

VST Tillers Tractors Limited
Earnings Conference Call
(May 19, 2018)

Moderator: Ladies and Gentlemen, Welcome to Q4 FY '18 post result conference call of VST Tillers, hosted by Batlivala and Karani Securities India Private Limited. We will start the call with all the participant lines in the listen-only mode. There will be an opportunity to ask questions after the management concludes. Please note that this call is recorded. If you need assistance during the conference, please signal an operator by pressing * and 0 on your phone. I would now like to hand the conference over to Mr. Annamalai Jayaraj. Thank you and over to you, Sir.

Annamalai Jayaraj: Thank you, Yashri. Good Morning everyone. On behalf of B&K Securities, we Welcome you all 4Q FY '18, post results conference of VST Tillers Tractors Limited. We are delighted to have with us today Mr. K. U. Subbaiah, Chief Executive Officer; Mr. P. M. Keshava, Chief Financial Officer; and Mr. Chinmaya Khatua, Company Secretary. I would now transfer the call to Mr. Subbaiah for the opening remarks to be followed by question and answer session. Over to you, Sir.

K. U. Subbaiah: Good Morning everybody, thanks for joining the call. I will give you a brief summary of our performance during the year 2017-18. During the year 2017-18, our revenues as per IGAAP stood at 784 crores, which is 13% higher than the revenues of last year. It may, however, be noted that there is impact of GST in the year 2017-18. Without the GST impact on top line, our revenue growth will be around 17%. Of the revenue what we got in 2017-18, 42% is from the tractor segment or the tractor profit centre and 57% comes from the tiller profit centre, but if you have to only look at actual tiller and tractor revenues, 39% of the revenue is from tractors and 50% of the revenue from tillers. The EBITDA for the year 2017-18 was 119 crores at 15.27% of sales. The growth over last year is about 22% as far as the EBITDA is concerned that means an improvement of 100 basis points. The operating profit was 107 crores 13.68% of sales. The growth over last year is 27% with an improvement of 160 basis points. The PBT was 129 crores 16.44%, the growth over last year is 24% improvement of 164 basis points. As a summary, it was a overall good year for us. Especially in Quarter-4, we registered 18% growth in sales quantity in both tillers and tractors. We ended the year with sales quantity of 30,143 which is the highest ever sales which VST has recorded ever since its inception and 11,357 tractors which is once again the highest after the inception of VST. This is a brief summary of our performance of the last year. Thank you.

Moderator: Thank you. We will now begin the question and answer session. We have a question from Mr. Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Sir, just wanted to check on the volume outlook, we have obviously ended March at a very strong level for both tillers and tractors, April was much lower, so what is the reason for April being lower and what is the outlook there that you are seeing?

K. U. Subbaiah: The outlook is quite promising, two to three reasons. One is the prediction of a normal monsoon. Two, the markets are also very buoyant and if you see most of the tractor manufacturers have announced that they foresee a growth of between 10% and 15%. In tillers, the subsidy schemes or allocations from the Government is in process, but it is too early for us to say whether there will be a very good growth or it will be a nominal growth of 3% to 4%. Having said that, in April we had to little bit curtail our sales to bring in our receivables under control, but it is only a temporary phenomenon and we are confident that we will make up the numbers for the coming quarters.

Mukesh Saraf: On the tractors, any guidance you would want to give for FY '19, you think you will also be around that 15% growth mark for the year?

K. U. Subbaiah: We will be in line with the market growth prediction.

Mukesh Saraf: The new launches any pipeline few launches on tractors and around when do you think you will be launching?

K. U. Subbaiah: We will be launching one new tractor by end of this year, probably the commercial sale will happen in Q1 of next year. We announced entry into the higher horsepower segment and the initial pilot batches of the 47 HP Branson tractor will start getting into market now.

Mukesh Saraf: Secondly, on the margins Sir, we obviously saw a very strong quarter probably one of the highest quarterly revenues, but our margins have still not improved sequentially while year over year it has improved, so any impact of the higher raw material cost that you have already faced or anything that you are expecting to face in the coming quarters and also employee cost seems to be a bit higher, could you just give some colour on this?

