



“VST Tillers Tractors Limited Q4 FY 2016
Post Results Conference Call”

May 27, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Tractors Limited Q4 FY 2016 Post Results Conference Call, hosted by Batliwala 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 of Batliwala & Karani Securities India Private Limited. Thank you and over to you Sir!

Annamalai Jayaraj: Thank you. Good afternoon everyone. Firstly apologies for postponing the call by 30 minutes. On behalf of B&K Securities welcome to the Q4 FY 2016 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the senior management team from VST Tillers Tractors Limited. We have with us today Mr. V.P. Mahendra - Vice Chairman & Managing Director, Mr. K.U. Subbaiah – Chief Executive Officer, Mr. R. Thiyagarajan – Chief Financial Officer. I would now invite VST Tillers Limited Management for the opening remarks to be followed by the question and answer session. Over to you Sir!

K.U. Subbaiah: Good afternoon ladies and gentlemen. This is Subbaiah, the Chief Executive Officer of VST. With me as mentioned by Mr. Jayaraj are Mr. VP Mahendra, the Managing Director and Vice Chairman of the company and Mr. Thiyagarajan the CFO of the company. I will provide a brief overview of the performance and then we can follow it up by questions.

As far as the quarter Q4 was concerned, we had a reasonable growth compared to the same quarter of last year. We registered a growth of 16.8% in revenues and PBT growth of about 18.8%. So as far as the quarter was concerned, it was a good quarter for us. Since we have completed the year I thought I will also give you an overview of the whole year.

As most of you are aware that the last financial year 2015-2016 was not a very good year for the agriculture and farm industry predominately because of the bad two consecutive years of monsoon. Having said that compared to other competitors, VST has done reasonably well both in the tractor segment and tiller segment. We could grow our Tiller volumes by over 19%, while the overall industry grew by about 3%. The number of power tillers sold during the year was 27387 units as against the previous year sales of 23103 units achieving market share of over 55%. Earlier we had a market share of about 50%.



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In the tractor segment, once again it was consecutive second year of failure of monsoon, which resulted in 10% de-growth in the domestic tractor industry, however VST gained 3.1% market share in the sub 30-HP segment and registered 17% growth in volume. In fact if you look at the sub 20-HP segment where we are predominant players, our growth was more than 15%. We achieved the growth by the expansion of product variants, release of new tractor models, expanding to new markets, and improved marketing campaign to reach out the enduser and offering innovative and affordable farm mechanization solutions.

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. Congratulations on a good set of numbers. A couple of questions from my side; sir, firstly if you could give us the revenue break up in this quarter, what was our tillers and tractors revenue?

K.U. Subbaiah: Mr. Thiyagarajan our CFO will provide the data.

Mukesh Saraf: Sir my second question is on the tractors business. We have seen that in the month of March 2016, our tractor volumes actually were quite strong. We touched about 30000 units mark in March 2016 and in January and February they were quite low at about 300 to 400 units and now again in April 2016 just closer to 400 units, so just wanted to check what is the reason for the steep volatility and is this because of the new products that you seeded into the market and how do we look at this tractor outlook going forward. How do you look at it?

K.U. Subbaiah: I think one reason what you cited is right. 27-HP tractors are doing well in the market which was launched somewhere in February 2016. We were able to supply almost 135 to 170 numbers which added as an additional volume for us in terms of tractor sales. Secondly as you know in March 2016, some of government orders fructified, and thirdly we were able to support the supplies to the custom hiring centers for the state for Karnataka, which just got launched for which we had to deliver these tractors in the month of March 2016.

R. Thiyagarajan: Good evening . Regarding your first question Q4 power tiller is 7940 numbers against the corresponding period of 6487, tractors 1933 against 1607, revenue is 102.7 Crores power tiller against 83.66 and tractors is 53.03 against 42.32 Crores. The overall revenue for the last quarter Q4 is 177.3 against 140.93.

Mukesh Saraf: Sir you mentioned the tractor number in the quarter the volume number is 1900 Sir?



