

## CEO INTERVIEW TO VALUE RESEARCH

**Sundeep Khanna:** You have been heading the company for the last three years since April 2019. How do you look back at this period?

**Antony Cherukara:** I joined VST in April 2019. We set a vision for ourselves to achieve Rs 3000 crore by 2025. After the vision was set, unfortunately for us, we had huge disruptions like COVID. And these were all unprecedented disruptions, which many of us learnt along the way how to deal with. It was not something we could go by the playbook and say, okay, this is what we need to do when this happens.

This was new. Then we had the supply disruptions and inflation. So we have not had a single normal year since we came out with this vision. However, we have been able to clock 25 percent CAGR for the last three years, and we have put many projects in place.

Primarily we have been guided by our strategies, which is to focus on moving from power tillers to small farm mechanization, where we are bringing in the entire range of small farm machines, like power weeders, brush cutters, chainsaws and hedge trimmers.

We have tied up with three leading manufacturers based in France, Taiwan and USA to grow our SFM business. We have been working with these three players for the entire range. And today, I'm very happy to say that in a very short time, we have built the complete range.

**Sundeep Khanna:** The move into these products, what was it driven by? What did you see?

**Antony Cherukara:** There are approximately 150 million households in farming in India. And 80% of that is in the small and marginal farmer segment, which means they own less than 2.5 acres of land, which is small farmers. And then you have 1-1.5 hectares of land, which is in marginal farming.

Many of them are on subsistence farming, and many of them are doing single crops. In all the rain-fed areas in this country, all the farmers are on a single crop because there is no irrigation. They wait for the monsoon, and if it's fine, they do single crop, and after that, they find other jobs.

They either go back home or migrate to Mumbai or big cities like Bengaluru to make ends meet. Then they again go back to farming. This has been the cycle, and this whole cycle got disrupted during COVID because they realised that the safe havens of cities weren't safe anymore because suddenly they didn't have jobs.

That is where you saw huge migration going back to the villages. And many of them have still not come back. This created a flux of labour in rural India. And after that, they again came down because people started farming on their own and some of them moved back to the cities.

And again, the labour rates started going up. What you see today is a scarcity of labour, which was the trend before COVID, and is continuing even after COVID. But what set us really going is this whole 80% small and marginal farmer segment who cannot afford a tractor. A tractor costs upwards of Rs 5 lakhs, which they cannot afford. And even if by some means they get finance, they find it very difficult to repay. So many people have tried; they're coming back, and they're selling off their tractors. So we said, you know, there is a solution requirement for the small farm sector.

Now the government did something called DBT (direct benefit transfer) and the subsidy scheme, which was always there for power tillers. The benefit now gets transferred directly to the customers. This led to a total shift in dynamics in the power tillers segment, that is, the farmer does not have to wait for the subsidy to be released to buy a power tiller.

Earlier what used to happen is the farmers would wait for the subsidy to be released to buy the machines because the money used to get transferred to the dealer's account. So the farmer was always worried. Now, since it is getting transferred to the farmer's account, he is not worried. He is ready to pay at any point in time and buy the machine. The only thing he is asking for is that the company or the dealers ensure that their product is empanelled in the subsidy scheme. This is a big shift that has happened.

People are coming and buying, and immediately there was a change. Subsidy definitely helps because there is a capital accrual requirement, and well, Rs 60,000-70,000 means a lot to the farmer. But the purchase decision is not dependent on the subsidy announcement anymore. This is a big shift that has happened. And when we saw that, it gave us the feeling that, yes, the need is there.

So we first came out with the nine HP tiller, and then we came out with a 16 HP tiller. Then we said, okay, there is a large segment that cannot even afford the tillers because it is still Rs 1.7 lakh to 1.8 lakh. We looked around and saw large growth happening in the power weeder segment. We saw a CAGR of 20-30% for the last six years in that segment. And it is still growing.

We said let's address this small and marginal farmer segment. We have the infrastructure and the network. There is no reason why VST should not get into that. Now the question was, how do we get in it fast? So we decided to tie up.