K. U. Subbaiah: The reason for margin drop in sequential quarter is because of the GST onetime benefit. However, the employee cost was impacted due one time pay out for the voluntary retirement benefit offered for some workers.

Mukesh Saraf: I was just asking on the raw material cost, so while versus last quarter probably yes it is higher, but I am just asking are you seeing some pressure because every other company is seeing an impact of higher metal cost, so are you seeing any of that impact is what I was checking?

K. U. Subbaiah: For the year 2018-19 we are under pressure to award price increases to our suppliers which can certainly impact the margins. We will have to work to see how much we can make up for those lost margins due to the increase in material cost through initiatives like cutting down non-discretionary expenses as much as possible. However it is too early for me now to say after 1.5 months to say where we will be heading. Probably after this quarter, we should have a good feel of how much material cost has gone up, how much of price increases we are able to pass on to the market in the next quarterly call..

Moderator: Thank you. We have our next question from Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir, I had couple of questions. First on tractor, so if you look at our tractor monthly volumes for last seven to eight years, you have twice taken stock correction at a time when the industry tailwinds are very strong, we are increasing our net worth, launching new products, so where are we seeing the challenges in terms of scaling?

K. U. Subbaiah: No, we do not see any challenges in scaling up. We may see some challenges in terms of launching the higher horsepower tractor which we have not been playing, but having said that we are also appointing new channels in such states where the higher horsepower requirements are very high like Uttar Pradesh and Madhya Pradesh, and we are confident that with good dealers coming onboard, we should not have any issues in increasing the tractor numbers.

Viraj Kacharia: Sir, for tractors again can you provide roughly mix in terms of FY '18 how much has been old versus new States, when I say old I mean Gujarat and Maharashtra versus new States and also in terms of HP how has the mix been, any update on the distribution....

K. U. Subbaiah: 2017-18, we have sold only our existing range of tractors, which is compact tractors and major sales comes from our flagship product which is 18 HP four-wheel-drive tractors, followed by 22

horsepower and newly launched 27 horsepower tractors which is SMT model and the Virat Plus model. The ratio of 27 HP to the existing models, the revenue from 27 HP could be in the range of about 30% while other two has contributed 70% of it.

Viraj Kacharia: If we look at our quarterly volumes in Q4, we have clocked plus 10,000 units and this is the first time ever we have crossed plus 10,000 units in quarterly sales for tillers, so what factors have helped us achieve this sales number in Q4?

K. U. Subbaiah: There were two-three factors, one was in the States of Karnataka and Tamil Nadu, the subsidy allocations came in the Quarter-4, so the government released lot of orders for both tractors and tillers, so that is one of the reasons why we saw high sales in Quarter-4. Two, lot of major festivals fell in Quarter-4 starting from Pongal to Gudipadwa to Ugadi in Karnataka, so all this contributed for high sales. Generally the tractor and tiller sales are linked to major festivals, so these are the factors which contributed for high sales in Quarter-4.

Viraj Kacharia: Any update on DBT scheme, can you provide, has it been implemented now across key States where we are with respect to that?

K. U. Subbaiah: DBT is yet to be implemented in Karnataka, Andhra Pradesh, Assam, and North-East, while in Andhra Pradesh have announced to start the DBT scheme this year, so we will have to see how it progresses. Karnataka Government also has committed that they will follow the DBT scheme, we will have to see. Assam and North-East, we still do not have any confirmation as to when they will launch the DBT, otherwise, all other states have moved into full fledged DBT.

Viraj Kacharia: Just one more question was on the margin side, you said we are seeing increased pressure on raw material side, so have we taken any price increase so far in Q4?

K. U. Subbaiah: In few states, we have taken price increase for tractors and tillers, but majority of the states we have started working on it now.

Viraj Kacharia: What is the one-off impact of the employee cost increase, which you attributed to, can you quantify?

K. U. Subbaiah: That is about 1.7 crores.

Viraj Kacharia: Even if you adjust after that, we have still seen quite a considerable increase in employee cost both sequentially and year-on-year?

