



“VST Tillers Tractors Limited Q1 FY2018
Post Results Conference Call”

August 16, 2017



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

MANAGEMENT: **MR. V. P. MAHENDRA – VICE CHAIRMAN & MANAGING DIRECTOR - VST TILLERS TRACTORS LIMITED**
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.



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Moderator: Good day ladies and gentlemen and welcome to VST Tillers Limited Q1 FY2018 Post Results 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, you may signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Annamalai Jayaraj. Thank you and over to you Sir!

Annamalai Jayaraj: Thank you Mallika. Good morning everyone. On behalf of B&K Securities welcome to 1Q FY2018 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the management team from 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 VST Tillers Management for the opening remarks to be followed by the question and answer session. Over to you Sir!

K.U. Subbaiah: Good morning everybody and welcome to this conference call. I will give a very brief overview about our performance in Q1 of 2017-2018. First I will talk about the tractors. In the first quarter during the year, we have had a growth of around 16% while the overall industry growth in the compact segment was adverse 3%. The overall industry growth in this period was 8.6% and VST growth was 17.6%. In case of Tillers in the quarter, the industry growth was negative 3% while the VST degrew by 2%; however, it may be noted that our market share moved to 61% from last year share of 59%. The decline in the industry was mainly due to weak monsoon in Karnataka due to which there was lower pull from the farmers. Prices not settled in Tamil Nadu due to which the demand for horticulture segment was not capitalized and also delay in budget allocation in some of the states like Kerala. The revenue share from tractors increased to 40% from 35% of last year in the VST revenues.

The revenue for the company stood at Rs.186 Crores compared to Rs.178 Crores, which is a 4.2% growth while our operating profit reduced by 1.8%. The reason for reduction in operating profit is due to product mix in tractors; we have sold more of 18 HP tractors where our margins are lower than the other models. Higher sales promotion expense incurred for the launch of two new tractor models Viraat Plus and Samraat tractors. This is in a nutshell a brief view about our performance in Q1.



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- Moderator:** Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity. Sir, I have a couple of questions. First, there is some reclassification post us adopting IndAS. So with respect to both sales and other expenses, there have been some reclassifications, so can you explain which are the key items, which have moved, and what is the quantum of that?
- K.U. Subbaiah:** My CFO Mr. Keshava will answer this question.
- P.M. Keshava:** Good morning I am Keshava here. You are talking about IndAS?
- Viraj Kacharia:** Yes Sir both sales and other expenses on even other income have been down, so...?
- P.M. Keshava:** The IndAS required us to net off the selling expenses that is commission and discounts against the top line. Accordingly, the selling expenses have come down and the top line also has come down.
- Viraj Kacharia:** Okay and what is the quantum for Q1 if you can...?
- P.M. Keshava:** It is around Rs.5.8 Crores.
- Viraj Kacharia:** In Q1 FY2018?
- P.M. Keshava:** This is Q1 of FY2017-2018.
- Viraj Kacharia:** Right and similarly for other income also there has been...?
- P.M. Keshava:** Other income it is only on account of investment income where, as per IndAS, it has to be stated as fair value. Earlier hitherto it was stated as cost or market value whichever is lower.
- Viraj Kacharia:** Will this primarily be...?
- P.M. Keshava:** The impact of that amount is around Rs.12 Crores for the Q1 of current year.
- Viraj Kacharia:** Sorry I could not hear you properly.



