



“VST Tillers Tractors Limited Q2 FY 2016
Post Results Conference Call”

November 10, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Tractors Limited Q2 FY 2016 Post Results Conference Call, hosted by Batlivala and Karani Securities India Private Limited. As a reminder all participants' line 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. Thank you and over to you Sir!

Annamalai Jayaraj: Thank you Daryl. Good afternoon everyone. Wish you all a Happy and Prosperous Diwali. On behalf of B&K Securities welcome to the Q2 FY 2016 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the management team of VST Tillers Tractors Limited. From the management team we have with us Mr. V.P. Mahendra - Vice Chairman & Managing Director, Mr. B.C.S. Iyengar - Director (Corporate Strategy), Mr. K.U. Subbaiah – CEO, and Mr. R. Thiyagarajan - Executive Vice President and CFO. I would now invite VST Tillers Limited team for their initial comments to be followed by the question and answer session. Over to you Sir!

B.C.S. Iyengar: Thank you Mr. Jayaraj. Thank you B&K. Ladies and gentlemen very good afternoon and a warm welcome to all of you to this conference call. Before we begin our Vice Chairman and Managing Director, Mr. V.P. Mahendra, CEO Mr. K. U. Subbaiah and our CFO Mr. Thiyagarajan are all here with me to greet you and wish you a very Happy and Prosperous Diwali.

For the last few months, we have been seeing reports on weak monsoon, drought conditions followed by untimely rainfall and consequent degrowth in tractor industry. I therefore assume that you are mentally prepared that our half-year financial results would not be exciting. However under the circumstances and market conditions I can it is not bad either. We have sold 6420 tillers during the quarter is better than 6176 in the previous year.

There has been a slight decline of 55 numbers in the sale of tractors from 1807 in the last year corresponding quarter to 1751 during July-September of current year. There is a marginal growth in the topline but we have not been able to sustain the operating profit margin, which have been reporting earlier. You will recall that we have always been saying that it would happen so when the going is tough and our priority would be towards market share Although we are compelled to give away higher discounts, incentives in the market, we are glad to inform you that our market shares both in power tillers on tractors during the current year till date has grown.



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We are confident that the performance in the current quarter that is third quarter will be much better than the third quarter results reported for the previous year. With this brief introduction, I will hand over to our Vice Chairman and Managing Director, Sri V.P. Mahendra.

V.P. Mahendra:

Good afternoon, Mahendra here. Happy Diwali to all. As Mr. Iyengar has briefly communicated the performance has been maintained if not marginally improved. In the forthcoming six months our confidence level has improved and we should be able to post better results than last year. Of course you will ask us about certain details of what the likely figures are will be forthcoming as the discussion goes on we are sure that we will be able to give these indications to you.

Thank you and I am just passing this on to Mr. K.U. Subbaiah, our CEO, who was recently joined us and I am sure some of you might already know his past experience. He will just give a very brief about himself and then a few words.

K.U. Subbaiah:

Good afternoon everybody and wish you all a Happy Diwali. I joined VST Tillers on August 17, 2015 prior to this I worked in three different companies. My first tenure was with MicoBOSCH for about 13 years followed by TE Connectivity for about 18 years and then I joined Precall for a period of three years and after completing three years I decided to come back to my hometown Bangalore and joined the esteem company VST Tillers.

Both Mr. V.P. Mahendra and Mr. Iyengar have already explained the results till date and expected performance in the next six months. So I am now here to ensure that I will be able to facilitate further growth of the company and improve the margins and I am very happy to be associated with you all. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf:

Good evening. Thanks a lot for taking my question. Sir firstly, if you could just give the revenue breakup or just revenues for the tillers and the tractors?

B.C.S. Iyengar:

Power tillers revenue 170.04 Crores and tractors 105 Crores 18 lakhs.

Mukesh Saraf:

This is for the first half?

B.C.S. Iyengar:

You want for the quarter?



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Mukesh Saraf: That is okay Sir. So just if you could just kind of give some sense on how the tiller market has been for you especially in key states like Orissa if you could just throw some color because we were expecting some kind of a pickup at Orissa?

