

“VST Tillers Tractors Limited Q1 FY-20 Earnings  
Conference Call”

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**MODERATOR:** **MR. HITESH BHARGAVA – BATLIVALA & KARANI SECURITIES INDIA PVT. LTD.**

**Moderator:** Ladies and gentlemen good day and welcome to the Q1 FY20 Earnings Conference Call of VST Tillers Tractors Limited hosted by Batlivala & 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 that this conference is being recorded. I now hand the conference over to Mr. Hitesh Bhargava from Batlivala & Karani Securities. Thank you and over to you sir.

**Hitesh Bhargava:** Thank you. Good afternoon everyone. On behalf of B&K Securities we welcome you all for 1Q FY 20 post results conference call of VST Tillers Tractors Limited. We have with us today from management Mr. Antony Cherukara – Chief Executive Officer, Mr. P.M. Keshava – Chief Financial Officer and Mr. G.V. Mahadevan – Chief Financial Officer. I would now hand over the call to Mr. P.M. Keshava for opening comments followed by Q&A session. Over to you Sir.

**P.M. Keshava:** Good afternoon everybody. This is P.M. Keshava. The Q1 top line figures was 139.68 crores, the PBT was 14.84 crores and the PAT was 11.61 crores. The volume in respect of quantity was 5024 Tillers and 1685 Tractors as against 5367 Tillers and 1927 Tractors in the same period of the previous year. I have a pleasure in introducing Mr. Antony Cherukara, CEO of the company who has joined us in April 2019 and also Mr. G.V. Mahadevan, who has joined as CFO of our company. Mr. Antony will take over now.

**Antony Cherukara:** Thank you Mr. Keshava and good afternoon ladies and gentlemen. I will not go into the figures again because that is already shared by Mr. Keshava. As you can see in Quarter 1 there has been a downfall in terms of both the Tiller numbers and the Tractor numbers. It has been primarily due to two reasons, In Tiller segment, no subsidies have come in any of the states where subsidies were expected and until June we had an issue of drought and deficient rainfall happening across the country. Now the situation is much better. That is about it from us at this moment.

I would also take this opportunity to inform you that Mr. Keshava will be retiring from the company at the end of this month and we would like to thank Mr. Keshava and we also welcome Mr. Mahadevan who is taking charge as CFO. Thank you. I think we can move on to the question answer session.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Elroy Lobo from Kotak Investments.

**Elroy Lobo:** Few questions I had; one was on the high horsepower tractors, could you give us what are you seeing in terms of demand and how do you see that evolving in terms of volume during the year?

**Antony Cherukara:** You want me to answer that first?

**Elroy Lobo:** Yes.

- Antony Cherukara:** We have started the seeding of higher horsepower tractors. We had launched these tractors in 22 dealerships across four states. This is in the horsepower range of 39, 45 and 49. The tractors have been accepted well and we would be ramping up production in the second-half of this year.
- Elroy Lobo:** Are there any guidance you would like to give us in terms of what kind of revenue expectations are you targeting for this segment this year?
- Antony Cherukara:** No, we wouldn't want to give any particular number higher horsepower but what we are focused on is ensuring that the states in which we have launched, this product gets good acceptance and it is spread across dealerships in these four states.
- Elroy Lobo:** Which are the four states?
- Antony Cherukara:** Maharashtra, MP, UP and AP.
- Elroy Lobo:** Second is on this entire subsidy issue, there are two things. Number one is subsidy now the online DBT is that more streamlined across most states which was an issue I believe also last year and second is that as far as subsidies concerned both from the state and center are you seeing a material change as you move into July-August?
- Antony Cherukara:** Yes in the Quarter 1 primarily due to elections that we were having there was a delay and positive movement is seen in the month of August in terms of subsidy. Couple of states have come forward and announced subsidy, one is Tamil Nadu, the other one is Maharashtra.
- Elroy Lobo:** So, subsidy now should not be an issue from this quarter onwards?
- Antony Cherukara:** . I'm sure it will be better than last year because last year and every state government was setting it up in terms of implementing the DBT. I think most of the states have completed and because of that fact I believe that this year should be much better.
- Elroy Lobo:** Antony since you have just come to the firm, just wanted to understand from you on your first impressions on what are the levers for margin expansion, what are the low hanging fruits that you see which you can work on quite quickly to get the margin profile of the company back given that the overall scenario in terms of growth would like to be overall subdued?
- Antony Cherukara:** Few things, number one we have capacity utilization that is available that is there. Second is there is a huge pipeline of new products which the company is planning to bring into the market. Number three as you rightly said the industry situation is not, I would say positive at this moment and we are focused on cost reduction as well.
- Elroy Lobo:** I just wanted to know which are the specific areas in costs where you see reduction possible.
- Antony Cherukara:** We are looking at material costs; we are looking at other fixed costs as well.
- Moderator:** The next question is from the line of Manish Jain, an Individual Investor.

