



“VST Tillers Tractors Limited 3Q FY2018  
Earnings Conference Call”

February 12, 2018



**ANALYST:**

**MR. ANNAMALAI JAYARAJ – BATLIVALA &  
KARANI SECURITIES INDIA PRIVATE LIMITED**

**MANAGEMENT:**

**MR. K.U. SUBBAIAH – CHIEF EXECUTIVE  
OFFICER - VST TILLERS TRACTORS LIMITED  
MR. P.M. KESHAVA – CHIEF FINANCIAL  
OFFICER - VST TILLERS TRACTORS LIMITED  
MR. CHINMAYA KHATUA – COMPANY  
SECRETARY - VST TILLERS TRACTORS  
LIMITED.**



*VST Tillers Tractors Limited*  
*February 12, 2018*

**Moderator:** Good day and welcome to VST Tillers Tractors Limited 3Q FY2018 Earnings Conference Call, hosted by Batlivala and Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj of Batlivala and Karani Securities. Thank you and over to you Sir!

**Annamalai Jayaraj:** Thank you. Good morning everyone. On behalf of B&K Securities welcome to 3Q FY2018 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the management team of VST Tillers Tractors Limited. We have with us today Mr. K. U. Subbaiah, Chief Executive Officer, Mr. P.M. Keshava, Chief Financial Officer and Mr. Chinmaya, Company Secretary. I would now invite Mr. Subbaiah for the opening remarks to be followed by the question and answer session. Over to you Sir!

**K.U. Subbaiah:** Good morning everybody. Welcome to this call today. I will just give you an executive summary of Q3 and the first nine month’s performance of the company. In Q3 during this year, we sold 2,109 tractors compared to 2,408 numbers in the same period last year. The lower numbers are due to stock corrections at our dealer points, lower sales in a few states like Andhra Pradesh due to delay in allocation of subsidy schemes. During the nine months period of this year 7,793 numbers were sold in comparison to 7,068 numbers in the same period last year. Another reason for lower number of tractor sales is the export sales being lower than budgeted. The reason being currently the new homologation norms have been revised and we are in the process of obtaining the new certification. This impacted about 600 numbers.

In case of tillers, we have sold 7,011 numbers in Q3 during this year in comparison to 4,042 tillers sold in the same period last year. Q3 numbers have grown due to receipt of allocations in states like Andhra Pradesh and Telangana.

During the nine months of current year 20,018 tillers were sold compared to 17,749 numbers in the same period last year. The company’s revenue in the current nine months stands at Rs.522 Crores as against Rs.484 Crores in the same period last year. Of this Rs.261 Crores is from tiller and Rs.212 Crores from tractors compared to Rs.235 Crores and Rs.199 Crores respectively in the same period last year for tractors and tillers.



*VST Tillers Tractors Limited*  
*February 12, 2018*

In Q3 of current year the revenue was Rs.166 Crores compared to Rs.142 Crores in the same period last year. In the first nine months, the EBITDA is 14.88% compared to 14.47% in the same period of last year. In Q3, the EBITDA is 17.4% compared to 12% in the same quarter of last year. The significant jump is due to onetime benefit of Rs.3.4 Crores by way of GST transitional credit on the stocks held as on 30<sup>th</sup> June 2017 and also the improved tiller sales in Q3. This is the summary. We can have the questions now.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** Thank you for the opportunity. I just had a couple of questions. One is on the GST side so you said there was one-time gain of Rs.3.4 Crores, so even if you adjust for them, we have seen a margin expansion both sequentially and year-on-year at the gross revenue, so just want to understand what is the reason behind that?

**K.U. Subbaiah:** Because of the GST onetime transitional credit of Rs.3.4 Crores, which is an aberration, but secondly since the sales of tillers has picked up in Q3 the fixed cost absorption has been better, which has definitely helped us to improve the margins.

**Viraj Kacharia:** Got it and second question is on the tractor side, so in Q3 if you can just elaborate a bit more in detail what really happened with tractors, which led to a de growth and are we looking maintaining the annual guidance, which we gave in Q2?

**K.U. Subbaiah:** Yes. I mentioned you two reasons. One, we said our dealer stocks were quite high and we wanted to correct the stocks which resulted in lower sales. Two, the subsidy allocation schemes from Andhra Pradesh Government has been delayed. In fact in Andhra last year we sold close to 700 to 800 tractors during the year and this year so far we have sold only 130 tractors. At least we should have sold about 500 tractors by now.