B.C.S. Iyengar: In fact Orissa has been big let down for us for all the power tiller industry as well. That is why the entire power tiller all the members of the Association Power Tiller Association have suffered because that was the biggest market and there has been some administrative problems and also change in the policy of the subsidy, which is now a staggered subsidy they have subsidy of 75,000, which is fairly staggered installments of 40000, 30000 the rest which closed on to extend for about a year. This together with a lottery system, which they have brought in since last April. This has definitely affected all the industries particularly power tiller and as well as other like pump sets and other equipments also and there has also been a shortfall as compared to the earlier subsidies, in the first half of the year. So that has really affected all the players.

Mukesh Saraf: How do you see this going forward are you seeing some kind of a sign wherein you are seeing the administration there kind of trying to make all these issues?

B.C.S. Iyengar: They do not say it is an administration lapse. They say it is some improvements what they were introducing and what they are bringing in. It is mainly because there is an accusation that large number of power tillers are migrating to other states. So to curb this practice they have introduced this system and they say automatically the correction factor will apply and the genuine demand will itself get settled and you will see better things could be happening in the forthcoming quarters. So that is what the department is assuring.

Mukesh Saraf: Okay do you also expect sort pick up Sir second half?

B.C.S. Iyengar: We are not very much depending on this because there is very little that could happen. We have lost the major season and immediately we do not foresee a big change. If at all anything were to happen it would be for the next year.

Mukesh Saraf: Next year. So you did typically mean you do give some kind of guidance of what you think can be our full year volume growth in the tiller Sir?

B.C.S. Iyengar: We should be about 28000 power tillers as compared to about 23000 odd tillers which we did last year.



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Mukesh Saraf: So that would actually mean growth over second half in the second half. So what would drive this growth which state if not Orissa, which are the states, which will drive Sir for us?

B.C.S. Iyengar: Karnataka and Andhra Pradesh were consistently doing well. Tamil Nadu I just started. We are hoping that it pickup much better. Maharashtra and Gujarat also doing well. In addition to that Northeast is doing well.

Mukesh Saraf: Sir my last question on the tractor side. I know we are looking to increase our financing penetration in lot of states and we have taken some initiatives. You can just give us a broad update on where we stand on those initiatives and how do you see say this year and the next year pan out for you in the tractor side?

B.C.S. Iyengar: One of the biggest requirement of the marketing department was to provide channel financing and also retail financing particularly retail financing, which we had not concentrated earlier because we had established only in Maharashtra and Gujarat whereas the rest of the states are depending on retail financing. I will give it over to Mr. Thiagarajan who is working on it. You can share the details.

R. Thiagarajan: Good afternoon ladies and gentlemen. Wish you Happy Diwali to all of you. Coming back to the retail finance as explained in the last investor meeting, we tied up with private banks and NBFC's. During this quarter and next quarter, we embark to add another couple of Banks and NBFCs for which I have lined up meetings with them in Chennai, Pune, Mumbai and Delhi. This help/support will be one of the major confident factor for the second half of the year projections. The financiers also understood the product value apart from our company standing in the market, not only in Maharashtra and Gujarat but also in our developing markets for tractors especially the Southern region. We are getting good response and we are in the right direction.

Mukesh Saraf: Okay Sir and what do you think can what kind of volumes can we do in this year Sir what would be your target.

B.C.S. Iyengar: 8500.

Mukesh Saraf: For this year-end.

B.C.S. Iyengar: Yes.

Mukesh Saraf: Great Sir I will get back into the queue. Thanks a lot for this.



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Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. Just had a couple of questions. First is Sir clarification you indicated that we have given an increase. So other expenses in this quarter has increased significantly. So is this primarily because of increase in discounts and incentives to push sales? My query is more of a clarification you indicated that other expenses increase in this quarter is primarily because of discounts and incentive. Is it right?

B.C.S. Iyengar: Yes major part is discount because as I told in the introductory remark that the market circumstances and condition are compelling us to give away more incentive, we are keen to retain the market share. In fact our market share really has growth up both in power tillers and tractor and you know the market scenario at present. We have to follow this route as the competitors are also playing the same.

Viraj Kacharia: Two more questions. First is it is more from broader strategic question from long-term perspective is to Mr. V.P. Mahendra. Sir we have taken recently made inductions at a very senior level. We have got Mr. Subbaiah and we have also hired a new guy at the tractors at the VP level. So incrementally are the promoter family looking to transition the daily business and as well as the strategic direction to professionals. What is the broader thought process and how do promoter family see that all in the company say over the next couple of years?

V.P. Mahendra: I did not quite get this early part of your question but I will just answer what I felt is appropriate.