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- P.M. Keshava:** The investments are to be stated as fair value as per IndAS requirement. The impact of that statement is around Rs.12.5 Crores in the first quarter of 2017-2018.
- Viraj Kacharia:** Right. This would primarily be – so this would not include any profit on sale of any investments or...
- P.M. Keshava:** It is only reinstatement of the values. No sale as such.
- Viraj Kacharia:** Okay. Basically this is a quarterly run rate we should be expecting for the rest of the year as well?
- P.M. Keshava:** Whenever the investment goes up, it will have an impact.
- Viraj Kacharia:** Just had a couple of questions on the growth side. We still have seen some weakness in tillers and tractors in July as well. So how has the season been in August so far us and has there been any improvement in subsidy disbursements in key states for tillers if you can just throw some colour on that?
- K.U.Subbaiah** As far as the tractors are concerned in July, we saw a growth compared to last year. In case of tillers there was degrowth in July compared to the same period last year. The good news is that now in Karnataka at least this week we will see some momentum because over the weekend, there was heavy rains in some of the paddy growing belts of Karnataka. Since there was a lot of rain we feel that there could be a pull for Tillers. Hence we expect that Q2 would be better than Q2 of last year. Tractors we will continue to do better than last year. The same trend will continue.
- Viraj Kacharia:** In the start of the year, we had given a guidance of somewhere close to 12,000 tractors and probably loading growth for tillers. So are we still looking at that kind of figure for the full year?
- K.U.Subbaiah:** In the last conference call, I did mention that anywhere between 11,000 and 12,000 is what we expect in case of tractors. I still hold to this forecast. It is too early for me to say whether we will reach 12000 or 11000, but as it looks like I am optimistic of a number between 11000 and 12000 for tractors. Tillers going by the performance what we had in Q1 and then in July especially where there was a huge deficit of almost 2000 numbers it looks unlikely that we can make up the short falls. Given this I am expecting that we will definitely do better than last year. Last year we ended up 25,500 odd tillers. I expect that we will somewhere be close to around 27,000 or marginally more than that.



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Viraj Kacharia: Because we have been doing a lot of front ending in terms of investments in marketing and promotions and others especially on the tractor side. Given the kind of growth we now expect in terms of tillers and tractors for the full year, do we see any moderation in those expenses or we still believe that we should be investing behind those initiatives as we originally planned it to be?

K.U.Subbaiah The revenue growth hinges on tractor growth. We were only in the subcompact segment less than 20 HP tractors and last year, we moved to the 21 to 30 HP segment, which is the 27 HP tractors. In less than 20 HP, our market share is around 30% while in 0- 30 HP, it is around 15%. So there is enough opportunity for us to grow in the compact segment. The investments are needed and we cannot slowdown this investment because we have to expand the channel network across the country and penetrate into markets where we have not been present. The sales expenses will continue because it is the investment for the future. We are not looking at a short-term gain. We are looking at a long-term gain.

Viraj Kacharia: Last question was on the raw material side, so we have seen increased raw material pressure across OEMs in Q1. Is bulk of the increase in steel and other commodity prices already in the books in Q1 or do we see any further increase and has there been any price increase correspondingly?

K.U.Subbaiah: Yes, there have been price increases especially in commodities like proprietary items - tyres, batteries etc. these all have been subjected to steep price increases. Also the basic raw material steel, there was price increase. I would say in Q1 about 50% of the price increases has already been implemented, but that impact could not have seen because we would be carrying the inventory of earlier last year buying prices.

Viraj Kacharia: Okay has there been any corresponding price increase in the market place for tillers and tractors?

K.U.Subbaiah Most of the price rate contracts have to be discussed with the government and government has to give the revised rate contract. We have been discussing with various state governments and we will keep you updated probably in the next conference call..

Viraj Kacharia: Can you give the figure for tillers, tractors and other attachments and all for Q1?

K.U. Subbaiah: Tiller, the revenue from operations is Rs.112 Crores, the tractor it is Rs.73.89 Crores. Tiller includes the RTP, Tiller spares parts, Weeder and reaper. RTP it is Rs.67 lakhs, Weeders



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40 Lakhs, Spare parts 10.57 crores and reapers it is Rs.40 lakhs. Tractor spare parts is 2.49 crores.

Viraj Kacharia: Okay fine. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.

Srinath Sridhar: Thank you Sir for taking my call. My first question is that has the shift from the Malur facility taken place, shift to Malur facility?