- Manish Jain:** My question was regarding the tractor segment. Basically if you look at the tractor segment, it is maybe around 10 to 15 players presented which the top 3 players commanding majority of the share. So, what makes us confident that we would be able to succeed in this particular product line and what is our strategy to differentiate ourselves?
- Antony Cherukara:** First thing is we have a network of about 250 dealers already across the country, selling compact tractors across various states. We have been continuously getting enquiries at these dealerships for higher horsepower tractors. That is number one. So, we believe that we will be able to serve the need that is already been felt by the company and that we are fulfilling,. Number two is as I have said this before we are not presently focusing in the market share gain; we are not focused on achieving a particular number that's why I didn't give a guidance on the higher HP. We are focused on building a frugal business model which can be profitable in the higher horsepower segment. Having said that we also realized that there is a lot to be done in terms of differentiation of the product that is the reason why as a company we have started working with Kukje, we have shared with you before. We have started working with Kukje and we should be able to, in the future, bring products with much differentiated technology.
- Moderator:** Sir we seem to have lost his line so while we wait for him to join back the queue shall we move to the next question?
- Antony Cherukara:** Sure.
- Moderator:** Thank you. The next question is from the line of Kunal Sabnis from VEC Investment.
- Kunal Sabnis:** If you could give me the revenue share breakup between Tillers and Tractors for Quarter 1.
- P.M. Keshava:** It is , Rs.68.9 crores from Tillers and Rs.49.51 crores from Tractors.
- Kunal Sabnis:** In terms of volumes, Quarter 1 on both Tillers and Tractors have been down about 8% to 9% but your revenue is down 4%. Is there for realization improvement? That's first question and if it is what answers that?
- P.M. Keshava:** There is slight increase in the realization for the quarter it is not because of price increase, it is because of product mix.
- Kunal Sabnis:** You mean to say the higher HP Tractors have been sold more in Quarter 1, is it?
- Antony Cherukara:** The realization went up because of product mix. Earlier our sales used to be in 18 HP and 22 HP Tractors, now the sale has shifted to 27 HP.
- Kunal Sabnis:** So, you are saying 27 HP tractors sales have been more and that is what has contributed?
- Antony Cherukara:** Correct.
- Kunal Sabnis:** With respect to the higher HP tractors could you share the numbers, volumes sales in Quarter 1?

- Antony Cherukara:** We did around 80 numbers of higher horsepower Tractor.
- Kunal Sabnis:** And that compares to 160 for the full-year last year?
- Antony Cherukara:** Correct.
- Kunal Sabnis:** In terms of Tillers you said that in Quarter 1 there were hardly any subsidies from states, specific state skew for Tractor sale in Quarter 1?
- Antony Cherukara:** Quarter 1 I could say that there was no specific skew and in this duration it was more or less same across. However, our strong states are Maharashtra and Gujarat where the rainfall deficiency until June end was very high, so that is the reason why we had a major drop.
- Kunal Sabnis:** This whole flood scene in Western Maharashtra and Karnataka what's the outlook in terms of these two states specific also Kerala is impacted? Any view on that based on business going forward?
- Antony Cherukara:** In Kerala we don't have much in bet for our business. However in Northern Karnataka and Western Maharashtra, yesterday and the day before the rains have come down and rains aren't happening now, so water levels are coming down. So, if it doesn't rain again especially in Maharashtra it will be good, last two years were drought conditions, so going forward augurs well for the farmers.
- Moderator:** The next question is from the line of Venkat Subramanian from Organic Capital.
- Venkat Subramanian:** I wanted your broad assessment of the market condition as it prevails today and in the context of flooding and drought conditions in some parts of the country and also given all the constraints that automobile industry overall is been facing. What's your broad assessment of where we are now and where we could get next year?
- Antony Cherukara:** As you know already the industry has dropped compared to the previous year and as of now the month of July-August also there seems to be a drop but we expect the situation to improve with the coming of the Festival season which is starting in September. As I said to the previous caller the fact that states like Maharashtra and Gujarat have received good rainfall this year auger well for the farmers especially for the second cropping season. So, we expect with the festival and the second crop should be better compared to the situation that we have now but that is a hope that we have now. If any of these factors get hindered in terms of the other issues that may arise other macro issues such as the Northeast monsoon not happening very well across some parts of the country where it is more dependent on which is the Tamil Nadu and the North Eastern part of the country then we will still have an issue for the second half as well. The third point is on the subsidy as I said in the beginning is expected that it is better this year since the infrastructure for disbursement of DBT has been set up. However so far only couple of states have come forward and announced, so we are not able to exactly gauge what would be the situation on subsidy going forward in second half. But we expect it will be better than last year.