Viraj Kacharia: I can repeat the question if you. So my question is that we have need couple of inductions at a senior management level in last couple of months and we also got in Mr. Subbaiah at the CEO level. So incrementally are the promoters looking to transition the daily business and strategic calls to the professionals?

V.P. Mahendra: By and large yes.

Viraj Kacharia: How do the promoter family see that whole in the company going forward?

V.P. Mahendra: The family will continue to be associated in the manner, which appropriate, if a family member who is competent to take up an assignment, I am sure in the future it will happen but as of now it is going to be professionalized and that is the way we look forward.



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Viraj Kacharia: So in which core areas do seem to get maximum benefit of the skill sets of the experience management?

V.P. Mahendra: I think it is overall. It is probably to a lesser extent on finances but certainly what the engineering and the marketing will have the emphasis.

Viraj Kacharia: My second question is if we see in last two years you have seen a significant increase in competition intensity both in mini tractors and tillers with new players entering the segment and existing players expanding the product range to new products where we have largely been absent. So what is the thought process in terms of product development and expansion and also in terms of marketing focus for next two to three years? What is the thought process of how you seem to increase our market share?

V.P. Mahendra: In the past we have had very limited range of products in terms of horsepower and capabilities both in tillers and tractors. On both these fronts we are expanding the range and the type to match with the requirements of the market.

Viraj Kacharia: Sir my question was both on the product development side and also on the marketing side because even on the product development side we have been largely absent in lower HP tillers and 24 to 30 HP tractors where the market is now moving to in both the cases and that is why our traditional market dominant we are largely been absent in this area and even on the marketing side bulk of our sales in tillers and tractors continue to active from select core states to if you can lay out in what specific measures and we are taking to. We can get a broader sense of how we to increase our market share and continue all dominance in these two areas?

V.P. Mahendra: Certainly 100% what you said is right. We are moving upward in terms of the tractor and in the tillers not necessarily only downward. We are also moving upwards in terms of horsepower. On the R&D yes we are using a lot of outside resources, which are available in India, which are excellent resources and we hope to capitalize on their capabilities.

Viraj Kacharia: So in particular milestones your targets you have in mind for next two to three years which we like to so we get a broader sense of how we going about with this?

V.P. Mahendra: As far as tractors are concerned we are targeting to bring out a good product sometime by end December next year and as far as tillers are concerned I think we have just started the process we can do a mix and match what is going on a little bit of imports, little bit of development locally. The mini weeder or the small tillers that you talk of we have decided



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that we will make it ourselves. It might take about four, five months to get that into the market.

Viraj Kacharia: Current time right. You mean four to five months from?

V.P. Mahendra: From now.

Viraj Kacharia: On the marketing side if you can share your thoughts of how we?

V.P. Mahendra: Possibly you are aware that we have recently about eight months ago employed a separate market head for tractors and he is expanding his range at locations where we are not able to present. He is also adding on people appropriately to make sure that this happens.

Viraj Kacharia: Just last question was on the operations. Couple of years back again we were facing supply constraint on the vendor side and we also got a amount of potential volume say if the market were to recover on the tractor side especially in next one to two years up to what level of production we can cater comfortably without having any further issues on the vendor side?

B.C.S. Iyengar: We could easily go up to 1000 tractors immediately and within about six months we can improve by 20% to 30% both the case.

Viraj Kacharia: Which is to what levels you are talking about?

B.C.S. Iyengar: I mean 12,000 tractors and tillers could be 36,000.

Viraj Kacharia: So this is without having any issues on these?

B.C.S. Iyengar: No we do not anticipate any hurdles.

Viraj Kacharia: Just to clarify my understanding you did indicate that incrementally Mr. Subbaiah and his team would be guiding the strategic direction of the company. Is the understanding right?

B.C.S. Iyengar: You are right.

Viraj Kacharia: Thank you very much.

Moderator: Thank you. Our next question is from the line of Binoy Kurian from Centrum Broking. Please go ahead.



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Binoy Kurian: Thanks for taking my question. My first question is on raw material cost. So when I look at the numbers there has not been much of a benefit over the past two years like you are seeing under softening commodities where so is there any reason for that?

B.C.S. Iyengar: No, raw material prices by and large have been stable. We are fortunate that it has not dented our bottom-line. Of course our realization selling prices are also marginally increased during the current year but we do not envisage to increase the selling price further because you know that most of our products that is our power tillers are all regulated by the subsidy mechanism where the price is approved by the state and there will hold good for a period at least one year.