K. U. Subbaiah: Our sales volumes have been pretty good and the variable salary of the employees are linked to the company performance. The outflow of the annual incentives for the performance has been much higher than what we expected.

Viraj Kacharia: Can you provide any outlook in terms of CAPEX for FY '19 and '20?

K. U. Subbaiah: We have an outlay of almost 240 crores of CAPEX for five years until 2021, so far we have spent 129 crores and during this year we will be spending about 80 crores.

Moderator: Thank you. We have a question from Mayur Milak from IndiaNivesh Securities. Please go ahead.

Mayur Milak: You were talking about the subsidies, just wanted to understand the subsidy on tillers, so does this continue to be the same typical 40,000-45,000 or there has been a change in the subsidy amount as well?

K. U. Subbaiah: It continues to be the same, it ranges from 40,000 up to Rs. 1 lakh.

Mayur Milak: Are these subsidies available in all the States or there are specific states?

K. U. Subbaiah: I would in majority of the States subsidy is there.

Mayur Milak: On tractors if I remember well, Telangana had also started some subsidy on tractors, so does it still continue or?

K. U. Subbaiah: Telangana, Andhra Pradesh, Karnataka they still continue subsidy. The latest entrant is Maharashtra.

Mayur Milak: So Maharashtra is also started doing the subsidy on tractors?

K. U. Subbaiah: Yes some select schemes.

Mayur Milak: Are these specifically only on the lower HP of tractors or they are across any given HP?

K. U. Subbaiah: Generally, it is for small tractors because the subsidy is given for agriculture, so most of the machines what is used for agriculture are the compact segment four-wheel-drive tractor.

Mayur Milak: Sir, are we looking at expanding into other States as well in terms of getting the higher HP tractor there or this is going to be your traditional strong markets?

K. U. Subbaiah: We are going to operate pan India and most of the channel strengthening is happening in those states where our presence has not been very, very strong.

Mayur Milak: Anything specific strategy for North?

K. U. Subbaiah: We are expanding the channel network in Uttar Pradesh, Madhya Pradesh, Punjab, Haryana, these are the areas where we were not strong. Now with the higher horsepower tractors coming, traditionally those markets need higher horsepower tractors, so we have to have to increase the channel there and have good penetration strategy.

Moderator: Thank you. We have our next question from Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, just wanted to know what is the power tiller segment, the total industry size domestically?

K. U. Subbaiah: The 2017-18, the total industry size was roughly around 50,000.

Shashank Kanodia: We have maintained our 60% market share in the industry, right?

K. U. Subbaiah: Yeah, we are at around 60%.

Shashank Kanodia: Sir, secondly if you can share the absolute sales number of power tillers and tractors for the quarter as well as for full year?

P. M. Keshava: For the year it is 30,143 number.

Shashank Kanodia: Sir, value in Rs.?

P. M. Keshava: 390 crores.

Shashank Kanodia: What about tractors?

P. M. Keshava: Tractors is 11,367 number, 308 crores, 50% and 39% is revenue share. For the quarter, it is 10,125 numbers, 130 crores; 3574 numbers of 97 crores. It is once again 52% and 39%.

Shashank Kanodia: Sir, secondly Karnataka has announced a farm loan waiver right, whichever government comes into force, so what proportion of sales of power tillers and tractors come from Karnataka and will the farm loan waiver help us?

K. U. Subbaiah: I believe it can have a positive impact.

Shashank Kanodia: Sir, out of our total sales of 30,000, how much was from Karnataka last year?

K. U. Subbaiah: Karnataka was 6000.

Shashank Kanodia: Sir, what about tractor sales?

K. U. Subbaiah: Tractor sales was 1000 plus.

Shashank Kanodia: Sir, what is the progress on the Custom Hiring Centres that we initialised, what is the response on that front?