- Venkat Subramanian:** Broadly both in terms of Tillers and Tractors what would you expect industry degrowth or growth numbers to be this year?
- Antony Cherukara:** Tiller industry we are expecting it will be better than last year. In terms of a figure we expect 5% growth over last year. As far as tractors is concerned we feel that there will be a drop this year considering the large base of last year there will be a drop—different people have come up with different percentages—so I would go with the general industry average where people are talking about 10% to 12% drop over last year.
- Venkat Subramanian:** Mr. Antony since you have the advantage of being new to the organization what would you think is the broad strength of a product positioning which is A and once you answer that I have a follow up question?
- Antony Cherukara:** The key strength for VST has been in Tillers and the Compact Tractor segment where we continue to be leaders both in the tiller and the compact tractor segment. What we have seen in the last few years several competitors have launched small compact tractors in the last years. We are seeing in Quarter 1 that we have been able to gain market share by about 1% to 2% in the compact tractor segment which gives us the confidence that the customers having tried out several products still realizes a lot of value in the offering that we are giving in the compact tractor segment and the same goes for the tiller segment we have actually increased market share in the tiller segment.
- Venkat Subramanian:** In both compact segment and also on higher horsepower segment what's our qualitative positioning and in terms of pricing how are we with respect to a lot of new players?
- Antony Cherukara:** In terms of positioning we are value for money product Even in the higher horsepower segment we have a value for money positioning and quite competitive in that segment.
- Venkat Subramanian:** Just to take a couple of names or just one name with respect to let's say somebody like Sonalika what would be your price comparison or on both compact and slightly horsepower segment?
- Antony Cherukara:** On the higher horsepower we are definitely lower than that and on the compact segment it depends on the variants. Some variants are higher depending on the features and offerings that we have on the particular product. We have both, some are cheaper some are higher.
- Venkat Subramanian:** My second question on the same would-be, given the size of our market as in our revenue you in your opening remarks mentioned that you are also in the process of introducing a few more products. Are we kind of spreading ourselves thin, are we offering just far too many products and are we confusing the customer or you think it's necessary?
- Antony Cherukara:** We are launching specific products in the gaps that are available in terms of applications. So, we have a gap for example in the vineyard application for usage of the higher capacity sprayers. We are launching products for that in the compact segment. Similarly there is usage gap of haulage tractors in certain markets of the country for a smaller horsepower haulage tractor. So, we believe that we are focused on providing value to the farmer in terms of usage and application.

