



“VST Tillers Tractors Limited Q2 FY18 Post Results Conference Call”

November 16, 2017



MANAGEMENT: **MR. K. U. SUBBAIAH - CHIEF EXECUTIVE OFFICER,
VST TILLERS TRACTORS LIMITED**
**MR. P. M. KESHAVA - CHIEF FINANCIAL OFFICER,
VST TILLERS TRACTORS LIMITED**

MODERATOR: **MR. ANNAMALAI JAYARAJ – DIRECTOR & DEPUTY
HEAD (AUTO SECTOR), BATLIVALA & KARANI
SECURITIES INDIA PVT. LTD.**



*VST Tillers Tractors Limited
November 16, 2017*

Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Tractors Limited Q2 FY18 Post Results Conference Call hosted by Batlivala & Karani Securities India Pvt. Ltd. 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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Pvt. Ltd. Thank you and over to you sir.

Annamalai Jayaraj: Thank you, Karuna. Good morning everyone. On behalf of B&K Securities, welcome to Q2 FY18 Post Result Conference Call of VST Tillers Tractors Ltd. I also take this opportunity to welcome the management team from VST Tillers Tractors Ltd. We have with us today Mr. K. U. Subbaiah – Chief Executive Officer; and Mr. P. M. Keshava – Chief Financial Officer. I would now invite VST Tillers' management for opening remarks, to be followed the question-and-answer session. Over to you, sir.

K. U. Subbaiah: Thank you, Mr. Jayaraj. Good morning everybody. I'll give a brief performance overview of VST Tillers Tractors Ltd for the first six months as well as for the quarter two. In quarter two, the Company revenue is Rs.175.5 crores as compared to Rs.181.2 crores in Q1 of this year. There is a reduction of Rs.9.35 crores in revenue in Q2 due to the GST impact. In addition, the drop in revenue is due to reduction in tiller sales. We sold 5,888 numbers of tillers in quarter two of this year compared to 7,119 numbers sold in Q1 2017-2018. While in case of tractors we sold 3,129 numbers in quarter two of 2017-2018 as against 2,555 numbers in Q1 of 2017-2018. We are up by 574 numbers in tractors. In quarter two last year, the revenue was Rs.169.60 crores. During the first six months, the number of tillers sold is 13,007 numbers in comparison to 13,707 numbers in the same period last year, leading to a drop of 700 numbers. VST market share in the first six months is 62% compared to 61% in the same period last year. The tiller volumes for VST is adverse 5% in the first six months, while the industry growth is adverse 7%. In quarter two, the tiller volumes is 5,888 numbers compared to 6,407 number in the same period last year, registering a 8% negative growth. In quarter one, our growth was minus 2.4%. We sold 5,684 tractors during first six months this year compared to 4,650 tractors in the same period last year, being up by 1,024 numbers. The tractor volume growth is 22% for VST in the first six months compared to the compact industry growth of 14%. In quarter two, the tractor volume is 3,129 number compared to 2,502 number last year. We are up by plus 25%. In quarter one, the growth was 18%. The tractor industry has shown 20.74% growth while the VST growth in the industry is 20.9% in the first six months. VST market share in compact segment in first six months is 15.3% compared to 14.5% in the same period last year.

The company revenue in six months is 357 crores as against 343 crores in the same period last year, registering a revenue growth of 4.1%. In the revenue of this year, there is a reduction of



*VST Tillers Tractors Limited
November 16, 2017*

9.35 crores on account of GST impact. The operating profit declined by 1.16% in quarter two compared to the same period last year. The decline is due to employee cost increase and the selling cost increase. Due to the revenues not in line with our plan, the employee cost and selling cost as percentage of sales has shown an increase. In H1 of 2017-2018, the operating profit declined by 1.69%, once again increase in employee cost and increase in selling and other overheads compared to the same period of last year. Once again, the increase in percentage is due to under-absorption of expenses due to revenues not coming in line with the plan. However, on sequential quarter-on-quarter basis, the operating profit in quarter two is 12.1% as against 11.7% in quarter one. We expect the second half of the year to give us better volumes, especially the tillers. With this, we anticipate an improvement of around 100 basis points in the operating profits. .