That was the first strategy. The second strategy is we said, we want leadership in compact tractors because that is what VST was always known for. One clarification that I want to make, which I think many of the analysts miss out on, is that VST actually doesn't operate in the 9 lakh numbers tractors industry; it operates in a 90,000 numbers tractors industry, which is the smaller tractor, compact HP segment. Even in that 90,000 tractors industry, which is less than 30 horsepower, there is a specific segment which is a four-wheel drive, compact tractor. That is what VST is the leader in.

If you see, our leadership has never been lost in that segment. Of course, we have been challenged, and many other players have come in. We have been challenged, but we have not lost leadership. But the other utility segment has grown. When you look at the figures, you might feel that VST is not growing. But if you look at the segment where VST operates, we have maintained market share.

**Sundeep:** It's a fairly fragmented market.

**Antony Cherukara:** Yes, a very fragmented segment. And it is also a niche. We serve the grape farmers, we serve the pomegranate farmers, and we serve the customers. It's a very specific segment. Now we want to grow that segment.

We want to be leaders in the compact tractor segment, and we want to maintain that leadership worldwide. And that is where our global aspirations start. We said we will get into Europe, and then we will go into the other markets as well. We are already in Europe, and we have done quite

well in the last three years. Last year, our volumes closed at around 1400 numbers. In almost two years, we have grown three times.

**Sundeep Khanna:** Is that a revenue-based thing or do you want to increase your footprint?

**Antony Cherukara:** It is both footprint and definitely revenue. Because if it adds to just my topline and not my bottom line, it doesn't make sense to me. So it is definitely bottom line driven. Whatever VST does is bottom line driven. We don't work on building general inventory. We build only on consumption. So if the retail happens at the dealer level, we bill. We have never been in the game of showing market share and showing topline. Whatever we do is bottom line focused, and for that, we have implemented the theory of constraints (TOC) supply chain model.

So the second strategy has been focused on the compact tractor segment and going global.

Our third strategy for growth is to ensure capacity utilisation for the higher horsepower segment.

We have an installed capacity of roughly 30,000 tractors for the higher horsepower segment, which is 40 HP upwards. We are not in the game of market share. We say we will utilise capacity. And that is what we'll focus on and whatever it takes to make that capacity utilisation happen is what we will do. That is why we went ahead and tied up with Zetor Tractors. That work is happening, and product development is happening. We will be launching VST-Zetor products in the market.

**Sundeep Khanna:** Is this a technology JV? What are you getting from them?

**Antony Cherukara:** We are working on joint product development. The JV is not yet formed. When the MoU happened, we said we will do product development together. Second, we will explore markets. The third is we will use their European and American channels to expand our footprint abroad.

In all these areas, we are progressing. Many of the past projects that we have started are coming to fruition in the coming years.

I've spoken to you about power tillers, small farm organisation, compact tractors, and about the high HP segment. The fourth is we wanted to build an implements business, a precision implements business. We didn't want to get into generic implements. We already had some small-level manufacturing for rotavators or rotatory tillers from Mitsubishi in the earlier days. We wanted to expand it, and we have shifted the whole thing to Mysore. We are also looking at sprayers because that is our natural segment. We operate in orchards, and spraying is a major application.

These are the two areas we are focusing on in terms of precision, but this is going to be a long haul. In India, tractorisation has happened, but mechanisation has not. We are working on it. We are building as our tractor business grows.

**Sundeep Khanna:** So you also have to build that market.

**Antony Cherukara:** Yes, and that is happening. But it is at very low revenue levels now.

**Sundeep:** But what about 10 years from now?

**Antony Cherukara:** That's why I'm saying all this. Because in 10 years, this will be sizeable.

The fifth thing that we said was we should get into rural distribution. Now, there is a reason for that. We had a parts and lubricants sale business with almost five to 10 distributors and a few hundred retailers. We wanted to scale that up, and we could do that digitally. We have set up a digital rural distribution network and announced it to the market. We have even launched electric pumps through that channel in UP and Bihar. The entire business happens on a digital model.

The distributors' salesman goes on a beat every day with a mobile. He updates everything, and there's a TOC methodology of the supply chain. There is no forecasting. There is a buffer penetration replenishment model on which we work. The inventories are kept low. It is a totally digital distribution that we want to build.

And we want to scale that up over a period of time. This again addresses your question of 10 years from now, what do we do? We operate only in UP and Bihar - built scale in UP and Bihar and then will focus on scaling up state by state.