Binoy Kurian: Second question is on the amount of cash on the balance sheet is around 140 Crores including those investments and all that. So are there any plans for returning more financial shareholders in terms of dividend, in terms of special dividend or higher payout going forward given that your capex requirement are quite low?

B.C.S. Iyengar: What are you suggesting I did not understand?

Binoy Kurian: I just wanted to know is given the amount of cash on the balance sheet and the low capex requirements. So are there any plans to increase the debt dividend payout ratio going forward?

B.C.S. Iyengar: We have a policy to limit the dividend it to about 20% of the profit which will continue because always we would like to continue the conservative approach and save for rainy day.

Binoy Kurian: So what is your capex guidance for 2016-2017 also 2017-2018?

B.C.S. Iyengar: For the current year is not very much may be in the medium terms it could be in the range of about 25 to 50 Crores depending on the development what Mr. V.P. Mahendra was just now talking of introduction of new tractor. So this we are not fixed on this. So it could be anywhere in the region of about 50 Crores.

Binoy Kurian: Thank you.

Moderator: Thank you. The next question is from the line of Lakshminarayan KG from Catamaran. Please go ahead.



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Lakshminarayan KG: Good evening and thanks for taking my question. Couple of questions, the one what has been the contribution of spare parts sale and revenue for the first half and year?

B.C.S. Iyengar: Spare parts sale is about 25 Crores as against 21.7 Crores last year.

Lakshminarayan KG: Thanks and second in terms of you mentioned 28000 power tillers and you intent to sell 8500 Crores tractors. Any broad direction on what is the state level split you are actually envisaging in this?

B.C.S. Iyengar: Karnataka will be the major it will be the front-runner, which about close to 6000 power tillers. Orissa will be about 5000 power tillers. We have northeast about 3000 power tillers. These are the majors.

Lakshminarayan KG: And Maharashtra Sir.

B.C.S. Iyengar: Between Maharashtra and Gujarat we sell about 3000 power tillers.

Lakshminarayan KG: For tractors?

B.C.S. Iyengar: Tractors, major contributors will be Maharashtra and Gujarat, which continues to account for about 75% to 80% of our total market. We have just started introducing the tractor in other states. It will be sometime before it picks up.

Lakshminarayan KG: Our tractors you sell what actually comes under the subsidy limit of the government?

B.C.S. Iyengar: Which state you are talking about, any general or in particular?

Lakshminarayan KG: Any states where for example Maharashtra and Karnataka or the key states you sell anything give subsidy for the tractors you sell?

B.C.S. Iyengar: For small tractors some of the states are giving subsidy. Karnataka is giving. Just now Tamil Nadu has also announced subsidy for a limited quantity.

Lakshminarayan KG: What is your average realization of a tractor and average realization of the tiller Sir?

B.C.S. Iyengar: Average realization is about 2.5 lakhs on the tractor.

Lakshminarayan KG: And for the tillers?



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- B.C.S. Iyengar:** Power tiller is about 1,25,000.
- Lakshminarayan KG:** Sir in terms of the inventory that is there for the quarter end right. What has been the inventory you think will be there at the dealers end, for the industry and for you?
- B.C.S. Iyengar:** Dealers could have about little more than 1000 power tillers.
- Lakshminarayan KG:** That compares quite reasonable with same period last year?
- B.C.S. Iyengar:** Yes I think it is better.
- Lakshminarayan KG:** Sir in terms of the direct benefit transfer scheme that has got announced and I think some of the states have already implemented it. I do not have much facts on the table but if you can just help me understand whether the direct benefit transfer is beneficial to the industry or it actually would require some process change to the dealer and hence there will be a delay for us to sell. So if you can just help me understand how that is actually affecting the industry?
- B.C.S. Iyengar:** It is a double edged sword but in the long run it will definitely help in the sense either the farmers are used to a situation where they can take the power tillers at the subsidized price and we extend the credit or our dealers will extend the credit. So typically if a power tiller is costing say about 150000 and subsidy is available about Rs.50000, they will have to arrange only about a Rs.1 lakh and take the power tiller with them. But in the DBA system they have to pay the full amount because the subsidy is directly going to them and we will not be in a position to extend credit because the subsidies goes directly to them. Therefore the loan component for them it will work out to more than 1 lakh. So entire amount they will have to take the bank assistance. We could see a situation where there will be an adverse scenario if not adverse it will slow down the demand definitely to some extent but over a period I think the farmer should get used to this and seek for banks assistance both for subsidy as well. In which case our balance sheet will look much better because we get the entire amount as against the current situation where we have to wait for about three to six months for the subsidy.
- Lakshminarayan KG:** When I go the loan requirement of bank every nationalized bank has a different limit on what should be the kind of a threshold level of acre that farmer has to propose to buy a tiller. So is that I mean is there a invest from an industry association point of view when what are the steps we are taking to ensure that there is kind of a normal threshold of level to which if you can actually opt for credits and banks will allow?



