

## **TRANSCRIPT OF THE INTERVIEW GIVEN TO CNBC TV 18 ON 13/04/2016**

VP Mahendra, vice chairman and managing director of VST Tillers Tractors Ltd expects around 35-percent volume growth in the tractors business and 10-15 percent growth in the tillers business in FY17.

The last three months have been very encouraging for the tiller market but demand for tractors usually picks up depending on progress of the monsoon and release of subsidies by the government, Mahendra says in an interview to CNBC-TV18.

VST has grown its market share in the tillers business by 5 percent to 55 percent. However, presence in relatively smaller-range tractors has kept their market share low in that business, he says, adding, there are plans to expand into mid and higher-range tractors categories in the near term.

Investment of Rs 70 crore was done on capacity expansion over the last couple of years and current capacity is enough to cater to existing demand, he said. Below is the verbatim transcript of VP Mahendra's interview with Latha Venkatesh and Sonia Shenoy on CNBC-TV18.

Latha: Do you expect orders for tractors, buying appetite even before the rains come?

A: Not really, I think it is a combination of both the anticipation plus the funds which are going to flow in which I am sure will happen certainly. It will be probably a mix of both.

Sonia: Any pickup in demand for tillers because a big portion of your revenues does come from the tiller market. In the last three to six months, has there been a conclusive pickup in demand?

A: Certainly last three months have been very encouraging. I think this particular product, the tillers are subsidised by the government to the farmers and the funds have been released in a few states which has helped the rally.

Sonia: Can you give us an indication of how much was the subsidy that was released by the government and what could the expectation be in terms of higher demand or higher growth for the next six months?

A: Certainly we are looking for the combination of monsoon as well as the release of funds. However, added to that will be what the farmer gets in terms of his revenue income. We are confident that the government in all areas, have intension to release it on time but invariably it doesn't happen on time. Therefore the last quarter was exactly that that it got it released towards the end and we are happy that it at least happened that way.

Latha: There has been deep distress across several states, do you think one good monsoon is enough to fire up demand or do you think you may not see really too much flowering of demand?

A: I certainly feel it is going to be very encouraging. It is a very encouraging sign and I am sure that it will augur well for us, both in terms of tillers and tractors.

Latha: Give us some idea, FY17 what are you preparing for in terms of revenue growth as well as margins?

A: In terms of the tillers, it should be 10-12 percent minimum. The tractors would be substantially more in terms of percentage which possibly will be 35 percent.

Sonia: A 35 percent growth is what you are factoring for FY17 in terms of volumes in the tractor business?

A: That is right.

Sonia: Where do you see a higher chunk of the demand come in from geographically?

A: By and large we have recently started expanding our footprint, so, it is going to be for a wider part of India though not substantially in the Northern part of India.

Latha: Your best year in recent times has been FY14 when your revenues were over Rs 600 crore and your profits were over Rs 80 crore. FY15 was bad, now do you just get back to the FY14 levels or do you do much better in terms of FY16 and FY17, more particularly FY17?

A: FY16 we have just finished and we have done equally well, in fact marginally better than the year before that. FY17 we are certainly looking forward for at least about 20 percent growth.

Sonia: Anticipating higher demand you have gone out and setup capacity in Hosur for about 36,000 tractors. How much have you spent so far in capex and what would your capex be for the next one year?

A: The capex which we did only almost two years ago was maximum of Rs 70 crore. I don't think we will be adding much to it, probably in terms of about Rs 6-8 crore maybe to the tractor. We have enough capacity as you know to take care of the demand.

Sonia: I also wanted to understand from you on what the potential is as far as margin growth is concerned because although your revenues have grown about 15 percent, your margins have still been stuck at around that 18 percent level. 18 percent is a great margin to have but it hasn't really grown if you compare it to your revenues. What would the margin scale up look like in the next one year?

A: Frankly speaking, I think for an industry like ours, the margins that we have are probably exceptional. So, I think we will all come down to the similar ranges of what the other people are. However, having said that, it is going to be a challenge to keep up for the percentage of what you are looking at. We have sacrificed in the immediate past certain margins that we have had to ensure that we keep the market share so that is why the percentage has not grown in the same pace.

Sonia: Has the market share gone up in the tillers segment and where does it stand at for tractors now?

A: As far as the tillers are concerned, certainly it is grown up by more than 5 percent.

As far as the tractors are concerned, as you may be aware, we are only in the small segment of the tractors and we are hoping to increase our footprint for this year into a little higher range and in the following year to the next level of range of tractors.