- Venkat Subramanian:** Even all the product contradictions that we talked about and the fact that you have gained a little bit of market share quarter, should we assume that we will beat industry growth for this year and by what margin?
- Antony Cherukara:** I wouldn't want to give any guidance or any prediction on that but that is our effort to make that happen.
- Venkat Subramanian:** Because you would have realized that we are very sensible of fairly close to probably our breakeven kind of level, so unless volumes pick up we probably will not have cash flow generation, so you would be aware of that now.
- Antony Cherukara:** Correct.
- Moderator:** The next question is from the line of Balachandra Ramani from B&K Securities.
- Balchandra Ramani:** Can you just help me with the current inventory levels at both dealer and comprehensive?
- Antony Cherukara:** At dealers we have around 3200 tillers and 1700 tractors.
- Balchandra Ramani:** Can you help me with how is the working capital there currently like how do you see it going forward you can just throw some light upon that?
- P.M. Keshava:** Working capital is being monitored continuously and we are comfortable as far as working capital is concerned. We are regularly monitoring the outstanding and the inventory. They are under controllable levels.
- Moderator:** The next question is from the line of Saurabh Shah from AUM Fund Advisors.
- Saurabh Shah:** Could you talk a little bit on the competitive environment given your product range, who are you competing with, what's the buyer behavior? Are there any segments that you track, are there any particular segments where you are better and how is that shaping up? You mentioned you are adding some new models, so give us some sense of your product basket how does it attract the existing buyers which segments where do you see the most growth over a next maybe 1 or 2 years?
- Antony Cherukara:** In the compact tractor segment almost all the players in the industry now have products in that segment. We are present in the 18 hp, 22 hp, 27 hp in the compact tractor segment with various variants with four wheel drive, with two wheel drive, with power steering, with certain other features as well. What we are trying to plug the gap is as I said earlier in the haulage segment for smaller horse power as well as slightly higher horsepower for specific application in vineyards and orchards for sprayers. So, this is the gap which we are plugging. Now in the compact tractor segment space with these offerings we would be the players with the complete range of tractors. In higher horsepower we have introduced three products, the 39, 45 and the 49 HP Tractors. However we have just begun this journey, we have a long way to go in this. In the

power tiller segment we have 13.5 horsepower product. We would also be launching a higher horsepower 16 hp product in the power tiller segment.

**Saurabh Shah:** So, what market share would you have on the tractor side in both the segments?

**Antony Cherukara:** On the compact tractor segment we would be at about 10% to 11% now and on the power tiller we are at about 48% now.

**Saurabh Shah:** Will be the largest player in the compact segment?

**Antony Cherukara:** VST in the compact tractor segment i.e. 0 to 20 hp VST is the largest player.

**Saurabh Shah:** So, you're the largest players in that 10%- 11% market share?

**Antony Cherukara:** Yes.

**Saurabh Shah:** On the larger segment I guess your market share will be much lower, right?

**Antony Cherukara:** Absolutely. We would be in the much lower single digits now.

**Saurabh Shah:** On the tiller how does this work for I'm assuming this level 11 to 30 it is the same segment over there, so what market share would you have there?

**Antony Cherukara:** We have 48% market share in the tiller segment.

**Saurabh Shah:** In terms of profitability how do margins work for each of these segments? Approximately could you get some sense?

**Antony Cherukara:** The compact tractor segment is highly profitable and even the tiller segment is highly profitable. We have been in this business for over 50 years now especially the tiller and both the segments are highly profitable.

**Saurabh Shah:** Profitable means what kind of margins should we look at for both compact tractor and the tillers, EBITDA margins ranges I mean we are seeing a slowdown now. But over the last three years what would be the average margins that you'd have seen?

**Antony Cherukara:** If you look at our prior-year margin we have been at the 14%-15% level of EBITDA margin. But last quarter we have been lower, last quarter we have been at about 193 Crore against previous quarter 1 of about 28Crore. But over the year we should be around the same 15%- 16% EBITDA.

**Saurabh Shah:** For both the segments tillers and the compact?

**Antony Cherukara:** Correct.



**Saurabh Shah:** Going forward how do you see the environment now? But for FY20 maybe second half of FY 21 how do you see the underlying growth for the segments that we track, this compact tractor and the tillers? What kind of growth do you see, how dependent is this on policy and liquidity being available in the hands of the farmers and therefore within a base case where nothing is done what kind of growth do you see?

**Antony Cherukara:** In the tiller segment as I said we are expecting a growth of 5% this year in the industry and that is the minimum expectation that we have. If the subsidies and the DBT flows are better I think the growth there is a positively inclined As far as the tractor is concerned we are expecting the industry to degrow this year. As I said earlier we have seen various figures but we would go with the industry expectation of about 10% to 12% degrowth for the industry.

**Saurabh Shah:** And going on next year, FY21, was this a special year where you had lot of inventory and therefore you see this happening degrowth in the current year for tractors or it is just overall penetration level you think are getting there in terms of this segment?

**Antony Cherukara:** Multiple reasons; one is this year the sentiments were down. One is the first quarter we had elections and then the deficient rainfall towards the beginning of the monsoon, the sentiments were very down. We expect things to improve but as you rightly said there is a larger base on which we are looking at growth this year, so because of which the next year should be better than this year is our expectation unless of course the macro factors of rainfall and the other things play spoilsport.