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- R. Thiyagarajan:** 1933 against 1607.
- Mukesh Saraf:** 1933, so we are overall in the year done 7800 units?
- R. Thiyagarajan:** 7801 units.
- Mukesh Saraf:** Sir on the previous question that Mr. Subbaiah was answering. On the outlook what do you see for the tractor business especially for this coming year FY2017?
- K.U. Subbaiah:** The Q1 looks almost flat or there could be a marginal growth in tractors compared to the same quarter of the previous year. That is because though everybody is talking of normal monsoon, still the market is not so buoyant that people are not coming forthright to purchase the tractors. However we see some momentum now in the month towards May end and June, I think we can see some better numbers coming in. So I would say that the Q1 will almost be flat or slightly better than Q1 of last year, but definitely Q2 should look better provided we get a normal monsoon.
- Mukesh Saraf:** Sir the year how do you see it ending like you generally give out a guidance number what do you see FY2017 overall volumes and tractors that you can aspire to get?
- K.U. Subbaiah:** As I said everything is hinging on the monsoon and the government support to the agriculture and irrigation sector. Assuming that the government schemes are announced and the monsoon is going to be normal, I think we can look at easily achieve double digit growth in the tractors and close to double digit growth in tillers as well.
- Mukesh Saraf:** Great Sir. I will get back into the queue. Thanks a lot.
- Moderator:** Thank you, Mr. Saraf. We have our next question from the line of Raghu Nandan Capital. Please go ahead.
- Raghu Nandan:** Thank you Sir for the opportunity and congratulations on a good set of numbers. I just wanted to understand the trend in the below 30-HP segment. The last two years if I look at it you have been successfully able to increase your market share from 10% to 14% and even one of your competitors Sonalika has been able to increase market share from 6% to 10% whereas two of the largest players Mahindra and TAFE have lost market share, so based on these trends can you comment a little as to what have been the trends in the industry for the last two years and what has helped in market share gains for you know like two or three



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players such as yourself Sonalika and Force Motors and you know why are the larger players loosing out there? Thank your Sir.

K.U. Subbaiah:

To my knowledge last year the sub 30-HP segment did not grow. There was degrowth of 8%; however, as you have heard from me earlier VST was able to grow. The growth is because of some aggressive marketing schemes as well as the release of the 27-HP tractor towards the fag end of the year. Few of our competitors also came out with new models and that is where there where able to take a little bit of share but overall the industry degrew during the last year. Having said that if you look at every tractor manufacturer is now focusing on compact tractor segment because most of the studies and market research indicate that there is going to be good opportunity in the segment rather than higher HP segment because most of the compact tractors can be used for various applications. For the farmer the initial acquisition cost will be lower, the maintenance cost will be lower, and the fuel consumption will be lower, so there will be lot of interest being shown by the farmer community moving towards the compact tractor segment. This is what we believe and continue to focus on this segment.

Raghu Nandan:

Sir this segment is about 11% of the industry over the next five years. How do you expect the share of this segment to grow and what do you think would happen to the other segments where if you take a medium term view of five years.

K.U. Subbaiah:

The medium term of five years our analysis or assessment shares says that it could grow up to a 200,000 requirement of the sub 35-HP segment.

Raghu Nandan:

So basically doubling say in the next five years from 50000 kinds of levels currently?

K.U. Subbaiah:

This is a very pessimistic view, but we are also doing a lot of market research, talking to various farmers, and then probably maybe in the next quarter or so, we should be able to give you a more realistic number.

Raghu Nandan:

Understood sir. Like sir coming specifically on our company how is the subsidy situation. Has it improved you know across various states. Has the situation improved in all these?

K.U. Subbaiah:

See the subsidy is going to be there this year as well. Last year, I would say was an aberration because lot of the which work on subsidy schemes went into election during the end of the year. As such some of them were not able to announce the schemes or the schemes could be released. However we continue to work with various states. We are seeing a lot of interest by Government to announce the subsidy schemes. The initial feeler is



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that yes subsidy schemes during this year will be much better and the quantum number will be much better than last year.

Raghu Nandan: What would be the outstanding subsidy for us?

K.U. Subbaiah: As on today it is about 46 Crores.

Raghu Nandan: Sir lastly, what would be contribution of top two states for your tractors and power tillers?

K.U. Subbaiah: As far as tractors are concerned, it is Maharashtra and Gujarat and now it is followed by Karnataka. Karnataka and Andhra are getting stronger. In case of power tillers it is now Karnataka followed by Andhra Pradesh and then Orissa.

Raghu Nandan: Thank you sir. This was very helpful.

Moderator: Thank you Mr. Nandan. We have the next question from the line of Mayur Milak from Anand Rathi. Please go ahead.

Mayur Milak: I just wanted to understand the subsidy portion, so while on tillers it is known that the subsidies are good Rs.30000 to Rs.40000, so you know we understand that it plays a major role into deciding the demand, but just to understand the old strategies as to it works, this subsidy really given directly to the farmer or it comes via through the company?

K.U. Subbaiah: It varies from state to states. Some of the states it comes directly to the manufacturer. Some of the states it is going to the farmer and some states it goes to the dealers. We understand that now most of the governments may go for direct benefit transfer that means to the farmer. That means the farmer has to upfront make the payment to the dealer and then later on he will get the subsidy through direct benefit transfer.

Mayur Milak: Because that is what I got to know that you have to go through the rural banks and then that is how the bank will through NABARD will probably get them the refund back directly into their accounts?

K.U. Subbaiah: It is still not completed or finalized, but yes that is the trend I would say. From our side, we are also trying to help the farmers for retail financing through leading banks, rural banks, or non-finance banking companies.