K. U. Subbaiah: Centres are operational which is being handled by VST. The CHC and it is more of helping the small farmers who cannot afford to buy either a tiller or a tractor, so that these equipments are available to him at a Government fixed hourly rate. It is also an outlet for us to develop our business because once the customer get acclimatized to using a tiller or a tractor, we hope that it will motivate them to own their tiller or a tractor. This will benefit VST.

Shashank Kanodia: Sir, is the traction as per expectations or has it exceeded, how is the response from the farmers community?

K. U. Subbaiah: Farmers are happy because at the time of the season if they do not have a tiller or a tractor, they can always hire these from the Custom Hiring Centres and use them, so the response has been positive from the farmers during the season. If the rainfall is good then definitely the demand for getting these on rental is very good.

Shashank Kanodia: Sir, lastly what proportion of our book in investments is from equity investments, if you can classify top three holding for us?

P. M. Keshava: 63 crores equity-based investments and 141 crores is the mutual funds.

Shashank Kanodia: Sir, equity what are the top three holdings?

P. M. Keshava: Equity, Rane is the major holding.

Shashank Kanodia: Which constitutes how much to your total book?

P. M. Keshava: 1,25,000 shares.

Moderator: Thank you. We have a question from Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: Sir, couple of questions on this facility at Whitefield Road where we were setting up a new tiller plant, so have the new tiller plant been setup and production moved there and what are we doing on the Whitefield plant now?

K. U. Subbaiah: Mr. Purohit, our Malur plant will be fully operational by July.. We are partially manufacturing tillers in Whitefield plant and partially in Malur, till such time entire process improvement and the productivity is achieved. In the Whitefield facility, we have embarked our higher horsepower tractor project..

Ravi Purohit: We are assembling the higher horsepower tractors?

K. U. Subbaiah: Yes, correct, and the power reapers.

Ravi Purohit: Any plans to kind of move these also because this is a high cost facility in terms of employee cost or the fact that it is right at the centre of the city, so any plans of that or you are using it as a stopgap arrangement till you kind of move these also to a new plant because we had purchased quite a few land parcels in the past over the last four to five years?

K. U. Subbaiah: Right now we do not have any plan. We have not moved our permanent labour into Malur facility as they are high cost labour. We will be using the permanent of around 98 people who are st with us and we will to utilise them for assembling the higher HP tractors and they are have lot of experience in assembling the products. This is the best way for us to kick start this higher horsepower tractor with experienced people, so that we bring out a good product into the market.

Ravi Purohit: This VRS that you mentioned that you gave to employees in this quarter were for the employees at the Whitefield facility?

K. U. Subbaiah: About 20% went out.

Ravi Purohit: Sir, any traction on our rice transplanter business if you could share any progress there or it continues to have a long...?

K. U. Subbaiah: We have found a partner for rice transplanter business for the walk behind, right now we are in discussions with them and coming out with a mutual exclusive sales agreement, probably in the next quarter I should be able to share some more details with you if it goes through.

Ravi Purohit: This is a walk-behind rice transplanter with a foreign partner who brings in technology and we manufacture and then sell in India or we are going to import and then sell in India?

K. U. Subbaiah: Right now we do not have intentions of manufacturing it here, the entity with whom we are talking they get the CKD items from China and Korea then they assemble and then give it to us, so we are only taking the responsibility of marketing this product.

Ravi Purohit: The entity is an Indian entity is it?

K. U. Subbaiah: It is not an Indian entity, it is a Korean entity.

Moderator: Thank you. We have a question from Basanth Patil from HDFC Securities. Please go ahead.

Basant Patil: Sir, just wanted to understand more on the tiller segment, so how do you see if you are looking for the vision of five years and 10 years, so how the industry is expected to move as currently the sales are largely it has given the push by the Government subsidies, so what is your take on this?

K. U. Subbaiah: The tiller addresses marginal segment farmers. In India today, 62% of the population depend on agriculture and out of that 62% population which depend on agriculture, 80% are marginal farmer. When I say marginal farmers, these are the farmers who own less than two hectares of land, the tillers are used mostly by these marginal farmers and penetration of mechanisation in the country is still at very low level of just 35%, so there is an opportunity for us to grow by another 60% in the long run, which means that the tiller market is going to remain. Today the government of course is subsidising farmers and I believe that whichever government comes, these initiatives will continue because 62% of the population are dependent on agriculture, so I do not see a big risk that the tiller volumes will come down.