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- B.C.S. Iyengar:** Wherever the loans are less than 1 lakh it is easier for financing. They can be financed on the prime security without collateral security of the land etc., there are financing on the threshold limit of 1 lakh is crossed then definitely the loan processing will be somewhat stiffer and sales demand will definitely be affected. But as I told you in the long run where the farmers are used to make the full payment and wait for the subsidy it will be better for the industry.
- Lakshminarayan KG:** In terms of our exports potential get because sometimes back you mentioned both Africa and Myanmar are the places where you are actually looking for right. Can you just help me understand what are steps taken in that regard and what was the plan for the next couple of years?
- B.C.S. Iyengar:** Africa is definitely a very big market for power tillers but unfortunately it is all invaded by cheaper quality of Chinese power tillers. It is atrociously lower rate which we can not match. Quality is another aspect but it is very difficult to compete with the price. As far as the tractors definitely we have a good potential as I kept saying earlier we got stuck up on in Maharashtra and Gujarat due to our inability to meet the demand. Now with the tractor separate plant has been set up Hosur, which is operating for last 1.5 years. We are in a position to supply tractors and now we have started looking for exports.
- Lakshminarayan KG:** Thank you Sir I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Karan Butalia from IIFL. Please go ahead.
- Karan Butalia:** Very good afternoon Sir. My question was regarding the market share when we talk of tractors and tillers. I wanted to ask about the market share in tillers and tractors?
- B.C.S. Iyengar:** This year we have a little over 50% market share on power tillers. On tractors the segment is between 20 and 30 HP and less than 20 HP so in this segment is very difficult to compare but we have improved our market share by about 3%.
- Karan Butalia:** So now the business stands at?
- B.C.S. Iyengar:** Now from 27% to 30% we have improved our market share in this segment.
- Karan Butalia:** Sir you also mentioned that you are targeting tractors of about 8500 in the current year. So can you compare it to FY 2015? So what was the sales volume?



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- B.C.S. Iyengar:** FY 2015 was about 6000.
- Karan Butalia:** So it is 8500 in current year and Sir with the introduction of new tractors which between FY 2017 and FY 2018 somewhere in that period. So how much can be scale up as in 10%, 20% how much increase will be from that new tractor. From the new tractor which you will be introducing in FY 2015 or FY 2018 so the contribution to the overall revenue would be somewhere around 10% or more?
- B.C.S. Iyengar:** It is too early to bet on that but only thing is we have to expand our range and not confine to only 22 HP because there is definite requirement for spraying and other applications wanting more than more 25 HP. As a policy and our own limitation we would like to confine to less than 30 HP. We are not really assessed this demand but you will also appreciate that the market less than 30 HP segment is growing and we should be able to garner a sizable if not a sizable this thing reasonable extend of about 2000 to 2500 tractors.
- Karan Butalia:** So the new tractors, which we are talking about, will also below 30 HP?
- B.C.S. Iyengar:** Below 30 HP.
- Karan Butalia:** That is it from me.
- Moderator:** Thank you. Our next question is from the line of Adnan Kewal from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** This is Viraj again. Thank you for the opportunity. Just had two more questions. Sir indicated that we would be launching a new tractor by December next year. So this is in addition to the 25 HP, which we have, then the test pilot or is it the same one, which we are talking about? And broadly from a directional perspective over next three year how you are going about the expansion the tractor range. So if Mr. Subbaiah or Mr. Mahendra you can share some light on that?
- K U Subbaiah:** Yes you are right next tractor what we said we will release or come to the market by end of next year will be a 30 HP tractor and in between we will have the 25 HP tractor. So this is what we will play up to 30 HP tractors for the time being but looking at the market how it grows probably will think of higher models later on.
- Viraj Kacharia:** Probably from a directional perspective of say next two to three years we have also being one of the early players in rice transplanters. So can you couple of thoughts on how big the



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market is in say China or Bangladesh and how are we placed in terms of either indigenization or launching new products in that segment?