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- Mayur Milak:** On the financing side, does the company have its own financial arm to support the kind of demand?
- K.U. Subbaiah:** No we do not have.
- Mayur Milak:** So that is one and secondly, I also wanted to understand your key markets are basically contributing almost 40% kind of demand generation for you. Are you seeing the kind of traction coming back into let say Karnataka, Orissa, Andhra Pradesh, and all these markets?
- K.U. Subbaiah:** No, I did not get you exactly. I mean, it varies for tillers it is some state and for tractors it is some other state, so what was your question?
- Mayur Milak:** What I am asking which ever are your key markets. Are you seeing demand really coming back from those markets or are you witnessing demand coming back from newer regions?
- K.U. Subbaiah:** No both. The demand continues to be there in our markets, which were giving us revenues. Sometimes it is up and down depending on the government policy, but in newer markets; there is a lot of interest coming in because we are doing a lot of product promotional activities.. So you are right. Our share of growth will come from the newer markets also. That is why we have expanded our dealer network and our sales network as well.
- Mayur Milak:** I will come back. Thank you.
- Moderator:** Thank you. We have our next question from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.
- Arjun Khanna:** Thank you Sir for taking my question. I was just curious when you gave guidance of power tiller were we projecting a single digit growth given that we were expecting a more robust subsidy growth this year.
- K.U. Subbaiah:** The tiller market I would say is almost flat and if you really see the four major states, which consume tillers are Orissa, Karnataka, Andhra Pradesh, and to a certain extent Tamil Nadu. Other states are still making some inroads, but the volumes are not very, very high and overall tiller market when we talk of it is only 60000 numbers and looking at what government policies are there and to what extent they can give the subsidies, I feel is that it would be more than 10% growth every year.
- Arjun Khanna:** Sir you were talking of the market growth and not our growth in particular?



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- K.U. Subbaiah:** We have already reached the 55% share of the market and we have so many competitors in the market including some good Indian Companies have started competing with us. To retain the 55% share itself is a big task, which we are committed that we will not allow that market share to go down and in today's competitor's scenario enjoying greater than 50% market share is very rare.
- Arjun Khanna:** Sir quarter, we saw a greater tractor sales. Is that means raw material cost being higher sequentially?
- R. Thiyagarajan:** No, material cost on year-to-year basis and on even Q4 to Q4 level it is the same. There is neither reduction nor increase if the material cost remained at the same level.
- Arjun Khanna:** Sir my last final question is could you help us with the new products, sir we were launching a 33-HP or 30-HP compact tractor and any new products and tillers to come out?
- K.U. Subbaiah:** Now we have launched the 27-HP. All I can say yes we are working on newer models also of more than 27-HP.
- Arjun Khanna:** And ride along tillers or any other products in the tiller space?
- K.U. Subbaiah:** Tillers also we are looking at higher HP as well as lower HP models and these are the two variants, which we intent to bring into the market including seating time.
- Arjun Khanna:** Thank you so much.
- Moderator:** Thank you, Mr. Khanna. We have the next questions from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity. I just had one clarification. You talked about sales through custom service center in Q4. Can you quantify that how much sales you made in tillers and tractors and would that be any further sales to the customer centers in Q1?
- K.U. Subbaiah:** No in Q4 the Government of Karnataka sanctioned for us to set up 91 centers in different districts. In Q4, we have delivered 150 tillers and 150 tractors to the centers and it is expected around the same numbers will happen in the Q1 also.
- Viraj Kacharia:** So 150 tillers and 150 tractors each right.



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- K.U. Subbaiah:** 150 tillers and 150 tractors.
- Viraj Kacharia:** So, first question is we have kind of lowered our guidance on tillers just Q3, we were talking about 14% to 15% kind of a growth and tillers and FY2017 and you also mentioned about increasing competition intensity in tiller space and you know a kind of structural growth of 10% for the industry in going forward. I just wanted to get a sense on are we seeing an increased demand for non subsidy sales because you know the market in the last couple of months we have seen a significant increase in lower hp tillers being launched by various players, so if you can just provide some color you know on incremented growth will be driven by non-subsidy sales or you know it will primarily be like subsidy?
- K.U. Subbaiah:** Tillers as far as you know will continue to be dominated by subsidy sales. Yes there are very few direct sales happening, but that is insignificant number. We have to only watch and see how in the future the Government schemes will emerge. Today the subsidy schemes for Tillers are very attractive and varies from 40,000 rupees to 100,000 rupees. Hence the farmers will wait and watch for the subsidy for Tiller purchase. Whereas in tractors, it is the other way around the subsidy sales is very less while the cash and carry sale is very high.
- Viraj Kacharia:** I had one more questions on the tractor side. You know, we also talked about something like 10,000 tractor sales in FY2017. The kind of guidance you have given last quarter, so are we still holding onto that and you know just if you can just provide some color on where would that come that from new channels or existing channels.
- K.U. Subbaiah:** We will still retain that number. About 10% will come from new products and another let me say about 10 or 15% from new markets or new channels and the balance will be through organic growth.
- Viraj Kacharia:** Okay and how the trend we are seeing from pricing in tractors because just last quarter we have taken a price card, so in Q4 have we taken any further price cut in tractors?
- K.U. Subbaiah:** We have not taken a price cut. Since last year was a year where you know people were not buying the tractors we made introduced attractive discount schemes to enable to encourage the farmers to buy our tractors. We have not resorted to any price cuts.
- Viraj Kacharia:** On the tax rate you k now if you see in Q4 you know the tax rate is something like 36%, so you know if you just provide some guidance on what is the normalized tax rate, which one should see in going forward.