Basant Patil: Sir, even if we see the lower HP tractors are replacing the tiller segment also, even the handling of the tiller is bit difficult compared to a tractor handling and all, so that could be a risk going ahead for the tiller segment?

K. U. Subbaiah: I explained to you the price difference between a tiller and tractor is substantial, a marginal farmer will not be able to mobilise so much of finance for a tractor compared to a tiller and in tiller since there is subsidy, he is able to pay his contribution or his portion of the money and take possession of a tiller, so while I agree that to a certain extent the compact segment tractor may cannibalise tillers, but it will not totally cannibalise this, may be to the extent of 10% to 15% it might eat into the tiller market, but only 35% penetration has happened, so it does not matter because tiller volumes will continue because the mechanisation has to happen to mitigate the high level.

Basant Patil: Sir, coming to the tractor segment, there are so many players in the industry even we are entering into the higher HP also, so how do you see the competition, what is our strength in that segment higher HP compared to competitors, so how we are able to gain the market, what is our strength between the other players?

K. U. Subbaiah: An important metrics for any manufacturer is that you have to be competitive in terms of quality, cost, and service. We believe that we are ranked either in the first or second place as far as all the three metrics are concerned with which we believe that it may not be difficult for us to penetrate the market and gain some more market share.

Moderator: Thank you. We have a question from Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir, continuing on the industry just wanted to get a sense that in last three to five years, how has the composition of the players have changed like earlier we had lot of Chinese player who were present in India market, so how has it stacked up now as on date, if you can just give a broad breakup of this 52,000 to 55,000 tiller sales?

K. U. Subbaiah: The Chinese products are still available in the market. We have to be on the top of our product in terms of quality of the product, the service support and availability of spare parts. If we continue to perform well in these areas, I do not see any reason as to why we should lose market share. In the last two years, we have been gaining 1% market share year-on-year while I think Chinese is losing, so that only shows that the demand for locally made *Desi* products are much higher than Chinese products.

Manish Goyal: So how much would be, just a guesstimate that these Chinese would be having a market share as on date?

K. U. Subbaiah: There are at least 20 to 25 companies or agents selling the Chinese tiller, all put together it will be somewhere around 20%.

Manish Goyal: This would have come down from 30% to 40% in the last three to four years?

K. U. Subbaiah: I guess so, yes.

Manish Goyal: On other side, we have couple of companies now claiming to be selling decent numbers of power tillers say like Greaves Cotton who has launched its own product, earlier they were importing Chinese product and Kirloskar Oil is another one, so ideally are you seeing competitive pressures from them basically in your markets?

K. U. Subbaiah: Competition is good for us because it will keep us on our toes, but as mentioned we have not lost any market share, in fact we have gained 1% market share, probably somebody else is losing. I feel that if the competition is not there then we become too complacent, it is good to have competition.

Manish Goyal: If you can break up this market under various categories say 12 HP or 15 HP or just to give a broad sense, what is the breakup of the market?

K. U. Subbaiah: 12 HP contributes to 75% of the market.

Manish Goyal: The major growth is coming in this segment or is there a demand for higher or lower range?

K. U. Subbaiah: So far we have not been playing in the higher HP segment which is greater than 15 HP. We will be launching 16 Horsepower tiller in the next couple of months, so we will also get into that segment which we were not present, with that we have an entire portfolio of products in the tiller product family starting from power weeder or rotary tiller up to 16 Horsepower tiller.

Manish Goyal: What could be the price differential between a 12 HP and 16 HP roughly, Sir?

K. U. Subbaiah: I have no idea, we have not worked out the cost, but I guess it should be somewhere between 10,000 to 15,000.

Manish Goyal: Sorry, I am harping on that question again on the market, like ideally we are seeing for so many years that power tiller market in India is just moving between 50,000 to 60,000 numbers per annum, so one is agreed that subsidy is driving it, but what do you think is any other issues which probably is not leading to the overall growth of the market?