K.U.Subbaiah : Not yet. We are improving the infrastructure of the existing factory building at Malur to suit our requirements. Capex towards assembly lines and equipment have been ordered. The facility should be ready by Q4 of this year.

Srinath Sridhar: Okay and infrastructure spending will be close to Rs.40 Crores right?

K.U.Subbaiah No, we have already spent Rs.26 Crores towards purchase of land and building. The balance about Rs.14 odd Crores will be towards infrastructure.

Srinath Sridhar: The other one was when you said that you are selling more of the lower HPs, so you mean the new launches Viraat Plus and Samraat are doing well.

K.U.Subbaiah No not exactly. The 18.5 HP tractors, the four-wheel drive and two-wheel drive were sold more in Q1.

Srinath Sridhar: Going forward the good monsoon, is it likely to pickup and any pent up demand after the farm loan waivers and all?

K.U.Subbaiah : In case of tillers, it is highly dependent on subsidy and if the subsidy does not come on time due to which the farmers do not buy during the season then that is gone whereas in tractors it is slightly different, they do not entirely depend on subsidy. This is the difference between tillers and tractors.

Srinath Sridhar: In Tractors I mean because farm loans waivers would not help tillers because it is anyway subsidized, but in terms of tractors?



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- K.U.Subbaiah** It is might help, we have to face the ground reality, as it looks like theoretically it should help, but we will have to see the momentum.
- Srinath Sridhar:** Any capex guidance for the full year?
- P.M. Keshava** The full year our capex is Rs.130 Crores approximately.
- Srinath Sridhar:** It is going to be more of second half spending is it?
- K.U.Subbaiah** Once project is completed and is capitalized then it will be shown as full money spent.
- Srinath Sridhar:** Okay. The last question that I had was in terms of EBITDA margins, we said that we could improve our other expenses and employee cost and this would actually improve our margins by about 200-basis point. But the effect is yet to be seen and are we still guiding on the same lines?
- K.U.Subbaiah** In Q1 is our tiller volumes sold compared to the budget was about 500 numbers less and tractor volumes was 300 numbers less. As a percentage, the employee cost and the selling cost is looking a little higher, but the absolute number it is within our budgeted numbers. Only issue was that the top line did not happen in line with the budget because of the market condition.
- Srinath Sridhar:** We can still expect it 200 basis points.
- K.U.Subbaiah** Around 150 basis points.
- Srinath Sridhar:** Okay, thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.
- Andrey Purushottam:** Thank you. I wanted to get a flavour of the competitive set from M&M, but they are entering to lower horsepower tractors. Is it possible for you to give some kind of details as to which particular models have they launched and which states and what has been the response to them. Have they cut into your shares or are they garnering a different market. I just wanted a detailed understanding of that and how do you see this competitive set going forward.



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K.U.Subbaiah . We have now launched the Samraat tractors, which is now under volume production.. We have positioned our Viraat Plus which once again is going through volume production. Both these models will help us gain market share.

Andrey Purushottam: Is it possible about that our sales and promotion expenditure which we had targeted at a certain level might need to go up because of this competitive set and therefore that might set in your EBITDA margin target increase of 150 basis points?

K.U.Subbaiah No, we have planned expense for our budget.. If we are able to meet the tractor sales numbers and tiller sales number in line with the budget, then it should not impact the EBITDA.

Andrey Purushottam: Thank you very much.

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

Viraj Kacharia: Just have two more questions. One is, give us the figures for tiller and tractor sales. It implies that we have seen a price increase for almost 19% and almost 6% in case of tillers and tractors. So just to understand what is driving this, because in tractors you said we have seen a very high share of 18 HP tractors in Q1. Still we have seen almost 6% price increase I mean realization increase?

K.U. Subbaiah: I do not think so.

P.M. Keshava: There is no realization increase as such.

Viraj Kacharia: I am just deriving from the figures, which you gave right now.

P.M. Keshava: No, there is no realization increased in fact, it will only came down because of the product mix where we sold more of 18 HP tractor.