B.C.S. Iyengar:

No indigenizing that question does not arise because the volumes are very low and it does not make economic feasibility. As far as the potential is concerned it is very large but the concept it is very difficult to develop overnight. Even in China also it took lot of time. There were about 5000 transplanters and now after five, 10 years only they are come to a level of about 75000 to 100000 transplanters. We have been working on this for more than a decade but we are confident in times to come where the labor is not available and also cost is prohibitive this will be a best. Also the return on investment is very high but marketing this concept is slightly difficult and it will take some time but we have confidence in future.

Viraj Kacharia:

So usually in China the market currently is around 75000 to 100000 and in elsewhere markets like in ASEAN countries if a crop constitute a major person. So how big rapidly the market can be even what is your thinking of that on the market size potentially?

B.C.S. Iyengar:

Market potentially very large but still as I told you the nursery raising is one of the major challenges here and still labor is available in many of the paddy growing areas where they are able to do about Rs.1500 to Rs.2000 per acre. Manual transplantation is going on but we are now doing a PPP project along with Maharashtra government and also we are associated with Orissa where we have been seeing a success and the demand is repeating in these states but in times probably a year or two it will reach a sizable volume of about at least about 3000 transplanters.

Viraj Kacharia:

One more question was on if we see in this quarter as indicated we have shared some of RM gains in the form of discounting and incentives. Since you are looking at much more stronger growth in H2 and would be right to think that we will be open to sharing further gains from lower raw material prices in the form of discounts and incentives?

B.C.S. Iyengar:

We are used to a situation where the raw material prices earlier use to go up but we are very happy that in the last two years or more the raw material prices are very stable to that extent we are happy and of course as a matter of corporate policy we have a strategy. We have set a target for the supply chain department to achieve reduction at least about 1%.

Viraj Kacharia:

You mean 1% price reduction you mean?

B.C.S. Iyengar:

1% of the raw material prices.



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- Viraj Kacharia:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** Very good afternoon Sir. On the competition you mentioned that we have resorted to higher discounts and incentives to maintain market share. So basically where is the competition coming from?
- B.C.S. Iyengar:** On the power tiller I think you will be aware apart from another domestic manufacturer now there are about 45 brands of imported power tillers, so each one trying for a piece of cake. So there is very big competition. As far as the tractors you know there is international tractors Sonalika brand, there is Yuvraj, there is Kubota, M&M.
- Manish Goel:** So Sir in power tillers like still with rupee depreciating and do you see still that tractors which are imported from China, sorry the power tillers which are imported from China can compete with you on the pricing front.
- B.C.S. Iyengar:** Yes still because as I told you there are number of 40 to 50 brands are available and these are all please note that they all very small players and they can just import one container and sell it at a very marginal cost and they do not operate like big corporate in the organized sector with over 40 brands then you can imagine the number of importers and dealers who are competing.
- Manish Goel:** Ideally they come around power tillers are imported in semi and outbound condition and assembled and sold or how is it?
- B.C.S. Iyengar:** Both are there SKD & CKD.
- Manish Goel:** What would be the difference in pricing?
- B.C.S. Iyengar:** As I was telling in the beginning although we have lost out in by giving our lost out on the margins where may be you are not very happy with the operating profit but we are content that market share despite all this competition during the current year we have improved. Our market which was around 45% has increased to 50% now.
- Manish Goel:** Sir exactly what I would like to know is what is the pricing difference between you and this imported player?