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- R. Thiagarajan:** The tax rate it will be around because we do not have any tax avoidance or any benefit towards even what capex we have invested in Hosur. It is all over in the last two years, so it is normal. It is 33% that is capex, but the Q4 the difference is there will be a lot of provisions, which has been made, which will not be on accrual basis especially employee's long term benefits. Certain things will be allowed unless it is paid, so in the year of payment only we will get that benefit. To that extent, there will be variation of 1 or 2%. Otherwise, throughout the year basis it is same 33.9% that is the tax increase.
- Viraj Kacharia:** That is all from my side. Thank you.
- Moderator:** Thank you Sir. We have our next question from the line of Dinesh N from Catamaran Ventures. Please go ahead.
- Dinesh N:** Thanks for taking my question. I have two questions. First is of the tillers and tractors, which you are selling for each how much percentage of them will be financed and my second question is it at this quarter and also for the entire year the other expense has increased a lot, which is the same. This quarter it has increased by about 38% and for the entire year, it has increased by 25%, so any specific reasons for this. These are my two questions sir.
- K.U. Subbaiah:** We do not finance anybody that is my answer. What exactly was your question?
- Dinesh N:** By finance I am not mentioning whether VST finance, do you have any rate on how many of the tillers the farmers' purchase through financing options?
- Thiyagarajan:** As tractor is concerned it varies from our state to state. Key markets like Maharashtra and Gujarat, the financing as good as 90% to 95% of sales. In our developing markets in the southern states is to the extent of around 30% to 40%, but in other states it is around 10% to 20%. As far as tillers is concerned since financing is less than lakh of rupees not much through to our tie up but to the extent 75% to 80%, farmers are getting finance various regional rural banks or cooperative societies and public sector banks.
- Dinesh N:** 75% to 85% of the tillers might be financed through some other option by the farmers that is what you are saying?
- Thiyagarajan:** Yes It does get financed, but it is not under our tie-up. Because the farmer contribution is less, and the balance comes from government as subsidy.



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Dinesh N: 90% to 95 % in the tractor major markets, which you said, that is under tie up those banks of financing?

Thiyagarajan: As well as loan tie up also, some of financiers they do not need say we do not require tie up because with such a level of the brand is established we do not require formal tie ups so both tie up and non-tie up but they also get report to us, what is other numbers finance and periodically.

Dinesh N: The second question is also why the other operating expense has been very high?

K.U. Subbaiah: Yes the other operating expenses includes significant amount of expenses towards promotional activities the discount schemes what we offered to sell our tractors during the lean season.

Dinesh N: So do have any as percentage of sales what it would be this year versus last year?

K.U. Subbaiah: **Around** 2% increase compared to the last year.

Dinesh N: Thank you.

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

Sushant Kanodia: Good evening Sir. I just wanted to you if you can throw some light on recent MOU with the Karnataka Government for setting up of the custom hiring centers so within are you just able to supply the self equipments, power tiller tractors or are we supposed to spend something on this front, how does this MOU work exactly?

V.P. Mahendra: The MOU is with government of Karnataka by the Company. Each has to identify the locations wherever we would like to operate either on our own or through the franchisees. We choose to operate through the franchise who are by and large our dealers in the respective areas. Our responsibility will be to monitor and report on the activity for the next six years, because government of Karnataka extends subsidy to each of center of the franchisee for the purchase of machinery. We need to report them periodically with respect to utilization and the functioning.



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- Sushant Kanodia:** Sir, do we need to spend anything on the capex front for setting up of the custom hiring centers?
- V.P. Mahendra:** It will be spent by the franchisee owners to whom the government gives 75% of the subsidy.
- K.U. Subbaiah:** Balance 25% the Franchisee will invest.
- Sushant Kanodia:** Balance 25%?
- K.U. Subbaiah:** The franchise will invest.
- Sushant Kanodia:** Franchise will invest, so it is just in distribution channel for us, nothing else.
- K.U. Subbaiah:** It is not a distribution. It is the kind of where we display of our products which will help us in brand building and visibility .In addition we will be providing them service support & some managerial support.
- Sushant Kanodia:** Sir, can you share this sales value for power tillers and tractors and for Q4 full year FY2016 rupees Crores?
- Thiyagarajan:** Power tiller full year is 353.61 Crores, PAT is 206.87.
- Sushant Kanodia:** For the quarter?
- K.U. Subbaiah:** For the quarter is 102 Crores and 53 Crores is tractors.
- Sushant Kanodia:** Lastly in the recent state elections with state of Tamil Nadu a lot of farmer incentives were announced, and we are hearing something of farm loan waiver. So is it something, which interest to you and could benefit us this year FY2017?
- Thiyagarajan** This is for loans to small and marginal farmers from state co-operative society.
- Sushant Kanodia:** Okay does it benefit to us, does it increase our purchasing power for farmers for the next year?
- Thiyagarajan:** There is no any direct benefit.
- Sushant Kanodia:** Sir, lastly what will be operational capital expenditure of next two years?