K. U. Subbaiah: It is mainly the DBT or the subsidy issue which stalling the growth of the market because the farmers will wait for the subsidy and then only buy the product, but if government takes a tough stand in coming years of not subsidising it will be good for the manufacturers in the long run.

Manish Goyal: So, ideally today of the industry how much of the sales should be happening through say DBT and just to get a sense that how much has already transitioned to DBT model?

K. U. Subbaiah: 95% of the annual sales volumes is through subsidy. Only 3 states are not yet in DBT which are Karnataka, AP and Assam.

Manish Goyal: Ideally, 50-50 is what we can say?

K. U. Subbaiah: Eventually, entire thing will move to DBT only.

Manish Goyal: Then under this scheme then as a farmer who purchases here, he has to first put the entire money and then probably he gets a reimbursement, right Sir?

K. U. Subbaiah: Yeah.

Manish Goyal: Do you think that is probably an impediment to probably buy a tiller?

K. U. Subbaiah: Not really, if you are able to get them financing done through a public sector bank or through NBFCs, we do not see a problem because the Government reimburses the subsidy to the farmer within less than 10 days.

Moderator: Thank you. We have a question from Kunal Sabnis from VEC Investors. Please go ahead.

Kunal Sabnis: On the tiller sales, the growth has been pretty strong about 18% on a yearly basis and primarily that has come in the second half, now this contrast with the expectation of higher single digit growth, I mean what changed in the second half primarily for the strong growth and what expectation can we have for the next year, I mean can it still grow on this higher base in Fiscal '19 at a higher single-digit?

K. U. Subbaiah: The Quarter-4 sales was very strong because lot of the government allocations happened in the Quarter-3 and Quarter-4, which increased the sales of tiller. Quarter-1 and 2 was weak because in South, the South-West monsoon during the initial period was not satisfactory which did not encourage the farmers to buy the product.

Kunal Sabnis: Expectation for '19-18?

K. U. Subbaiah: We will grow above the industry's tiller growth could be about 5% to 8% provided monsoon is normal as indicated by the Met Department and then the Government allocation from the Centre and the State Governments will also happen as committed by them.

Kunal Sabnis: In terms of the April sales growth, the April monthly numbers, anything to read into it, I thought the drop was stark year-on-year basis?

K. U. Subbaiah: I do not think we should read between the lines why it was low in April, let us talk after the quarter because quarterly numbers are very important, one-month may go up and another month may come down, but ultimately the quarter results are important?

Kunal Sabnis: But nothing to do with the elections in Karnataka or something like that, right?

K. U. Subbaiah: Nothing like that.

Kunal Sabnis: As you mentioned about the raw material prices going up, if you could give some sense in terms of how much, what percentage hikes you have to take in pricing to keep the margins normal?

K. U. Subbaiah: Given a chance, we would like to get a 5% increase, but it all depends on the market.

Kunal Sabnis: But 5% increase will cover your margins?

K. U. Subbaiah: I hope so.

Kunal Sabnis: In terms of your other income about 9 crores, if you could give a split between, how much has contributed from equities, the mark to market?

P. M. Keshava: The other income is 45 crores as per Ind-AS, which one you are talking of 9 crores?

Kunal Sabnis: Nine crores for Quarter-4, I just needed the equity component?

P. M. Keshava: You are talking about only for Quarter-4?

Kunal Sabnis: Yeah.

P. M. Keshava: That is mainly from the income on account of fair value of investments. We have invested in equity as well as mutual funds, I already answered someone's query, it is mainly the equity into Rane Holdings.

Kunal Sabnis: I just needed if this 9 crores is substantially from the equity MTM?

K. U. Subbaiah: Yeah, it is from equity based..

Kunal Sabnis: This equity holdings are purely investment in nature or some strategic investment which you want to hold for a longer time?

K. U. Subbaiah: Purely investment.

Kunal Sabnis: Just a final data point, you mentioned that the quarterly tractor revenue is about 130 crores, right?

