments. Sir over to you.

Hitesh Bhargava: Thank you Vikram. On behalf of B&K Securities I would like to thank the management for taking time out for the call. Thank you everyone in the call as well. Have a good day.

Antony Cherukara: Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of B&K Securities that concludes this conference. Thank you for joining with us. You may now disconnect your lines.

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