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- K.U. Subbaiah:** This year we have provided 50 Crores and next year will be almost similar amount.
- Sushant Kanodia:** 50 Crores of capex expenditure. Sir we have largely installed capacity right, surplus capacity, so this amount is spent on what?
- K.U. Subbaiah:** Majority is for new product development. Quality related equipment and our Mysore component plant needs refurbishing and replacement of machines.
- Sushant Kanodia:** Sir, just lastly are we going for some negotiations with state governments for pricing of power tillers this season?
- K.U. Subbaiah:** Generally it is once in two years but depends on the state. Some states go for annual price revisions and some states go for once in two years. Thereby it is ongoing process and whenever government calls for a tender we will have to participate to get prices finalized.
- Sushant Kanodia:** That is all from my side. Thank you.
- Moderator:** Thank you. Our next question is from the line of Shailesh Mohata from Magma Fincorp. Please go ahead.
- Shailesh Mohata:** What is the breakup by HP in total sales of tractors in financial year 2016 and what is going to be for financial 2017?
- K.U. Subbaiah:** During last year almost 100% from sub-20HP because we started selling 27HP in March 2016. We sold about around 200 numbers during in the last financial year..
- Shailesh Mohata:** What is the share of tractors in Maharashtra and Gujarat in financial year 2016 compared to all over India and how does this compare with financial year 2015 and projection of year 2017?
- K.U. Subbaiah:** Maharashtra from 46.8% to 34.1%. Gujarat from 11.4 % to 15.3%.
- Shailesh Mohata:** Lastly which part of Maharashtra and Gujarat your tractors sell a lot and all over India and how the drought has affected sales?
- K.U. Subbaiah:** In the Gujarat and Maharashtra all manufacturers got affected because of the drought especially in crops like Cotton, Sugarcane and Rice..



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Shailesh Mohata: Sir, just ballpark, I mean Maharashtra and Gujarat put together are they contributing to around 75 to 80% of the total sales?

K.U. Subbaiah: About 70%.

Shailesh Mohata: You have said that 10% of the next year sale you are projecting some new products and 10% from the new market and balance in the existing market so 10% that you are projecting are you projecting the sales in the newer geographies?

K.U. Subbaiah: Our regional performance west was 78.8% of the total tractor sales, which came down to 70.1%. because of the drought. The south in 2014-2015 which earlier contributed 4.4% of tractor sales that has increased to 12.7%. Similarly north which was about 9.2% increased to 12.3% and east grew from 4.6% to 4.8% The east and North I would say is a growth area for us..

Shailesh Mohata: Thanks a lot and all the best.

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

Ravi Purohit: Congratulations on a good set of numbers. I have a couple of questions; one was I think you briefly touched up on this now how this custom hiring centers tie-up works with the government of Karnataka? Just wanted to understand the economics of it. Is it like we sell our tractors and tillers through the channels at the same rate as we sell in the other markets or do we have provide any discount or do we have provide any additional services or some other additional cost that we have to bear in the sense what kind of economics does it provide us and also how scalable is this how much additional business can this provide to you and whether these kind of opportunities are there in other states that you are present?

Thiyagarajan: Primarily the custom hiring is managed by the franchisee. We have taken the input from established player whatever data it is found viable and running successful. We have identified our dealers who also done their homework and study and found it viable for them to take as a business challenge. It is viable business proposition. That is why they are all having interest to become franchise to run these centers.

V.P. Mahendra: The business model shows the higher the utilization of the assets better the profit. It is for the franchisees to see that how effectively they use the assets.