**Viraj Kacharia:** Because if we look at the broader industry numbers and broader growth in the industry where everyone has been clocking high double-digit kind of a growth rate, so when we say we have taken a correction in the dealer stock is it primarily in AP and Telangana or is it across the board?



*VST Tillers Tractors Limited*  
*February 12, 2018*

- K.U. Subbaiah:** No. It is across the board. We had some excess stocks in some of the models like 18-HP, which was high, so we did not want to further increase those stocks while the market was demanding for the new generation tractors like Viraat Plus and Samraat.
- Viraj Kacharia:** Are we looking to hold our annual guidance, which we gave this year of 11,000?
- K.U. Subbaiah:** Yes. We will come closer to that.
- Viraj Kacharia:** What is the outlook for next year?
- K.U. Subbaiah:** At least 10% growth.
- Viraj Kacharia:** If you just provide some color where will that come from?
- K.U. Subbaiah:** Actually, the Viraat Plus and Samraat what we launched this year, we have not been able to give the full numbers to the market. As as on date we have a deficit of around 800 numbers and now this product has started going in bulk volumes. We believe that we will have significant growth in the 21 to 30 horsepower segment in the next year.
- Viraj Kacharia:** Sir last question was on the Branson Tractor launch, so where are we in respect to that and what is the pipeline we are looking to get?
- K.U. Subbaiah:** The field trials are going on with imported tractors. The coming year we are planning to sell 150 tractors of fully imported tractors.
- Viraj Kacharia:** Thank you.
- Moderator:** Thank you Sir. We have the next question from the line of Sushant Kanodia from ICICI Securities. Please go ahead.
- Sushant Kanodia:** Good morning Sir. If you can just break up the sales in absolute rupees Crores between power tillers and tractors for the quarter?
- K.U. Subbaiah:** We will give that answer a little later. We will just check and let you know. If there is any other question you can address.



*VST Tillers Tractors Limited*  
*February 12, 2018*

**Sushant Kanodia:** Secondly there were MTM gains on the book right the other income amounted to Rs.11 Crores for this quarter, so just wanted to know is it because of some debt securities or maturing of SMPs or it is gains of equity book that we hold?

**P.M. Keshava:** The financials are prepared as per Ind AS. One of the requirement under Ind AS is to show the investments at fair value, recognize the income on investment on fair value basis.

**Sushant Kanodia:** So you basically mark to market right?

**P.M. Keshava:** Yes. That has resulted in an income of Rs.24 Crores for the nine months period of current year.

**Sushant Kanodia:** Sir just wanted to know it is on account of the equity book that we hold or is it on the fixed maturity security that we had like in the debt security?

**P.M. Keshava:** It is mainly on the equity.

**Sushant Kanodia:** So can you share the top three holdings of us as of December end, so that we can have a better picture going forward as well?

**P.M. Keshava:** It is mainly on account of Rane Holdings. The company is holding 125,000 shares.

**Sushant Kanodia:** Sir secondly we were facing some supply issues in terms of tractor raw material supplies, so have been resolved and how do we stand today?

**K.U. Subbaiah:** Yes. The raw material supplies to a great extent has been resolved, but as you know the steel suppliers have been continuously increasing the prices and our suppliers have been demanding for price increases. There is still some sort of an irritation as far as the steel related companies are concerned.

**Sushant Kanodia:** Sir lastly what do you draw out of the recently announced union budget, so there were lot of announcements for agri income and agri support, so what is your view on that Sir?

**K.U. Subbaiah:** I feel there are two important announcements made in the budget, which should be favorable to us, but we have to see how it moves forward. One is on the agri credit, which they have enhanced and with the agri credit probably the credit facilities to farmers should improve for the purchase of mechanized equipments towards mechanization. Two, I think the most important is the minimum selling price what they would fix what the farmers



*VST Tillers Tractors Limited*  
*February 12, 2018*

produce. I think that is a very, very good move and if the government is able to implement I believe the farmers will have disposable income in their hands to invest on mechanization, so these are the two key features, but we will have to see how this moves on.

**Sushant Kanodia:** Sir I saw the also tractor increase allocation to some machine of agro mechanization I think the head under which the power tillers is given for feature tillers is given right?

**K.U. Subbaiah:** Yes.

**Sushant Kanodia:** Even that the allocation has gone up from Rs.500 odd Crores to Rs.600 odd Crores for the next financial year?