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay:

Sir, three questions; one was on this tie-up with Kukje Machinery for the 30 HP to 50 HP, so if you can just share some more thoughts on our product launches or product development and how are we looking at and what time period we are looking at in terms of roll-out. So, that is the first question. Second was on investment, so even in your commentary you mentioned that our sales and employee cost has risen at a faster pace than the topline growth. So how do you see this going forward? Given our distribution and market share ambitions, we would be looking to further increase it upon this base or are we done with most of the increase and probably this will be running run rate from here on? And lastly, on the net working capital, so we have not seen any moderation, especially on the receivables, despite we were giving around 1%-1.5% offerings to the dealers. So, what has constrained us in terms of improving upon it? So these three questions.

K. U. Subbaiah

We entered into a technology transfer agreement with Kukje Machinery for manufacture of 5025R series of Branson brand tractors of 47 HP. This tractor would play in the niche segment competing with some of the well-known manufacturers. These tractors will be manufactured by VST in a phased manner. In the first batch, the fully imported tractors will be seeded into the market. In phase two, we will be localizing most of the components and will be assembling the tractors in India. In phase three, we will also localize the engine, and at that time the tractor will be fully indigenized. Coming to employee cost and selling expenses run rate, I would say, this run rate will continue and there won't be any significant increase in employee cost other than the annual increases what we have to give to our employees. However, the selling expenses may marginally go up whenever we launch new product that will need to have exclusive expense for the branding. But other than the branding expenses, the general selling expenses run rate will remain almost the same. We have to increase the topline which has mainly fallen because of the low tiller sales. We have continued to gain market share, but the industry is not supporting the



*VST Tillers Tractors Limited
November 16, 2017*

tiller sales as on date. We hope that in the next 5 months, the situation should be better as the rainfall in September has been good which will help the rabi season and even the Northeast monsoon is doing well. Most of the state governments the subsidy schemes were not released in the first part of the year has been released now or is being released now, which will also aid sales of more number of tillers. We are hopeful that the second half should be better for us. In case of receivables, whenever a dealer is able to take on cash-and-carry, we give a discount of 1.5%. But not many dealers are not availing that scheme because of delay in receipt of subsidy payment from the Government. As long as the subsidy reimbursement does not come in time, it will be difficult for the dealers to mobilize funds more than their capability. And we believe that once the full-fledged DBT is introduced and the farmers make payment upfront for the entire value of machine and later the government reimburses the subsidy portion, it should help our receivables to a great extent. However, end of the year we definitely expect that our receivable number of days should come down.

Keshava P. M.: Yes, we hope the receivables will be at the manageable levels by end of this year because we hope to recover most of the subsidies held as in Andhra, Karnataka and the Northeast.

Moderator: Thank you. Next question is from the line of Radkhakrishnan Sheshan from Spark Capital. Please go ahead.

Radkhakrishnan Sheshan: I in fact wanted to request you to repeat the GST impact that you said you had on the sales this quarter. I missed that. And also the market share in power tillers for the first half of this year vis-à-vis last year?

Keshava P. M.: The GST impact is Rs.9.35 crores which has brought down our topline by Rs.9.35 crores.

Radkhakrishnan Sheshan: Market share.

K. U. Subbaiah: The market share in quarter one was 60% in 2016-2017 in quarter one and in 2017-2018 quarter one it's 61%.

Radkhakrishnan Sheshan: Okay. And for the first half, sir?

K. U. Subbaiah: First half it is 62%.

Radkhakrishnan Sheshan: 62% in this year. And what was it last year?

K. U. Subbaiah: Last year was 61%.

Radkhakrishnan Sheshan: And sir, would you like to give some guidance on power tiller volumes for this year and price hikes, if any, that have been taken?