**Saurabh Shah:** Broader level for this compact tractor segment what do you think is the current penetration? Where do you think this can increase because one is obviously the replacement cycle and that I am assuming the smaller part of the story? But overall just given the broad sense, more mechanization, fewer people available in the rural sector to do the kind of work we did and therefore tractors seeing more usage etc. where do you see that kind of playing out? What's the penetration just now I don't know how we measure it and how do you kind of see that going from the next maybe (+3) years kind of scenario?

**Antony Cherukara:** What we are seeing is the increased usage of small and compact tractor applications. As labor is becoming scarce more and more usage of mechanization is happening especially in the horticulture area wherein compact tractors are preferred. We are also seeing the increase of usage of compact tractors in row crop specially sugarcane areas. In fact we have started selling in certain states where prior to these because not happening, states like UP which has been adopting compact tractors especially for the sugar cane. So, overall I'm saying that there is a good growth prospect for the small and compact tractor segment. However the real issue would be or the real value that our company is working on is to provide the specific solution. For example if you have to provide a solution for the grape farmer it will be very different from what we want to provide for a pomegranate farmer. So, from that point of view we will be more focused on providing specific solutions and we expect growth to happen.

**Saurabh Shah:** What kind of growth rates in the next as you said its hopefully some of these things normalize like your Agri testers that you are saying just now, longer term growth rates where do you expect to be in the range of 10%-12%?

**Antony Cherukara:** I firmly believe it should be in the 10% to 12% range provided the macro factors are normal especially the monsoon because last two years it has affected the compact tractor segment heavily because Maharashtra and Gujarat, Gujarat is where the industry has been the high and these two state suffered huge deficiency in rainfall in the last two years.

**Saurabh Shah:** From an end-user segment standpoint you mentioned sugarcane, what kind of offtake could be for each of these segments horticulture, you said for the smaller farms, other usage, more traditional usage, what kind of end use segments do you cater to, any approximate sense?

**Antony Cherukara:** No, in terms of volume it would be very difficult because we have just started penetrating in these segments. What we are doing is we are working with various farmer producer organizations and sugar mills to make mechanization happen in these areas. So, to give a number right now is difficult but what we are seeing is this need is increasing continuously. Earlier last year we used to work with one agency for propagating this, currently we are working with more than 4 to 5 agencies. So, point I'm trying to drive is the scarcity of labor is increasing the need of mechanization and whereby various implementation agencies along with the sugar mill and the farmer coming together, working as a single agency and taking the help of the manufacturer provide mechanization. And this is being seen more and more for compact tractors, so that is where I was coming from. I don't have a number right now for that.

**Saurabh Shah:** But segments like vineyards etc. how much do you think would be our penetration, what percent of our sales would be from vineyards or from other horticulture or more traditional areas, any sense?

**Antony Cherukara:** The Nasik belt is where the maximum vineyards are there and we have clearly over 50% market share in that area. As I said earlier there has been a gap in certain segments that of higher horsepower sprayers which we didn't have earlier that also will be plugging this year.

**Moderator:** The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund.

**Pankaj Tibrewal:** When I look at your annual report and the other expenses, last year despite of our sales being down you had selling expenses being higher; one-off expenses like fair valuation which are the loss of about 9.9 crores. You had the provision for bad and doubtful debt which was a significant amount. As you look at this year how should some of those expenses which were elevated despite of sales being down should behave and how should the margin trajectory to look like because over the last couple of years the company clearly has come down on its margin trajectory? I can understand a bit of external environment but can you give us some sense on some of the large expenses which were part of your other expense item last year, will it find its way or will that help on the profitability front as well?