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- Ravi Purohit:** My question is to you have to provide any discount when you sell for these channels?
- K.U. Subbaiah:** It is all MRP.
- Ravi Purohit:** It is all MRP right, okay.
- Thiyagarajan:** The price is the same whatever to any other customer.
- Ravi Purohit:** So it basically business as usual for you.
- V.P. Mahendra:** Yes, it only enhances our visibility for product and if farmer who has was not been using any of these machines earlier and he has been doing conventional way of ploughing, sowing, and all those things, one he gets these machines to do his work then he may feel why should I hirer every time because he may not get the machine at the right time whenever you wants that my interest him to acquire machine of his own. That is way we look at it. Then your next question was yes lot of other states are also looking at these moderate custom hiring models, but they are not yet the announced.
- Ravi Purohit:** My second question is basically slightly medium term and basically how does our company management VST Tillers in the next five years or the next three to five years if I look at our evolution over the last many years we started out let us say a tiller company then we launched a sub-20HP tractor, then we launched 22HP, then we have launch 27HP now so we are basically working our way in the tractor market because tiller is growing probably 10% to 12% in you are probably seeing this segment probably to grow at only 10% to 12% over the next four to five years. So tractor becomes like to growth engine for us. Going forward I think we have been experimenting a lot with rise transplanters in the last five to seven years, any headways there or any new product development that we being working out, freshers, reapers, a wider basket agri-machinery than just being tiller and tractor company and whether if we are lacking technology are we looking to tie up for technology, people or we are building something on own if you could just share some of your medium to long-term thoughts on this business and our company basically?
- K.U. Subbaiah:** See first of all what we have done now is that we have developed a renewed vision. Our vision is to provide affordable and sustainable crop solution to the farmers that means we give total solutions. Which means that we not only sell the tiller or tractor standalone, but we also provide him solution in term of attachments. So we are tying up with lot of attachment companies, testing it on our products and co-branding those attachments so the next five years we will see VST as more of solution provider rather than being only a seller



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of either a tiller or tractor or transplanter. So we are working on that vision and once we have the strategy developed around that vision we will be able to forecast the growth in revenue of this company from the current level to a higher level.

Ravi Purohit:

New product basically apart from tractors and tillers that we have been looking at?

K.U. Subbaiah:

New attachments for our products..

Ravi Purohit:

Any update on how rice transplanter is basically whether it is pickup, not picking up what kind of response state governments or farmer have kind of come because there are new companies also let us say a Coromandel has tie up with a Yanmar group of Japan and they are actually putting up a manufacturing facility or at least they want to put up facility in India to do rice transplanters. Mahindra had I think tied up with your **(inaudible) 43.37** partner Mitsubishi to basically look at some new agri machinery so any progress on how rice transplanter are picking up?

K.U. Subbaiah:

We have been actively marketing rice transplanters. We have been marketing two brands. One is the Yanji transplanter which is a driving model or seat model. The other one is Yanmar Coromandel for which we are the wholesale distributors for Kerala, Karnataka and Odisha. These are three markets where we have marketing the Yanmar transplanters. Yanmar transplanters are walk behind, while Yanji transplanters what we market is sitting type. Both have good market potential the market has been growing and there is lot of interest or being shown by the group community, farmer community in using these transplanters.

Ravi Purohit:

Typically, in the some of the other South East Asian markets where the land holding sizes are similar to what you see in India what are the size of the rice transplanter markets versus what we are seeing in India lets you know annual sales basis?

V.P. Mahendra:

Good afternoon. The transplanter business is a very slow growth one in India. In the countries like Japan it certainly was total replacement of the manual transplantation. China is half way through and wherever there is labor shortage, the choice is limited because you have to do the job timely, just before or after the rains to ensure that the crop grows properly. The volumes have peaked in Japan and in China there seems to be fair potential, in India the potential looks very large, but tapping the entire potential is a challenge for the marketing people so that were we are today.



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- Ravi Purohit:** Sir, when you say what kind of numbers to market like Japan and China see that will basically this give us an idea to what the potential for Indian market whether we reach there in the next five years, 10 years we will not know, but at least we will have some ideas to what we potential markets size is?
- V.P. Mahendra:** I think our comparison should really be to China because of the cost of labor and cost of living cost etc., they are at least about 60 times of volumes. We are doing some 1000 per year, so that is the volume potential are looking at is high.
- Ravi Purohit:** They are doing about 3 lakhs a year?
- V.P. Mahendra:** Country like Bangladesh they are selling almost 200000 tillers we are still at 60000 tillers in India.
- Moderator:** Thank you. The next question is from the line of Sukumar Kelkar from Capital 72 Advisors. Please go ahead.
- Sukumar Kelkar:** Good afternoon Sir. Actually I had couple of questions, one is regarding the channel financing in tractor sector you mentioned that is only tractor majorly so have you done some tie up with some financial institutes?
- Thiyagarajan:** Yes, we have tied up channel financing with couple Standard Chartered, IDBI and ICICI also offered, but we to see.
- Sukumar Kelkar:** The second question was regarding the direct benefit transport you mentioned that various states are following up that idea, regarding all states where we have the market presence in Karnataka, Andhra Pradesh, Odisha and Tamil Nadu what will be the status of this direct benefit transfer?
- Thiyagarajan:** There are talking of, but nobody has yet confirmed that they are going to implement in this year. we do not have any indication from Karnataka or others states as of now.
- Sukumar Kelkar:** Thank you.
- Moderator:** Thank you. We have the next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.