*VST Tillers Tractors Limited
November 16, 2017*

K. U. Subbaiah: We are looking at in the next five months to be better than the first seven months. And with that, my anticipation is that we will reach somewhere around 27,000 tillers as against 25,500 tillers last year.

Radhakrishnan Sheshan: Okay. And sir, we were also in talks with various state governments for price hikes, any traction on that?

K. U. Subbaiah: We have got from the state governments the price corrections because of the GST impact. The rate contracts are not pending with any of the states as on date.

Radhakrishnan Sheshan: Okay. And sir, finally, could you give us a breakdown of the revenue by power tiller tractors, spares and others for the quarter?

Keshava P. M.: For the quarter, no?

Radhakrishnan Sheshan: Yes, for the quarter.

Keshava P. M.: Let me tell you for the first half. The power tiller revenue is Rs.200 crores. And the tractor, it is Rs.163 crores.

Radhakrishnan Sheshan: Okay. This is for the first half and spares would be how much, sir?

Keshava P. M.: Yes, that is about the first half. For first quarter power tiller is Rs.112 crores and tractor, it is Rs.74.06 crores.

Radhakrishnan Sheshan: Alright. Could you give the figure for spares as well, please?

Keshava P. M.: Spares Rs.10.5 crores for power tiller spares and tractor spares is Rs. 2.49 crores for the first quarter. First half, Rs.20 crores power tiller spares and Rs.5.55 crores tractor spares.

Moderator: Thank you. Next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Yes, very good morning sir. Just wanted to get a sense on the power tiller market, what probably we are seeing for last couple of years is that market is somewhat shrinking. So how do you see probably with a, say, two-three year perspective as how the power tiller market could develop? And within power tiller, if you can also give us a sense between what is the ranges in terms of 14 HP and other categories?

K. U. Subbaiah: The power tiller market will continue to be there as for the marginal farmers, that is the farmers who own less than 2 hectares of land, the economics do not support them going in for a tractor. The attraction for the marginal farmers is, in addition to the price compared to the tractors, they also get reasonable amount of subsidy from the government. Subsidy varies from about 40,000



*VST Tillers Tractors Limited
November 16, 2017*

or 50,000, goes up to a lakh. As long as the government is keen to promote the well-being of marginal farmers, government will continue with the subsidy scheme. And because of that, the tiller sales will continue to happen. Apart from that, the monsoon plays a very important role in tiller sales. So if any year the monsoon is not normal, then tiller sales are impacted. But if the monsoon is normal and the government subsidies happen on time, then we can see a good growth in tiller. In the last two years, the drought situation has impacted the tiller sales. Though this year the monsoon has been normal, but during the beginning of the year in the southern states the monsoon was weak and hence one can see a drop in tiller sales. The highest selling model is the 12 HP power tiller. There is also a segment of greater than 15 HP power tiller, industry size is about 5,000 tillers.

- Manish Goel:** Sir, 12 HP, what would be the size out of, say, roughly 50,000 odd market?
- K. U. Subbaiah:** 12 HP will contribute to almost 90% of the market.
- Manish Goel:** Okay. And how has been, say, competitive intensity or has dynamics changed for Chinese players post demonetization and post GST?
- K. U. Subbaiah:** We have not seen any major change in the selling trend of Chinese tillers. The competition intensity has definitely increased due to local manufacturers launching their products.
- Manish Goel:** But Chinese players' market share would have shrunk in last two years or three years?
- K. U. Subbaiah:** Chinese player's market share has shrunk and Kirloskar market share has increased, while our market share is also going up by 100 basis points year-on-year.
- Manish Goel:** And sir, sorry, I'm not aware, but what is the GST rate applicable and what is the input credit we are getting, sir?
- Keshava P. M.:** GST rate applicable to power tiller and tractor is 12%.
- Manish Goel:** And how much input credit we should be able to get, sir?
- Keshava P. M.:** In case of tiller it is Rs.6,700 per unit and in case of tractor it varies from Rs.18,000 to Rs.22,000 per unit.
- K. U. Subbaiah:** And GST rate on component, in tillers it is 12%, tractors 18% and for Diesel Engine components it is 28%.