- Antony Cherukara:** On the sales expense side we had couple of one-time expenses last year which is related to the dealer conference that we had and the 50 year celebrations of the company that we had. These were onetime expenses that we did. Secondly coming to the margins on the product side as we said earlier that has not been affected. However there is several new product launches happening in this year as well which will create a certain margin pressure for us.
- Pankaj Tibrewal:** And what about this loss on fair valuation of investment at SPTPL about 9.9 crores almost, 10 crores there?
- P.M. Keshava:** That is because of the adoption of INDAS which mandates stating investments at fair value. There will be ups and downs in relation to market that continues to be there.
- Pankaj Tibrewal:** So, that's part of your other expense which had almost 10 crores kind of a number last year which is large number.
- Antony Cherukara:** Yes.
- Pankaj Tibrewal:** And this provision on embezzlement and doubtful debts, will that find its way or it's done in the...?
- P.M. Keshava:** That is one time provision which won't be there in future.
- Pankaj Tibrewal:** So, when you combine all these onetimes how much would that be last year which may not be repeated this year?
- P.M. Keshava:** It will be in the range of around Rs.8 to 9 crores.
- Pankaj Tibrewal:** When I look at your July numbers it was quite heartening that marginal growth was reported on tillers and overall. Is that the trend which you are seeing—I know you spoke in detail about the trend of the industry but for your trend specific to VST—is that the trend which probably is also what we saw in July? Is that you are gaining market share and your volumes are increasing?
- Antony Cherukara:** We expect that to happen. But as I said earlier only two things we are concerned about that the floodwaters recede immediately. It's happening already in North karnataka and Western Maharashtra. I hope further rainfalls don't happen. That is one factor and the other factor is couple of states have come forward and announced DBT and subsidy disbursement. I'm hoping the other states also will follow suit, which will definitely help us. So, we expect it to be better.
- Pankaj Tibrewal:** The last question is you spoke about expense rationalization to one of the earlier questions. When I look at your employee expense compared to 18 and 19 you had already a decrease. From here on do you think there is still further room for employ expense rationalization or you think that's the run-rate we should be working out with?
- Antony Cherukara:** We have begun an exercise on optimization of resources, so we expect there is some improvement possible.

- Moderator:** The next question is from the line of Rajat Sethia from Vridhi Capital.
- Rajat Sethia:** Couple of questions, first one was on the dealer distribution network that we have, how is that spread across geographies?
- Antony Cherukara:** Spread across geographies right, did I hear you right?
- Rajat Sethia:** Yes.
- Antony Cherukara:** We have a very strong distribution in Gujarat, Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Assam and the North-east. So, the work is happening on the increasing distribution in the Northern states which is UP, MP, Rajasthan, Punjab, Haryana, Himachal, J&K.
- Rajat Sethia:** Out of the 100 dealers that we plan to add in this year how many you think will come up in this part of the country like North that you mentioned?
- Antony Cherukara:** Almost 50 to 60 will be in the North because because that is only based on our higher HP launch.
- Rajat Sethia:** Other question was on the point that you mentioned that you are creating a niche for yourself by launching tractors where there is a wide gap in terms of you are adding features to tractors which are needed by the customer? So, in a way if a competition wants to enter in the similar feature's tractor, how difficult would it be for a new competitor for us?
- Antony Cherukara:** There are certain specific features that we are providing. One is I'm taking a particular application and trying to explain your question or answer your question. Take the vineyard application I'll stick to that. There is a certain sprayer application which happens once the rainfall has happened which means the tractor has to operate in a very slushy condition wherein high torque requirement is there. At the same time the sprayer application has to happen. So, our tractor is proven to be the best in it and hence we are able to increase market share even all the other competitors have launched their products. I hope I have been able to answer. There is no one generic answer to this. It goes application to application.
- Rajat Sethia:** I mean a competitor can launch a very similar product like ours. How it shouldn't be that difficult, isn't it?
- Antony Cherukara:** I can't answer that because everybody can launch but the point is nobody has been able to despite the fact that everybody has entered the small tractor segment.
- Rajat Sethia:** One final question on the bills, in the 2019 annual report there was a line item called indirect tax recoverable to the extent of 60 crores. It's under I think current assets. So, if you can talk about it what was that?
- P.M. Keshava:** Rs.60 crores we have to net it off against the GST payable amount. It is GST credit receivable when you net off against the liability that the net recoverable was 41 crores. That is because of the inverted duty structure we are into. We have 28%-18%-12% GST rates on our inputs whereas

our outputs are taxed with 12% because of this incidence, accumulation for GST credit receivable. We have started applying for this online refund, we are confident of getting the refund in a month or 2-months' time.

**Moderator:** The next question is from the line of Elroy Lobo from Kotak Investment Advisors.

**Elroy Lobo:** It's basically on the market shares. You mentioned on power tillers it's now 48% but if I remember right your market shares were much higher about 2 years back so what's caused this fall in market share and who is gaining market share at your cost?