Viraj Kacharia: Okay. Second question was if we look at overall capex program for next couple of years despite increased capex spends still we were generating a lot of free cash now and as of FY2017, we always getting a cash in excess of Rs.200 Crores. Now in recent years, we have increased our allocations to equity mutual funds. We have increased investments in inter-corporate deposits and also in debentures of other group companies, so basically just want to get a sense what is the broader capital allocation policy and do we see any use of



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this cash for business purposes, if not then what is the broader thought on the management level for utilization of this cash?

K.U. Subbaiah: In the board, we have an investment committee and this investment committee which comprises of the Board of Directors is looking into proper utilization of the surplus cash,...

Viraj Kacharia: Okay. Got it. Sir because even from a normal business purpose as you spend the capex program, which you have, can sufficiently be met from the cash which you generate from operations comfortably. So, we have a scenario where we will keep on building upon this cash further hopefully in the coming years, so just want to understand broadly what was...

K.U. Subbaiah: Yes, you are right that is why our chairman has made a statement in the AGM that he takes cognizance of the feedbacks from the investors and that they will look at the suggestion.

Viraj Kacharia: Okay. That is all from my side. Thank you.

Moderator: Thank you. Next question is from the line of Sakshi Mahant from India Nivesh. Please go ahead.

Sakshi Mahant: I wanted to know that in the less than 30 HP category, the market share of VST and the other key players?

K.U. Subbaiah: Our market share is 16.5% in less than 30 HP category, which was about 13% in the previous year..

Sakshi Mahant: And what about the other key players?

K.U. Subbaiah: Escorts around 4%, and Force Motors is 4%, Kubota is 5%, Mahindras is 51% and Sonalika is 9.7%, TAFE is around 12.3%.

Sakshi Mahant: Okay and what are the keys states for tillers sand their contribution in all the volume term for VST?

K.U. Subbaiah: It varies from year to year, but in general I can say that Karnataka, Andhra Pradesh, Odisha, North East States, Assam, Gujarat and Maharashtra are the key states for our tillers.

Sakshi Mahant: Okay, if you can give in percentage terms their contribution towards your total volume.



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K.U. Subbaiah: Karnataka, the first quarter sale was 943, Tamil Nadu was 103, Andhra Pradesh 879, Maharashtra 785, Gujarat 1012, West Bengal 116, Odisha 1267, and then Assam and North East 1422.

Sakshi Mahant: So this is all in quantity terms, right.

K.U. Subbaiah: These are all in quantity terms in Q1, but this cannot be the representation for the full year. This can be skewed because of poor monsoon in Karnataka due to which the Karnataka sales has been well below expectation.

Sakshi Mahant: Okay and one more question we have seen that Escorts Mahindra have slowly been exiting or outsourcing in the less than 30 HP category, so what is our lookout in this regard as we are gaining and increasing our product range there?

K.U. Subbaiah: We always believe that we have to design, develop and manufacture ourselves. We believe in good design and in good product quality. We are comfortable in building the tractors ourselves.

Sakshi Mahant: Okay Sir. Thank you so much.

Moderator: Thank you. Next question is from the line of Jeet Ghosh from Stewart & Mackertich. Please go ahead.

Jeet Ghosh: Good morning. My question is regarding the share eroded from 69% to 61%, is my first question, now that the monsoon is very good and even the expectation also in line with the monsoon that we get and also the government's waiver on loan front will definitely give some boost to the tractor company, so I would like to know that what will the company do in that perspective, it is my first question. Second question is if you can give some of your revenue breakdown as per segment wise, like tractors, tillers and other products.

K.U. Subbaiah: What was the second question?

Jeet Ghosh: Second question it would be great if you can give revenue breakup as per segment wise, in the Q1 and if you can also give some expectations in the numbers.