**K.U. Subbaiah:** Yes. If you see there the major allocations today are happening towards restriction of stub-burning. There is a lot of investment is going towards that and because when they say allocated to this for all the entire mechanization and finally it depends on how much will come for tillers and how much will go for other equipment. So we will have to wait and watch though there is a continuous effort from our side demanding more subsidies for tillers, but the government is more keen on harvesters and on stub burning.

**Sushant Kanodia:** Thanks Sir and Sir lastly on the power tiller sales volume how do you see the Q4 of this financial year?

**K.U. Subbaiah:** We should end the year with at least 28,000 tillers and close to 11,000 tractors. We still hold to that projection.

**Sushant Kanodia:** Thank you so much. I will get back into the queue.

**Moderator:** Thank you Sir. We have the next question from the line of Kritika Garg from Aequitas Investment. Please go ahead.

**Kritika Garg:** Sir, could you tell us what was industry growth during this quarter for Tillers and tractor?

**K.U. Subbaiah:** Industry growth for tractor was 12% from April to December and for Tillers was about 7%.

**Kritika Garg:** Sir, could you tell us about the technology transfer agreements, had the approvals been obtained?



*VST Tillers Tractors Limited*  
*February 12, 2018*

- K.U. Subbaiah:** Yes, it has been done long back. We already completed the technology transfer agreement and we are in the process of now getting necessary approvals of these products from the government and the trials are in progress.
- Kritika Garg:** So, when will we start manufacturing?
- K.U. Subbaiah:** There are two phases. In phase one we are going to sell the imported tractors and from 2019–20 the localized products will come into the market.
- Kritika Garg:** Could you tell us the market share?
- K.U. Subbaiah:** Market share of?
- Kritika Garg:** For tillers and tractors?
- K.U. Subbaiah:** The market share for tractors for the compact segment is 16.1%, which is the same figure as last year and Tillers is about 62%.
- Kritika Garg:** Sir, how do we see the DBT will impact us?
- K.U. Subbaiah:** DBT was introduced in Odisha this year. It impacted us to the extent that the scheme got implemented a little late, but otherwise we have not seen any major adverse impact. The DBT is yet to be announced in few other major states like Karnataka, Andhra, and Assam and northeast. They have still not released the DBT scheme.
- Kritika Garg:** Fine. Thank you so much.
- Moderator:** Thank you. We have a next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Thanks for taking my question. Sir, last time we had introduced this additional incentives to move the dealers to new credit policy, are we still offering those in front of?
- K.U. Subbaiah:** Yes, the incentives are still there, but it has not gained too much of a momentum. We are still offering that 1.5% incentive as cash discount for the dealers who take it on cash and carry.
- Viraj Kacharia:** Second question was on the net cash position we would have as of Q3?



*VST Tillers Tractors Limited*  
*February 12, 2018*

- K.U. Subbaiah:** Net cash position is that we have 3 Crores cash on cash equivalence including investment. We have investments of 149 Crores in current, 63 Crores under non-current plus cash and cash equivalence of 1.34 plus Crores.
- Viraj Kacharia:** Got it, related question you also mentioned that you have shown some investments in equity holding given that there is now 10%, which may affectively come in for CPL are we looking at other equity holdings and if we has then what are we looking to do with the cash?
- K.U. Subbaiah:** No, cash equity was used for various projects, which are ongoing activity. We have an investment plan of around 200 plus Crores in the two to three years to come.
- Moderator:** Thank you Sir. We have our next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Sir, just on the capex, you have mentioned 224 Crores to be spent over the next four to five years including the current year?
- K.U. Subbaiah:** 234 Crores to be spent up to 2021, when we say five years we started this investment from 2016–2017.
- Shekhar Singh:** And how much was the capex in the current year?
- K.U. Subbaiah:** Current year it is around 35 Crores to 40 Crores.
- Shekhar Singh:** How much have we spent this year?
- K.U. Subbaiah:** Around 30 Crores we have spent.
- Shekhar Singh:** And bulk of this capex will actually be happening in FY2020, I suppose?
- K.U. Subbaiah:** No, bulk of the investments are happening this year, so March in the next three months you will see that a lot of this will get capitalized because these are all work-in-progress especially infrastructure and all, if you look at the purchase on a value it will be higher this is what has been invoiced and paid.
- Shekhar Singh:** Sir, on this tie up with the Korean company, so you mentioned 150 plus will be imported from Korea and sold and thereafter you will have a localization of the same number?