**Antony Cherukara:** I think we spoke about this because I did go through the earlier transcripts. The market share fall was primarily because of the credit corrections that we did in the last year. We came down to a market share of about 44%. Now if you look at our retail share that is the number of tillers sold from the dealerships to the consumers there wouldn't be much change at all, so when the credit correction happened there was a stock correction that happened because of which the wholesale market share looked lower. Now what is happening, we are keeping the stock levels at the same level. We have not increased the stock levels however the consumption in the market has gone up because of two reasons mainly one is we have increased the coverage in the market with the addition of dealers and secondly there has been a lot of requirement from last year which because the subsidies didn't come in place. This year the expectation is there and the customers are coming forward instead of waiting for subsidies to come, coming forward and taking deliveries.

**Elroy Lobo:** So, going forward will you see market shares picking up or to the original levels or would it be around these levels going forward?

**Antony Cherukara:** We should get to the original levels of market share because as I said the retail shares that is the share to the customers has not gone down. So, we expect to that to go up.

**Elroy Lobo:** What about for compact tractors even there the market shares were higher if I remember right and they are now down to around 11%?

**Antony Cherukara:** Compact tractors as I said is different story with several launches from all the other companies that has happened so there has been a retail share loss there but however what we are seeing is people having tried out other products. There is a positive trend towards our tractors and in the first quarter we have been able to gain market share but definitely last year we have lost retail share.

**Moderator:** The next question is from the line of Viraj Kacharia from Securities Investments.

**Viraj Kacharia:** If you can just provide some clarification on the 9 crores line item which you said, what was it pertaining to?

**P.M. Keshava:** Rs.9 crores line item?

- Viraj Kacharia:** So, in the FY19 you said there were some one off?
- P.M. Keshava:** Rs.9 crores was PAT value as still not get. You said the 9 crores. He asked us specifically moving forward what will be this one-time expenditure won't be repeated?
- Viraj Kacharia:** It's a one-off expenditure, right?
- P.M. Keshava:** Yes, overall it's the conference expenses, embezzlement, provision for bad and doubtful debts..
- Viraj Kacharia:** What I meant is in terms of the one-time fair valuation loss of 9 crores that won't be there this year?
- P.M. Keshava:** That will continue to be there as long as we are into investments because of the ups and downs in market price which will always be there.
- Viraj Kacharia:** Second question was on the tiller side, we used to have a close to 60% market share and you said that it was at the wholesale and the retail part the market share is pretty much intact. Now if I look the largest players, in the farm equipment space where Mahindra who is trying to be actually now venturing in to power tillers. How are we looking at our play in power tillers in terms of both product range and growth profile?
- Antony Cherukara:** So, are you sure that Mahindra is venturing in the power tillers because it is news to us. We had about 55% market share which we will be able to regain this year.
- Viraj Kacharia:** How should one understand that the growth profile in this particular segment because the industry itself has been in that 55,000 to 60,000 range for quite a long period of time. We keep on saying about subsidy or the monsoon impacting the overall growth for one reason or the other but the industry has not really scale up to what even we would have thought it to be compared to when you say the industry scale in other country is in globally. So, how should one look at it?
- Antony Cherukara:** I will give you a slightly longish answer because you will have to look at what has happened in the last 2-3 years. In the last 2-3 years there have been several controls that have been put in by the government in the right direction preventing the Chinese players entering and selling in this country. So, higher standards of quality, higher standards of testing have been put in place. If you look at industry from that context the manufacturers in India has still been able to in the last couple of years sell the same amount of volumes in our country which means despite the fact that the Chinese imports have gone down the industry has remained the same level. Even with the fact that the DBT infrastructure was just being set up. So, what we expect is going forward with that infrastructure being set up already and all the other macro scenario stable we expect the growth of 5% which I said is going to be minimum in this. We are bullish on the segment primarily because the small and marginal farmers segment is 70% to 80% of our country's farmer population. It still cannot afford a tractor. So, two aspects I would say in the nutshell one, despite several events in the negative; the industry has maintained the last 2-3 years, second the macro factors of need of mechanization has not changed and the small and marginal farmers

segments needs affordable mechanization and all these factors put together I believe that we will continue to grow.