P. M. Keshava: Total revenue for the company for the quarter ended March was 130 crores.

Moderator: Thank you. We have a question from Debanshu from Yes Securities. Please go ahead.

Debanshu: Sir, just two questions, we were having issues with supply constraints, the crankshaft earlier, so is that issue behind us?

K. U. Subbaiah: Yeah, that issue is behind us.

Moderator: Thank you. We have question from Gaurant Bedwal from Nirmal bang. Please go ahead.

Gaurant Bedwal: Sir, could you please share the new launches for FY '19 in both the tractors and tillers?

K. U. Subbaiah: I mentioned that we are going to launch the 16 Horsepower tiller and by end of this year a 30 Horsepower tractor will be launched.

Gaurant Bedwal: Sir, the outlook on tractor growth rate in FY '19?

K. U. Subbaiah: It will be somewhere between 10% to 15% whatever the industry is predicting, we will be in line with that growth rate.

Moderator: Thank you. We have a question from Nihil Parekh from Dhanki Securities. Please go ahead.

Nihil Parekh: Sir, two questions, one is what would be the price differential in tiller segment with our competition, and the second was in terms of trajectory where do you see our tiller market share going let us say over the next three years or five years?

K. U. Subbaiah: I will answer the second question first, as it is we are at 61% market share, I think the most important challenge for us will be to retain the market share given the situation that there are so many competitors in the market.

Nihil Parekh: I said what is the price differential between us and the next, which I presume would be the Chinese and the other Indian players?

K. U. Subbaiah: As far as MRP is concerned, the price difference will be hardly anything because the prices are fixed with the Government, but if you look at the landed cost of the Chinese tillers, yeah it will be very, very low.

Nihil Parekh: Sir, then what are the challenges for any customer to shift to the Indian brands most notably you and the others, I mean what would trigger the sales of the Chinese players, let us say the MRP is more or less similar, the subsidies are more or less similar then why would not customers choose the Indian brands given the better service network, given the better quality?

K. U. Subbaiah: If you take all the Indian manufacturers, the overall market share of locally manufactured product is more than 75%, so that speaks that farmers prefer the Indian brand more than the Chinese brand.

Moderator: Thank you. We have a question from Srinath Sridhar from ICICI securities. Please go ahead.

Srinath Sridhar: My question is when will you launch the new high HP tractor, the Branson one?

K. U. Subbaiah: We are going to sell it by July or August, the first initial seeding batches.

Srinath Sridhar: So this will be the 47 HP, right?

K. U. Subbaiah: 47 HP.

Srinath Sridhar: What kind of EBITDA margins do you see in this compared to your lower HP ones, the increase in EBITDA if you can share?

K. U. Subbaiah: Initially, we will not see any improvement in margins because it is fully imported, it is a seeding batch which we have to import and sell in the country, but once we start manufacturing these tractors in India, we will see favorable margins coming out.

Srinath Sridhar: This testing phase will go on for a year?

K. U. Subbaiah: We have decided to launch at least about 100 to 150 imported tractors into the field in a phased manner, so in another 1.5 to 2 years the localised products will be coming into the market.

Srinath Sridhar: At least a year to year-and-a-half you will not be manufacturing it?

K. U. Subbaiah: Yeah.

Srinath Sridhar: I just had a look at the tractor numbers, the industry in the under 30 HP which you are there in grew by 25% in FY '18 whereas we grew at 18% and it seems like Escorts and Tafe have gained a lot of market share this year in this segment, can you throw some light on that?

K. U. Subbaiah: We encountered few teething issues which had to be resolved in the new launches. All these have been corrected and we see no issues in the future.

Srinath Sridhar: Then your tractor, you should try and beat the industry this year, right?

K. U. Subbaiah: Yes, that is our endeavour, If you look at the traditional product of less than 20 Horsepower, our growth has been better than the industry.

Moderator: Thank you. We have a question from Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir, earlier in 3Q FY '18, you give guidance for sales of tractors for FY '19 at 14,500 units and in this quarter's call you have kind of revised it downwards, you are saying that that will possibly grow at around 15 odd percent, what is the reason behind the scale down of guidance?