K.U. Subbaiah: Okay let me answer your first question, I think you heard it wrong, actually our market share increased in tillers from 59% to 61%



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- Moderator:** Thank you. The next question is from the line Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good morning Sir. Finally in the GST front, so tractors the input rate is 12%, for raw material there have been quite revisions right time and again, so now finally how do we stand today?
- K.U. Subbaiah:** Keshav will answer it.
- P.M. Keshava:** On GST, what is your question? Output is 12%, tractor is 12%, inputs component it varies from 12%, 18 % to 28%
- Shashank Kanodia:** Secondly on the power tillers front, for GST what will be end product rate and corresponding raw material rates?
- K.U. Subbaiah:** 12% is end product rate and input again varies from 18-28%.
- Shashank Kanodia:** Have we been able to pass on this 12% GST rate to as in the price hike in terms of power tillers?
- K.U.Subbaiah** We have made representation through various state government and it is work in progress, some of the state governments have already accepted the prices, with some of the state governments discussions are in progress.
- Shashank Kanodia:** Is it largely a reason because of subdued growth that we have witnessed in power tiller segment because 12% is quite a big price hike as far as some states goes right?
- P.M. Keshava:** No, it is not actually full 12% because earlier it was subjected to VAT which used to be about 6% to 7%. Now differential is about 7%.
- Shashank Kanodia:** Okay. I understood. Secondly Sir in the Gujarat state, which is the one of the major tractor market for us, they have been excessive rains as well as flooding, does that impact our volumes and what is your outlook going forward as far as Gujarat state is concerned?
- K.U.Subbaiah:** During that flood situation the sale was a little dull but we do not see any impact coming on the overall tractor sales during the year.



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Shashank Kanodia: Okay. Sir lastly in your annual report is mentioned that we will be spending roughly Rs. 150 Crores over four year period and we are talking spending 120, 130 this year itself, so balance then we have the lean periods as 19, 20 or it is going to be again loaded.

K.U.Subbaiah:Over the five years when we presented the number last year it is about Rs.200 Crores, which is a long-term capital spending. Apart from this year-on-year there will be some normal capex.. Most of the product development has happened now in 2016-17, 2017-18 and partially in 2018-19. Towards the last two years the capex spending will become lesser.

Shashank Kanodia: Okay and Sir lastly if you can give us net sales, numbers for power tillers and tractors in terms of rupees Crores, I think the numbers shared are gross, so if you can give a net sale numbers.

P.M. Keshava: What do you want actually?

Shashank Kanodia: Net sale numbers like Rs.74 Crores for tractors and Rs. 111 Crores for power tillers, is that gross, so if you can give us the net sale numbers?

P.M. Keshava: That is net only what is accounted in the top line.

Shashank Kanodia: If you add this it is Rs. 185 Crores whereas the top line you put as Rs. 181 Crores right, so there is certain incongruency.

P.M. Keshava: Rs.181 Crores.

Shashank Kanodia: Is the total top line reported by you, right. So if you give 112 and 74 as power tillers and tractors, this comes to 186, so we failed to understand why would this difference be?

P.M. Keshava: That what the gap I gave you is as per the IGAAP. From there Rs. 5 Crores we have to reduce.

Shashank Kanodia: Okay, so this will be from tractors or tillers?

P.M. Keshava: No, it is both in tractors and tillers, both will get impacted.

Shashank Kanodia: Thank you Sir and that is all from my side.



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Moderator: Thank you. Next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: Hi, most of the questions have been answered. Just one question, I think in the past calls, we have discussed about trying to get some new technology or tying-up with some international player to expand our product basket significantly in going forward, so any headway on that side or...?

K.U.Subbaiah: It is work in progress, we will inform you once we are able to tie-up with a suitable partner. This is an activity, which is very positively being pursued.

Ravi Purohit: Okay, so we are already in discussion with the few companies or it is still on a drawing board?

K.U.Subbaiah: We are in discussion with few companies.

Ravi Purohit: Okay. Fair point Sir. Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities for his closing comments.

Annamalai Jayaraj: We thank all the participants. We thank VST Tillers and Tractors Management for sparing time for the call and also providing us the 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 and you may now disconnect your line.

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