**Viraj Kacharia:** Last question was on the product side, you said we launched three products and the higher above 30 HP this year. How should one look at the future product line, next 2 to 3 years? Do we have any more new launches plan in the 30 to 50 HP freeze or the launches incrementally now be more towards Sub-30 HP?

**Antony Cherukara:** We will be focusing on both the segment. As I said on the Sub-30 HP the compact segment we are consolidating and we have lost some market share in the last year. We are trying to gain that back number one; number two on the higher horsepower segment we have entered with some base models of 39-45 and 49 HP. We are also working with Kukje of Korea to launch a higher technology set of product in that range of tractors.

**Moderator:** The next question is from the line of Saurabh Shah from AUM Fund Advisors.

**Saurabh Shah:** Is it possible to get value breakup between the tillers and the tractor segments of this quarter?

**Antony Cherukara:** Yes, this quarter we did about 69 crores of tillers and about 50 crores of tractors. To be exact 68.91 of power tillers and 49.51 of tractors.

**Saurabh Shah:** Other question is more on the compact segment. You mentioned that many new players are coming in, so what advantages to what tractors provide where we have been able to retain our leadership over here?

**Antony Cherukara:** Key three factors, one is as I explained earlier the functionality of the tractor in specific applications, number two operational cost of our tractors and number three service network and resale value of our tractors.

**Saurabh Shah:** Why can't other people do the same because it sounds like the level of customization be that significant which other especially larger players can't do right?

**Antony Cherukara:** No actually when you get to specific applications it is a little complicated in terms of replication. There are finer aspects, as I tried to explain in detail in terms of operational sprayer in a slushy condition in a vineyard and moving the tractor from row to row. If you ask me can somebody do it of course anybody can do it but getting it right is a little difficult and what we have seen, so far, is nobody has been able to get it right. So, that is one, second is we are seeing that we are superior in terms of fuel consumption and our customers are coming back because they find that the total operational cost when they use the VST tractors are much better compared to the other tractors. And the third aspect is the service network and resale value of our tractors are better.....

**Saurabh Shah:** Will you quantify that in terms of how much mileage we are able to get around or how much cost flow in your tractor they have for the VST versus I don't know..?

- Antony Cherukara:** The difference is about 20% in terms of operational cost.
- Saurabh Shah:** So, why is that, so far the access to the engine that we have with our partners or what is the reason for our engine is so much better?
- Antony Cherukara:** See, it is lot of I mean it's a long answer to give. As you know that, it is a marriage between the engine, the transmission and the hydraulic as far as the tractor is concerned and the torque availability for specific applications, we choose, the implement that is used. So, we have been able to optimize to the best possible levels and hence the fuel consumption. I have tried to give you an answer but then of course there is now a lot of technicalities involved in terms of making that happen and the third reason which I didn't touch upon is the huge network of service that we have developed for the last 50 years. In these segments others are entrants of course even before you say the service aspect is replicable by others.
- Saurabh Shah:** This 20% cost advantage shouldn't that the market share increase to reflect that...
- Antony Cherukara:** Fuel advantage, fuel consumption advantage.
- Saurabh Shah:** Market share for 27 HP shouldn't it be a higher number if you are able to demonstrate this kind of difference on..
- Antony Cherukara:** Exactly, that is what we are doing right now. That advantage is being demonstrated and that is the reason why we have been able to gain some market share back. What we are talking about is in the last 2 years the launch has been multiple. From every company compact tractors have been launched where we have been monopoly players and we have been just single player in that segment. Today every single tractor company has a product whether with Mahindra or Tafe or John Deere or Sonalika, everybody has a compact tractor and these launches have happened in the last 2 years. So, what I'm trying to convey to you is that despite this heavy number of launches having happened we have been able to gain back market share in the first quarter which we believe the only reason is that we have been able to serve the customer in terms of the value expectation that he has however we also understand there are product gaps wherein we are not present and we are working to plug those gaps.
- Saurabh Shah:** Three years ago our market share has been?
- Antony Cherukara:** I didn't get your question, pardon me.
- Saurabh Shah:** 3 years ago, in the compact tractors what would your market share would be?
- Antony Cherukara:** We were at 15%-16% market share.
- Saurabh Shah:** From there we have declined and now we are back up to about 10% -11%, right?
- Antony Cherukara:** Yes, correct.



**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

**Management:** Thank you everyone. It was a pleasure interacting with you. We look forward to further interactions in the future. Thank you.

**Moderator:** Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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