**Sundeep Khanna:** What are the products that you distribute through this network?

**Antony Cherukara:** Electric pumps, parts, lubricants, grease.

**Sundeep Khanna:** And these are not only your own products?

**Antony Cherukara:** Some are ours. The idea is rural retail distribution. What is happening in India today is that with electricity coming in, the whole rural market is opening up. Earlier, if you had gone to many villages, you would've seen that they don't have electric fans. Today with electricity being available, they're buying electric fans. But still, they have to go to neighbouring Tier 1 or Tier 2 cities to buy a fan. There is no rural distribution, and even the bigger players have not established a rural distribution network.

I believe that rural distribution over a period can be a big business if you build it fundamentally using a frugal methodology. That is why digitization. You can't have a capital-intensive distribution network like warehouses because the cost will be too much for the remote villages.

**Sundeep Khanna:** Do you see other companies eventually also piggybacking on this?

**Antony Cherukara:** It'll happen. We have started with electrical pumps, but we want to do more in the future.

The sixth one is technology. Diesel engine tractors will eventually give way to electric tractors. And driver-driven tractors will eventually give way to autonomous tractors. All this is happening, and we wanted to participate in it. That's why we have invested in a US

company which develops electric, driver optional tractors. We also got into a supply agreement with them for supplying the drive train - the transmission, front axle and rear axle. All these things happened in the last three years. Within this period, we managed a 25% CAGR. With all these projects going online, I believe our growth should go up under normal circumstances. If there are exceptional circumstances or disruptions, this could fluctuate.

What we believe is we can accelerate.

**Sundeep Khanna:** How are you evolving as a company?

**Antony Cherukara:** The first two years, when I came in, I focused on cleaning for growth, which meant we wanted to release inventory and release cash. If you look at our balance sheet,

you can see how much our cash reserves have gone up. So reduce receivables, reduce inventory but in a sustainable manner.

That's why we implemented the constraints-driven supply chain model. Then we started digitising the company thoroughly. Today we are actually a paperless company. Everything is digital, even the highest level of Capex approval. We implemented SAP HANA (ERP Solution).

Our supply chain is end-to-end digitised now. From the retailer to the supplier, everything is digitised. On the supplier side, we have implemented SRM, at the digital distributor, we have implemented DMS, and the central core is the ERP Solution.

**Sundeep Khanna:** And what are the tangible gains from that?

**Antony Cherukara:** Inventory. If you look at our earlier figures, you will see our inventory has been reduced, and at the same time, we saw a 25% growth on a continuous basis. That is a tremendous achievement.

Second is receivables. We used to operate at much higher levels. Last March, we were close to around 30 days. That is coming down. All these efficiencies are also simultaneously building.

**Sundeep Khanna:** How are you implementing them?

**Antony Cherukara:** First is a "cleaning to grow" phase of two years, FY20-FY21. Now from FY22 to FY23, we are in the "gearing to grow" phase, wherein all these processes, systems, alliances and partnerships will be gearing up for growth. And FY24 and FY25 will be the period of "exponential growth."

**Sundeep Khanna:** Can you define this exponential growth?

**Antony Cherukara:** If I say some number, then the point is are the circumstances going to be normal to hold onto that number?

People ask me, you said Rs 3000 crore, will it happen in 2025? I said the objective of Rs 3000 crore was not Rs 3000 crore alone. The objective of Rs 3000 crore was to align an organisation, which has been slow, to think and act aggressively. And I think that objective is definitely met. Whether you are doing it by 2025 or 2026, that is not important. If we can't do it in five years, we will do it in six/seven years. I don't mind, especially given the unprecedented disruptions we have gone through.

Also, I would say we were very conscious when we said Rs 3000 crores. People asked me why did you put a number to it? I told them the number was required at that point in time. The company required a specific objective with which people can align and say let's go. That was the need of the hour.

Maybe in 2025, when I rework the vision, I may not put a number. Let the team decide because there is a certain culture, there is certain aggression that has already come into the company. There is no need for another number.

That's the journey so far. We have not really looked at 10 years hence, but we will be looking at it. What we have done so far is scale up. The electric tractor business, the global partnerships, the rural distribution, and the implements business, are all future looking. None of these are short-

term. All of these have tremendous scope for growth in the long term. But we have not put a number to it to say how much that will be.