*VST Tillers Tractors Limited*  
*February 12, 2018*

- K.U. Subbaiah:** In the first batch 250 numbers of which 150 numbers are being sold in 2018–2019, the balance 100 plus the localized tractors will be sold from 2019–2020 onwards.
- Shekhar Singh:** How are these tractors different from the one that you have already making?
- K.U. Subbaiah:** These are 47-horsepower, four-wheeled drive tractors.
- Shekhar Singh:** What will be the royalty payment that will be made to Korean company?
- K.U. Subbaiah:** It is around \$40 per tractor.
- Shekhar Singh:** Sorry, how much?
- K.U. Subbaiah:** \$40 per tractor.
- Shekhar Singh:** \$40 per tractor, okay Sir. Great, thanks a lot.
- Moderator:** Thank you. We have a next question from the line of Ravi Purohit from Securities Investment Management. Please go ahead.
- Ravi Purohit:** Good morning gentlemen. Sir, one question on this new facility that we have been working on the last one-year and idea was that some of our tiller operations could move, so any update on the new facilities, it is ready or have we started operations there?
- K.U. Subbaiah:** Tiller operations are almost ready, so our commercial operations will start before March 31, 2018 and by July the full fledged, the entire tiller manufacturing will move over the new facility.
- Ravi Purohit:** So, if all tillers manufacture moves away from this place, what about this Whitefield plant, there is any clarity?
- K.U. Subbaiah:** This plant will continue for some more time for manufacturing big factors, which we will be launching to the market.
- Ravi Purohit:** Sir, there is no plan to close this facility right now because it is like in heart of the city and it is the only manufacturing unit there?
- K.U. Subbaiah:** Not immediately.



*VST Tillers Tractors Limited*  
*February 12, 2018*

- Ravi Purohit:** Kukje ones?
- K.U. Subbaiah:** Kukje and other variants in higher horsepower tractors also.
- Ravi Purohit:** This will be from our own we would have designed our engineering?
- K.U. Subbaiah:** Yes, correct.
- Ravi Purohit:** How high the horsepower will be?
- K.U. Subbaiah:** We are targeting between 39 to 49 horsepower.
- Ravi Purohit:** 39 to 49 horsepower?
- K.U. Subbaiah:** Yes.
- Ravi Purohit:** Sir, if could throw some light on this reaper manufacturing that you have said you have localized, you were earlier importing from China is it?
- K.U. Subbaiah:** Correct.
- Ravi Purohit:** So we have completely localized it or we will have a tie up?
- K.U. Subbaiah:** We have completely localized it and since last month we have started selling them.
- Ravi Purohit:** So what is the tentative size of this market in India, reapers if you could briefly?
- K.U. Subbaiah:** Currently, the size is about 3500 to 4000 reapers and there is a good probability that this market size will continue to grow.
- Ravi Purohit:** Sir, last final question on the rice transplanter, any pickup that you see, we have been working on transplanter very long period of time, you see any pickup in the domestic market or it is still like?
- K.U. Subbaiah:** These are highly subsidy driven and this year the major consumers are in Andhra Pradesh and Odisha and in Andhra Pradesh as you know the schemes got launched only by October, November by which time the Kharif season was over and their season next starts only after March, while in Odisha again the DBT scheme got launched later and we lost the Kharif



*VST Tillers Tractors Limited*  
*February 12, 2018*

season, but we will see for some good sales happening in the Rabi season. Beside Odisha for us is so far we have been selling behind transplanter for Yanmar and now we have stopped selling those Yanmar transplanter because of the pricing issues and we have only a product, which is sitting type, which is the Chinese one but in Odisha there is not much of demand for the sitting type, so we are looking up of some other partners and some supporters with the walk behind type of rice transplanter.

**Ravi Purohit:** Sir, in terms has demand from agri tractors improve and as we see scale up in our own volumes, do you see any supply chain issues or supply chain issues are behind us?

**K.U. Subbaiah:** I believe by July, August we should have ample capacity from outside source as well as from our component manufacturing in Mysuru where we have invested lot of money last year for replacing machines and bring a new machines as well as we are adding few more machines during coming financial year.

**Ravi Purohit:** Sir, coming financial year you would expect a significant jump up in your tractor volumes because you are launching tractors, you are launching your own higher horsepower tractor and current tractors also continue to grow?

**K.U. Subbaiah:** Yes, we are planning to sell 14,000 plus tractors during next year.

**Ravi Purohit:** So, you are expecting another 25% to 30% growth from this side?

**K.U. Subbaiah:** Yes.

**Ravi Purohit:** And on tillers same usual single digit growth?

**K.U. Subbaiah:** Tillers will come to close to 28,000 and we believe next year we can target about 31,000 plus tillers.