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- Pritesh Chheda:** Sir, on the 27 horsepower tractors what is response so far and what kind of volumes would you selling FY2017 and what is progress on 33 horsepower launch?
- K.U. Subbaiah:** On the 27HP I would say there has been fairly good response in the first three months itself we had a good bookings. Since it was a pilot batch we are also not aggressively launching it in the field because from the first few numbers what we released we need to get market feedback so that if there are any additional features or corrections or amendments desired by the customer we would like to do incorporate then launch the bulk volumes. During this year we expect to sell greater than 800 numbers..
- Pritesh Chheda:** The 33 horsepower what is the progress?
- K.U. Subbaiah:** We are not making 33 horsepower tractor, but as I mentioned earlier yes we are looking at higher horsepower tractors then 27HP.
- Pritesh Chheda:** Sir, promotional expenses and discount what is it as a percentage of sales and this has be regular?
- Thiyagarajan:** It is 2% additional.
- Pritesh Chheda:** It is 2% of sales or it is 2%?
- Thiyagrajan:** It is 2% of sales value.
- Pritesh Chheda:** This was what in FY2015?
- Thiyagarajan:** It was 2% lower in 2015 compared to 2016.
- Pritesh Chheda:** Sir, I should read as it was 2% of sales 2015 and it is now 4% of sales in 2016.
- Thiyagarajan:** No, 2% more the percentage than March 2015.
- Pritesh Chheda:** So 200 basis higher?
- Thiyagarajan:** Yes.
- Pritesh Chheda:** Since the tractor we are an upcoming player so these percentages would stay right?



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- K.U. Subbaiah:** This year also it would stay because we have also spending little more money on branding and marketing campaigns because we are also expanding our network and when you go into to new areas, new rural area it needs a lot of brand building.
- Pritesh Chheda:** My last question is a since a joined late can you just give us the FY2016 tractor and tiller volumes, I think tractors you said 7800, I may be missed out tiller volumes?
- K.U. Subbaiah:** Tiller 27387.
- Pritesh Chheda:** Tractor was 7800 right?
- K.U. Subbaiah:** 7801.
- Pritesh Chheda:** 7801.
- K.U. Subbaiah:** Yes.
- Pritesh Chheda:** Thank you very much and all the best you Sir.
- Moderator:** Thank you, Mr. Chheda. We have next question from the line of Mitun Soni from GeeCee Investments. Please go ahead.
- Mitun Soni:** Sir just couple of questions on the tractor side, how do we price our product compared to the competition and you know if you see over the last many years market shares for most of the players remain the same zone because of the products it is very difficult to differentiate in the customer is very sticky so what exactly is value proportion that we give to the customer what make him come to us and particularly when we go into, new locations, new geography, how do you prove our credibility so if you can just share some light as to what are we trying to get more business?
- K.U. Subbaiah:** We have not tinkered our prices so far because we believe that our product has got good market value and good resale value so our USP comes from our service mainly the service backup and our sales support so that is unique proposition what we offer to our customers. We are there when the customers want which is a major selling point apart from the quality of our tractors.
- Mitun Soni:** Sir, in case of the sales from what we have understood is that in case of the tractors one has to really go deeper into the pockets and identify customers, otherwise the customer usually



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does not go around and scouting around looking for products and he will not go to Manhidra and TAFE and everyone. He knows which one wants to buy, he goes there and finishes the decision, so what exactly how big is our sales team and how do really get the business so if you see can throw some light on that?

K.U. Subbaiah: Our total sales team including customer support and all is around 180 and we have close to now around 300 dealers both tillers and tractors put together. We conduct a lot of road shows at different regions, at different districts and different dealers and then we also invite a lot of farmers, show them our tractors, demonstrate our tractors, it is by word of mouth and based on once you sell a tractor to a farmer and if he is very happy with the performance, if he is very happy with the support, if he is very happy with the spare part support, service support, he definitely becomes another salesman for us because if his friends ask him what tractor he has to buy, he recommends them go for VST tractor. So that is how we market our products in the rural areas.

Mitun Soni: So today, if I am not wrong, you said 75%-odd of our total sales would be coming from Gujarat and Maharashtra areas for tractors?

K.U. Subbaiah: Yes.

Mitun Soni: So even today there is much more scope for going deeper penetration because of these two markets are still very big so there is a lot more scope to go deeper into the markets?

K.U. Subbaiah: Yes, absolutely in Gujarat we do not have for example Mahindra is selling more than us because of their single horsepower tractor, single HP tractor, which is cheaper than us, but we have to counter it with a better product and do a lot of concept selling to the farmers to buy our product. So there still exists an opportunity for us to increase our share in the state of Gujarat.

Mitun Soni: Sir, last question is if you see today for us the sales mix, the tiller is about 60% of the sales, over the next three to five year period how do we see the sales mix for us in terms of about what is the share of tractor of the total sales we are expecting?