K. U. Subbaiah: Guidance will be dynamic based on the market conditions. Various factors can impact the actual sales. Poor monsoon, government schemes, product acceptance etc.

Jasdeep Walia: Sir, this guidance was given in 3Q FY '18, just last quarter?

K. U. Subbaiah: Yeah, true, but it can change due to various uncontrollable factors.

Jasdeep Walia: Is there also some reason, is one reason behind the scale down of guidance also the fact that possibly you are making some changes in the product and once the changes are done, then you will possibly accelerate the sales engine for that product?

K. U. Subbaiah: Based on the initial feedback from the field, we will have to correct and re-launch or revisit that product because you will never know what happens.,

Jasdeep Walia: Has the problem been solved or still it is work in progress?

K. U. Subbaiah: Yes all problems have been resolved.

Jasdeep Walia: Sir, in last quarter you faced some issues on exports because of some I think you had to do some re-registration in Europe, has that issue been solved?

K. U. Subbaiah: The new homologation certificate has come and because of the new homologation, there are lot of new parts to be added or the parts had to be redesigned. All these are taken care of now and we expect that this year we should have reasonable export numbers.

Jasdeep Walia: Can you give any guidance for exports this year and what was the exports number in FY '18?

K. U. Subbaiah: FY '18 was about 133 numbers of tractors, my opinion we should minimum double those numbers.

Moderator: Thank you. We have a question from Sarika, an Individual Investor. Please go ahead.

Sarika: Sir, can I know what is the capacity at the Malur plant in terms of tiller and tractors growth, and what capacity utilisation do we plan to reach in the current fiscal and the subsequent years?

K. U. Subbaiah: For tiller, we have a capacity to produce 60,000 tillers in two shifts, but currently we operate only in one shift, so obviously the capacity utilisation is 50% and we manufacture tractors in Hosur plant, there the capacity is about 35,000 and this year we will end up producing about 13,000 or 14,000 tractors so roughly that is also about 50%.

Sarika: Secondly, any plans for the inorganic moves?

K. U. Subbaiah: Not really as of now..

Moderator: Thank you. We have a question from Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just wanted a clarification, you said we are looking to spend around 300 to 400 crores in CAPEX till '21, is that right?

K. U. Subbaiah: 240 crores long-term investment.

Viraj Kacharia: There has been an upward revision in the CAPEX spend, so when we initially started the year, we are looking around 200 crores of CAPEX of which 120 was we spent in FY '18 and then 30 to 40 crores of CAPEX in the rest of the year, now we are looking to spend around 83 crores of CAPEX in FY '19, so what is it going towards?

K. U. Subbaiah: When we initially told about 200 crores, we did not have the higher horsepower tractors in that plan, now that we have embarked on the higher horsepower tractors, we need some investments towards developing those products.

Viraj Kacharia: This will be commercialised by FY '20?

K. U. Subbaiah: No, this is being commercialised during this year, during the third quarter of this year.

Viraj Kacharia: This will still be an assembly kind of a setup, it will not be moving towards manufacturing anytime soon?

K. U. Subbaiah: Whatever products we have today, it is all assembly setup only.

Viraj Kacharia: Sir, I meant more towards the higher HP Branson tractors which we are doing a soft launch in '19?

K. U. Subbaiah: Yes, that also will be only assembly.

Viraj Kacharia: Second question was on the tiller side, if you can just throw in any colour how is the scale up of product being in FY '18 and what are we looking in terms of FY '19?

K. U. Subbaiah: I mentioned earlier also that we will look at 5% to 8% growth as far as the tiller volumes are concerned provided monsoon is normal and Government allocations come on time.

Viraj Kacharia: In terms of crop credit how many volumes we would have sold?

K. U. Subbaiah: For crop credit, this year we look at close to 800 to 1000 numbers.

Viraj Kacharia: How much we would have done in FY '18?

K. U. Subbaiah: FY '18 we did about 300.

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