**Ravi Purohit:** Fair point Sir.

**K.U. Subbaiah:** The tiller market the industry is not going very, very much and it is entirely depends a) on rain and b) on the government subsidy, so these are two determining factors and like unlike dependent on subsidy scheme and you know like said 20,000 we depend on subsidy scheme.



*VST Tillers Tractors Limited*  
*February 12, 2018*

- Ravi Purohit:** Correct and which I think tie-ups like Kukje or localizing repurchase all will help over a period of time to do?
- K.U. Subbaiah:** Absolutely.
- Ravi Purohit:** Thank you so much Sir. I will get back in the queue.
- Moderator:** Thank you. We have a next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- S. Kanodia:** Thanks for a follow up opportunity. Sir, start of the year we have guided for employee cost and other expenses from 21% to 16% to 17% at the end of the year, so as of now they are still at 21% level, so what is your guidance going forward?
- K.U. Subbaiah:** Our guidance for employee cost and related administration cost was based on certain budget sales volume and as you see, we are not coming close to that sales volume. We expected to sell about 30,000 tillers and close to 12,000 tractors but due to various reasons we are not able to reach that number. We have added people to strengthen our engineering and to strengthen our marketing and sales for business developmental activity.
- S. Kanodia:** Lastly if you could have figured out the absolute sales value of tillers and tractors for the quarter in case that is if it is available now.
- K.U. Subbaiah:** Yes, for the quarter it was 103 Crores from tiller and 61 Crores from tractor.
- S. Kanodia:** Sir, lastly what is our market share in power tiller segment nine-months it is 62%, right?
- K.U. Subbaiah:** 62%, yes.
- S. Kanodia:** Thank you Sir and wish you all the best.
- Moderator:** Thank you Sir. We have a next question from the line of Ritika Garg from Equitas Investments. Please go ahead.
- Ritika Garg:** Could you say the capacity for tillers?



*VST Tillers Tractors Limited*  
*February 12, 2018*

- K.U. Subbaiah:** We have enough capacity right now. We are producing in one shift. One shift we can produce close to 2,500 tillers a month and I think switch over to two shifts we can produce at least about 4,000 tillers.
- Ritika Garg:** How much is the exports?
- K.U. Subbaiah:** Export has been pretty bad as I mentioned in the beginning opening statement as we are still waiting for the homologation for the tractors, so it is almost insignificant during this quarter.
- Ritika Garg:** Sir, what is the new product that we are going to launch in FY2019 and how many new products do we planned to launch?
- K.U. Subbaiah:** We will launch new 30 horsepower tractor and some variants of the existing models.
- Ritika Garg:** So, I just wanted to clarify the capex for FY2018 will be around 30 Crores?
- K.U. Subbaiah:** No, overall spend will be more than 30 Crores during this year. By end of this year out of the 234 Crores, we should have spent almost 50% of that.
- Ritika Garg:** So, 120 Crores would be spent?
- K.U. Subbaiah:** Yes.
- Ritika Garg:** Thank you so much.
- Moderator:** Thank you Sir. As there are no further questions, I now like to hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities for closing comments. Over to you Sir!
- Annamalai Jayaraj:** On behalf of B&K Securities, we thank all the participants for joining the call. We thank VST Tillers Management for giving this opportunity to host the call. Have a good day.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Batlivala and Karani Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.



*VST Tillers Tractors Limited*  
*February 12, 2018*

Disclaimer: This Release/Communication contains historical information and forward looking statements. These forward looking statements are based on certain expectations, assumptions, anticipated developments and other factors which are not limited to, risk and uncertainties regarding fluctuations in earnings, market growth, intense competition and the pricing environment in the market, consumption level, ability to maintain and manage key customer relationship and supply chain sources and those factors which may affect our ability to implement business strategies successfully, namely changes in regulatory environments, political instability and input costs. The Company, therefore, cannot guarantee that the forward looking statements made herein shall be realized. The Company does not undertake any obligation to update forward looking statements that may be made from time to time by or on behalf of the Company to reflect the events or circumstances after the date hereof. The financial statements are prepared on the basis of the applicable Accounting Standards prescribed by the Institute of Chartered Accounts of India. The Company undertakes no liability/obligation for decision taken by the Investors on the basis of the data mentioned in the Presentation.