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- B.C.S. Iyengar:** The selling price difference is about 10% to 15%.
- Manish Goel:** They are cheaper by 10% to 15%.
- B.C.S. Iyengar:** Selling price.
- Manish Goel:** Selling price is lower by 10% to 15%?
- B.C.S. Iyengar:** Yes.
- Manish Goel:** How do they like in terms of meet the servicing spreads and serving and how do they because these are largely imported and they do not have probably network what you would have so how do they manage to service?
- B.C.S. Iyengar:** No they have been in the field for last 10 years. With the increase in volumes the local infrastructure will develop may not be definitely to the satisfaction or to the level of the domestic manufacturer. That is the reason why it is not great demand. Yet is not so bad and probably it will improve with volumes.
- Manish Goel:** Are you seeing competition from domestic players also like what we see Greaves Cotton?
- B.C.S. Iyengar:** Greaves is a domestic player but largely importing. Greaves and Bengal Tools are the major players who are substantially imported important component on the power tillers and the new entrant is Kirloskar and you might have heard Kubota has launched the power tillers last month.
- Manish Goel:** Can you please help with the sales value in quarter two for tillers and tractors sales value and comparative number also please Sir for last year quarter two?
- B.C.S. Iyengar:** July to September 82.80 Crores for power tillers and tractors 45.66 Crores 66.
- Manish Goel:** Last year Sir.
- B.C.S. Iyengar:** Last year 78.4 Crores
- Manish Goel:** Tractors how much we have done value wise 40?
- B.C.S. Iyengar:** 45.66.



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- Manish Goel:** Against last year?
- B.C.S. Iyengar:** 46.91.
- Manish Goel:** Last question on this I am not familiar but this you mentioned about that Orissa has introduced lottery system. So what is it exactly if you can?
- B.C.S. Iyengar:** The demand for power tiller is more than the subsidy available. So earlier it was first come first basis on which they were allotting the permits. Now they have introduced the system that need not be first in the queue. They have lottery system which generating the list based on which the beneficiary is selected.
- Manish Goel:** Basically to allot the power tillers subsidy they have lottery system.
- B.C.S. Iyengar:** Yes.
- Manish Goel:** But what would be the extent of higher demand like how much the number of tillers they ideally support and what is the demand what is the difference?
- B.C.S. Iyengar:** By and large more than 90% power tillers are sold on subsidy only. If the permit is not available or subsidy is not available the farmers usually wait for another season.
- Manish Goel:** That is what exactly I want to know that if is it that demand is 7000 and the subsidy is available only for 5000 numbers. What are those numbers?
- B.C.S. Iyengar:** The waiting list of farmers anytime is about 2500 power tillers. So I think fair allocation 12000 to 15000 power tillers will support the requirement.
- Manish Goel:** Thank you so much for all the answers.
- Moderator:** Thank you. The next question is from the line of Lakshminarayan KG from Catamaran. Please go ahead.
- Lakshminarayan KG:** Thanks again Sir. Question on the number of dealers we have for tractors and how many dealers we have for tillers and what can be the overlap.
- B.C.S. Iyengar:** The total number of dealers is around 200 but 90% or more than 80% of these dealers are handling both the products power tillers and tractors.



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- Lakshminarayan KG:** Usually the margins, which they get, are around 8% right on the realization.
- B.C.S. Iyengar:** No little more than 10%.
- Lakshminarayan KG:** One question for Mr. Subbaiah in terms of what are the key priorities you working for the next three years and second line with that business mix you are actually targeting for tractors and tillers down three years?
- K. U. Subbaiah:** What was the first question you wanted to know the strategy for next three years?
- Lakshminarayan KG:** What are the key top three things, which you are actually working for the next couple of years and in that specific on the tractor tiller mix?
- K. U. Subbaiah:** The three key initiatives as I look at one is to have a five year sales or a business strategy which we have just started working on that for which various inputs are coming and we will clearly spell out what we want to do by 2020 that means is the five-year strategic business plan which we will be working and probably by middle of next year we should be able to present it to the board and firm it up. To meet this five-year strategic business plan we have to also have an organization structure, which is able to support that plan. When I say the organization structure we are not going to add the people but then look into the aspects of competency and then restructuring in such a way that we are able to move forward in that direction. Third strategy direction what we are working is in terms of strengthening our product engineering not in terms of adding more people but having some partners with whom we can collaborate and work for design which we are already doing but further how we can strengthen that and then having a very clear focus on how we are able to shorten our development lead time so that we are ahead of the competition and for which I did not cover One is since we are mainly into assembly of our product supply chain is very, very critical for us and then we are now looking at revamping all our suppliers in terms of vendor quality rating and then deciding on what should be the number of good vendors whom we have to have. So that the supply chain is not strained and we also we are able to get better prices and good cost reduction or cost savings and materials year after year. So these are the four key strategies on which we will be working now.
- Lakshminarayan KG:** Thanks so much and in terms of overall mix of tillers and tractors down couple of years say three years or five years. What you think should be the one, which definitely should be working on?
- K. U. Subbaiah:** You mean what would be the final number for the tractor or how it is going to grow?