*VST Tillers Tractors Limited
November 16, 2017*

- Manish Goel:** Yes, because in the recent reduction from 28% to 18%, a lot of capital goods like pumps and compressors the duty rate was reduced but somehow engines is continuing at 20%. So are we making any representation to reduce?
- K. U. Subbaiah:** Tractor Manufacturers Association, where we are also members make the representations to the government.
- Keshava P. M.:** we were getting repeated reports saying that the GST on Diesel Engine parts have been brought down to 18%; however in fact lot of items still continues to be at a 28%.
- Moderator:** Thank you. Next question is from the line of Raghunandan from Emkay Global. Please go ahead.
- Raghunandan:** On my queries, firstly, what would be the impact of commodity inflation and the pricing action taken by us in tractors and any pricing action expected going ahead? Secondly, on the tractors' growth outlook for FY18, we have done very well in the first half. And thirdly, on power tillers, what would be the subsidy situation across major states for us? Thank you.
- K. U. Subbaiah:** The commodity has impacted us. In the first half, especially the metal cost has gone up by 1% .
- Raghunandan:** And any pricing actions from our side, sir?
- K. U. Subbaiah:** Need based.
- Moderator:** Thank you. We have a follow up question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Just two questions; one is, as you mentioned that with the launch of DBT and the dealers getting the money at a faster rate, just wanted your sense on the ground, because if we talk to some of the fertilizer companies, they have mentioned that the receivable, the money they are receiving from the government is not in nine to ten days, but it's getting stretched. So what are you reading in terms of the market in terms of the payment? Is it on a seamless basis or it's also getting delayed the way it has been in the current scheme of an event? That is first. And secondly, in terms of the phase two, phase three, as you mentioned in terms of the localization of components in the engine, what would be our capital investment between these phases, if you can just give a sense?
- K. U. Subbaiah:** The DBT scheme, as far as tillers are concerned, it has been prevalent in Gujarat and Maharashtra, and we don't see any deterioration there. This year the DBT was launched in the State of Odisha for the first time. But the feedback what I have is in the initial batch of permits released, the farmers have been able to avail retail financing and they have made the full payment to the dealers and taken delivery of the machines. And I was also told that they have received



*VST Tillers Tractors Limited
November 16, 2017*

the payments within a stipulated time period of less than 10 days. So. Other states are not into DBT. Our investment for localization of components is about 14 crores, which is mainly sheet metal items and other components.

Moderator: Thank you. Next question is from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Just one question from my side. Can you share the volumes of the 27 HP tractors for 1H and 1Q? Thanks.

K. U. Subbaiah: In quarter one we have sold 381 number for 27 HP, in quarter two we have sold 849 numbers. So total for H1, we have sold 1,230 number as against 845 number in the same period last year.

Moderator: Thank you. We have next question from the line of Premal Sanghvi from Amit Jasani & Financial Services. Please go ahead.

Premal Sanghvi: Just one question, I had attended little late; I want to know any new products to be launched in next 12 months, you're planning to launch in the market in both tillers and tractors?

K. U. Subbaiah: In tiller we will be launching a new variant the pilot lots will be released in January. And improved variant self-propelled power reaper, the pilot lots will be released in December. In tractors we are working on new product variants.

Premal Sanghvi: Okay. And last question, capacity utilization, if you can share again if said before?

K. U. Subbaiah: Utilization will be about 35% to 40%.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Annamalai Jayaraj for his closing comments. Over to you, sir.

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

K. U. Subbaiah: Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Baltivala & Karani Securities India Pvt. Ltd., that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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*VST Tillers Tractors Limited
November 16, 2017*

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