Obviously we will have aggressive growth targets. The 25% CAGR in the last three years, I would say full credit to the team because, given the disruptions that we have had, many haven't done what we have been able to do.

Now, in the next phase, we are getting into an exponential phase. I am sure that with the amount of groundwork we have done, we should be able to meet those aspirations.

**Sundeep Khanna:** What are the challenges that you see going forward?

**Antony Cherukara:** There will be many external factors, which I don't want to delve into because it is not entirely in our control. But internally, I think the key, I would say, is that with the kind of growth that we are having, we need to build more leadership bandwidth within the company.

That is one thing we are very closely looking at. We are also looking at inorganic growth because there are segments we believe we can invest in and grow faster. We are looking at that very seriously. These are the two immediate things that we are looking into. External challenges are many, like inflation, supply disruption, etc. But I think we are well equipped for that because of the TOC supply chain methodology and digitisation. The whole organisation has become more agile.

When I came in three years ago, we had to spend time to understand what the inventory issues were. Today it's all available at the click of a button. So the company has the ability to make decisions, and even if there is a disruption, to react to it very fast. To that extent, I think the company is better prepared than it was two to three years back.

In a way, I would also say that COVID helped for digitalisation. Because we had no choice but to digitise everything. In fact, we were the first ones off the block. The shutdown happened, and the next day we were working.

Of course, the customer coming to the showroom still is not digital. We don't have a huge e-commerce presence or anything like that. But the rest of the operations of the company can run without a problem. Of course, the worker has to manufacture the tractor in the plant.

**Sundeep Khanna:** After working with leading Agricultural Equipment Manufacturers for so many years, why did you decide to move to VST? What did you see?

**Antony Cherukara:** I'm very passionate about rural markets. I'm very passionate about transforming lives for the better. And I find a lot of purpose in the small and marginal farmer segment. Even in my earlier organisation, I started a power tiller business. By the way, they're the second largest players in power tillers now. So the whole passion was there to do something for the rural segment. And that is where this whole rural distribution also comes in because there should be quality of life and without paying a high price. So how do you build a frugal distribution network, which can deliver the same value without having to shell out higher costs? That is the whole idea behind the rural distribution.

**Sundeep Khanna:** Is the group conservative?

**Antony Cherukara:** I don't know whether the real word is conservative or down-to-earth. I strongly believe it's more down-to-earth than conservative.

They always wanted to grow. It's not as if they have not done other businesses. Other businesses are also being run by the group. This business was a niche segment, and there were no players in this segment. Until about 2015-2016, there was no competition. The tractors were always booked, and there was a waiting period. That is what was happening. I wouldn't want to comment on why they didn't expand; they had their own reasons.

But I think that the potential is tremendous for this company, given its governance and all those areas.

**Sundeep Khanna:** What about your take on leverage?

**Antony Cherukara:** At the appropriate time, if we need the money, we will look at it. Right now, we don't need it. We have enough reserves, and we have enough liquidity. We are sitting on assets that can be unleashed in terms of more value generation.

So I don't see we will be needing any leverage at this point in time, but eventually, we will.

Once we start moving faster onto the growth part, definitely we will look at it. But I don't think we will ever be on the other side of leverage. We will never be. Because somehow, I don't think that is the ethos of this company.

**Sundeep Khanna:** Last year, you won an award from CII for being one of the most innovative companies in the country. What goes into creating an innovative company?

**Antony Cherukara:** I think it's total employee involvement, communication, and triggering passion among people. I think that's the simple, single biggest factor because innovation comes from people. It doesn't come from the CEO. It comes from every other guy who has got an idea and who's got a platform to implement that.

I think that is critical because many people have ideas. I'm sure in every company, there'll be hundreds of people who would want to implement it. But is there a platform? And is there that openness and acceptance of hearing out people? I think that is what we are building in VST. We have implemented kiosks in all our plants so that anybody can go to the plant, see something, and put an idea there. And it goes to the concerned department.

Earlier, we used to do 200 kaizens a year. Today we do 200 kaizens a month. This whole employee participation and employee involvement is the single biggest factor. Then, of course, there is the willingness to invest.

But I think the single biggest factor is how you create employee involvement. I think that's something that we are doing very well.