K.U. Subbaiah: I would say in the next five years tractors would be around 65% and 45% from tillers.

Mitun Soni: 55:45 you are all expecting in the next year.

K.U. Subbaiah: 55:45, yes.



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- Mitun Soni:** 55:45 or 65:35?
- K.U. Subbaiah:** 60:40, you can take it. 60 tractors and 50 tillers.
- Mitun Soni:** Thanks.
- Moderator:** Thank you, Mr. Soni. We have the next question from the line of Hiren Dasani. Please go ahead.
- Hiren Dasani:** Sir, just one question, you mentioned earlier in the call that even Bangladesh has 200000 kind of size of the tiller market. I understand in terms of transplanting it is much more about the habits, labour shortage and all, but what is happening with the tiller side, the tiller market in India is so small compared to even like countries like Bangladesh?
- K.U. Subbaiah:** They do not have any bullocks left for doing the ploughing because it is a beef eating country and they have consumed all of those and they have no other choice than going for tillers.
- Hiren Dasani:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we are taking the last question. We have the last question from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak:** Good evening Sir. Sir, first question is about the dealer distribution network, you said 300 dealers now, right?
- K.U. Subbaiah:** Close to that, it may not be the exact number; probably it could be about 280 or 290 something.
- Kamlesh Kotak:** How much was that number before two years and what you see the numbers going forward after next two to three years?
- K.U. Subbaiah:** After next two years, it might go up by another 100?
- Kamlesh Kotak:** What was it two years back?
- K.U. Subbaiah:** I do not know about two years back, but one year it was less by 80.



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- Kamlesh Kotak:** 80.
- K.U. Subbaiah:** It was 220 in 2014-2015.
- Kamlesh Kotak:** Sir, could you elaborate a bit more on macro environment in terms of the subsidy scheme, which states are giving what subsidy amount for tillers and tractors? What is the range of the pricing across sectors for both tillers and tractors, if you can help us understand that?
- K.U. Subbaiah:** Subsidy varies from 45000 to 100000 year-on-year to year. It is not fixed for all the years, year-on-year they will vary from 45000 to 60000 in addition to that there will be for reserved categories like SC/STs they will get higher another 15000 to 30000 more subsidy.
- Kamlesh Kotak:** This year talking of tillers or tractors Sir?
- K.U. Subbaiah:** Tillers.
- Kamlesh Kotak:** For tractors.
- Thiyagarajan:** Around 60000 to 100000 also available, but it is not in all the states. Where we are dominant like Maharashtra and Gujarat, they may not be waiting only for subsidy and when there is a need they will go for it because there is lot of backup for retail funding also available .But whereas developing markets, people will wait for subsidy till they get for tractors. There are people without subsidy also and plan as retail funding support available, they convert the need to the order. Tiller is predominantly subsidy dependent. In some of the states for tractors they can claim the subsidy after they buy. They need not wait for the permit.
- Kamlesh Kotak:** So, how much time it takes for the approval typically?
- Thiyagarajan:** Varies from state to state from 60 days to 180 days.
- Kamlesh Kotak:** Secondly, how much is our revenue from spares and support cells and service part, how much of the revenue we generate from that spare parts revenue?
- K.U. Subbaiah:** Spare parts 2015-2016 was 47 Crores and we expect a similar growth of about to 12% to 15% growth in spare parts during the year. .



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Kamlesh Kotak: Thirdly Sir the custom hiring center that you said that you have supplied 150 odd units each tiller and tractors, so that is outright sell over and above over the normal distribution channel or it would cannibalize some of our sells from the other centers?

Thiyagarajan: It is direct sale to those custom hiring centers.

Kamlesh Kotak: Hiring charges and all that will be going to the franchise right?

Thiyagarajan: Yes it is to the owners. They have to generate that revenue for them to make profits to repay back even if they have taken a bank loan or something for funding those centers.

Kamlesh Kotak: How has been the response till now since launch of the centers and how the economics for them is working?

Thiyagarajan: It has just been launched and none of them have started working as we speak now from June onwards they will start functioning.

Kamlesh Kotak: This has covered the entire state of Karnataka or this is one part of it and many more centers they may plan?

Thiyagarajan: Entire state of Karnataka has been covered, but next year they again have plans to increase another 200 centers. Last year it already issued 175 centers so this year 300 centers out of which we got 91. As far as custom hiring center is concerned there is already working experience is available in 175 centers.

Kamlesh Kotak: How does it work Sir? Do we need to bid for it or tendering or what is it? How they allot to different companies?

Thiyagarajan: Yes NGOs or manufactures of Agri Machinery are eligible to apply to establish CHS.

Kamlesh Kotak: Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was last question. I would now like to hand the floor back to Mr. Annamalai Jayaraj for closing comments, over to you Sir!



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

K.U. Subbaiah: Thank you Jayaraj.

Moderator: Ladies and gentlemen, on behalf of Batlivala and Karani Securities India Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.