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- Lakshminarayan KG:** Yes how directionally because now we have almost I would say two third one-third right.
- K. U. Subbaiah:** You mean in terms, I think in the five years probably it will be 50%-50% I do not know I will leave it to Mr. Mahendra to answer right now it is about 30%-70% or 60%-40%.
- V.P. Mahendra:** Between power tillers and tractors.
- Lakshminarayan KG:** Yes Sir.
- V.P. Mahendra:** Now the current share is 55% is accounted by tillers and 30% but I think in the next two years it will be definitely minimum of 50%-50% and there after probably value of the tractor and also the volumes definitely tractor will be major.
- Lakshminarayan KG:** Sir you mentioned that without having any strain on the supply side you can actually scale up to almost 12000 tractors per annum that is the capacity which you can actually build in right, now if you actually?
- V.P. Mahendra:** Currently the vendors are geared up to about 1000 tractors per month.
- Lakshminarayan KG:** They are already geared up.
- V.P. Mahendra:** They geared up another 20% without much strain and is what.
- Lakshminarayan KG:** Can you just repeat?
- V.P. Mahendra:** Currently our vendors are geared up to supply about 1000 tractor components per month, which could in course of time and incremental could be capacity would be at least 20%. So that will not be difficult thing in the near future. Of course there are certain components where there is only a single source and if can ask typical question like what happen if MRF or Mico are where we are depending definitely it will be a setback to the industry but for that we are confident but for exceptional circumstances we should be comfortably in a position to manufacture about 1000 tractors per month.
- Lakshminarayan KG:** I assume that the engines are manufactured internally right. The tractor engines are manufactured internally right? In terms of the Euro conversion I mean Euro norm the Bharat stages transition in 2020 are we fully prepared or do we need some amount of additional expenditure?



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- B.C.S. Iyengar:** We are currently on par with Trem-3, which is applicable to the tractors.
- Lakshminarayan KG:** For the next five years are we protected in terms of the transition?
- B.C.S. Iyengar:** As of now the government has not contemplated further escalation because it is associated with the quality of the diesel fuel which is not presently available and lot of capital expenditure needed to upgrade both for the Indian Oil Corporation as well as the manufacture of tractors also. The debate is going to on but as of now there is no immediate trend of going up to the next level.
- Lakshminarayan KG:** Thanks a lot Sir I will come back.
- Saurabh Ginodia:** Sir initially you gave the number of tractors 8500 and tillers 28000 that was for which year in reference?
- B.C.S. Iyengar:** For current year.
- Saurabh Ginodia:** FY 2016 and how much have we done in H1 so far?
- B.C.S. Iyengar:** 13176 tillers and 4000 tractors.
- Saurabh Ginodia:** Can you give the corresponding number last year?
- B.C.S. Iyengar:** Last year we did 12559 tillers and 3760 tractors.
- Saurabh Ginodia:** 3760 so your reference to this acceleration in growth rate if you could give some comment. The acceleration is growth rate in second half?
- B.C.S. Iyengar:** We will be doing about 15000 power tillers in the second half and about 4000 plus tractors.
- Saurabh Ginodia:** So I am just wondering H2 over H1 the whole acceleration if you could?
- B.C.S. Iyengar:** Last year is not a benchmark because last year third quarter was very bad, very bad and in fact last year figures of power tillers if we compare it was less than year 2013-2014, so third quarter performance industry as a whole was not good for power tiller.
- Saurabh Ginodia:** What was your expectation for the total industry then and to be about 6000 tillers?



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B.C.S. Iyengar: Total industry. We will be doing it could be about 55000 because our market share would be greater this year.

Saurabh Ginodia: You said you will introduce two models in tractors one will come next year right. Out of that one will come next year?

B.C.S. Iyengar: Yes.

Saurabh Ginodia: Thank you.

Moderator: I would now like to hand the floor over to Mr. Annamalai Jayaraj for closing comments. Over to you Sir!

Annamalai Jayaraj: Thank you. On behalf of B&K Securities we thank all the participants for joining the call and special thanks to VST Tillers management for giving us the opportunity to host the call. Have a good day and Prosperous Diwali.

Moderator: Thank you very much members of the management and Mr. Jayaraj. On behalf of Batlivala and Karani Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.