



“VST Tillers Tractors Limited Q3 FY 2016
Post Results Conference Call”

February 10, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Tractors Limited Q3 FY2016 Post Results Conference Call, hosted by Batliwala 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, 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. Annamalai Jayaraj. Thank you and over to you Sir!

Annamalai Jayaraj: Thank you Darryl. Good afternoon everyone. On behalf of B&K Securities welcome to the Q3 FY 2016 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the senior management team of VST Tillers Tractors Limited. We have with us today Mr. V.P. Mahendra - Vice Chairman & Managing Director, Mr. B.C.S. Iyengar - Director (Corporate Strategy), Mr. K.U. Subbaiah – Chief Executive Officer and Mr. R. Thiyagarajan – Chief Financial Office. I would now invite VST Tillers managements for opening remarks to be followed by the question and answer session. Over to you Sir!

B.C.S. Iyengar: Thank you Mr. Jayaraj. Thank you B&K. Good afternoon and a very warm welcome to all the participants and I am here with my colleagues who are also wishing you a Happy New Year. You will recall that in the last conference call, we had informed you that you could look forward to a very much-improved performance in the third quarter, so the figures are before you. We have sold 6271 tillers and 1850 tractors as against 4067 and 1327 tractors for the corresponding quarter in the previous year.

The income for the quarter has shown significant improvement, which has to be looked in the backdrop of, foreshow in the corresponding quarter of last year. The cumulative performance a topline growth is 14% and the bottomline net profit has gone up by 8%.

The tractor markets as all of you are aware have been adversely affected by the monsoon failure in our key markets namely Gujarat and Maharashtra. There is an overall degrowth in the industry as well and in the segment that we belong to that is less than 20 PT horsepower. There is an overall degrowth and in the segment, the industry has suffered a loss of about 7% as compared to the previous year.

In this background we had to take consolation that we have marginally improved the numbers in the current year. However, the situation continues to be bad for tractors and the



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overall results for the year ending may fall short of the targeted topline growth of 15% for the current year.

The market situation continues to impact our margin and as such the bottomline for the year ending could be almost flattish. I do not want to take much of your time rather I would prefer and welcome you to seek views of my colleagues on the various questions that you may have in your mind. Over to you!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good evening Sir. Thank you for giving me this opportunity. My first question is like you just alluded to in your opening remarks on the full year targets; you had given an earlier target of 28000 tillers and about 8500 tractors. What could be your revised target now and how do you see FY2017 play out Sir?

B.C.S. Iyengar: The situation as of now we should be touching about 27000 power tillers and the tractors would be around 7400 tractors where the power tillers will grow that is about 15%, but not the tractor.

Mukesh Saraf: How do you see FY2017 on this I am expecting normal monsoon as of now, how do you see that play out?

B.C.S. Iyengar: You are talking about 2016-2017?

Mukesh Saraf: Yes Sir.

B.C.S. Iyengar: 2016-2017, the prediction is that the monsoon would be (of course as compared to the current year) almost normal monsoon and as such we hope that there should be a fairly good growth in the tractors.

Mukesh Saraf: Any guidance you would want to give on that 2016-2017 tractors growth or tillers growth?

B.C.S. Iyengar: Go back to our earlier projection of about 10000 tractors, 10000 plus we should do next year.

Mukesh Saraf: The tillers can we continue this kind of growth about 15% that we will do in this year?



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- B.C.S. Iyengar:** Yes should be.
- Mukesh Saraf:** On the tillers again, we have obviously this year seen a steep improvement on a low base, but has the growth primarily come from these states that you had mentioned earlier? Could you just give an update on that like you had mentioned northeast, Orissa, Karnataka, these states should primarily pickup. So, has these picked up and how the subsidy situation in these states?
- B.C.S. Iyengar:** On the performance side, Karnataka has stood by our side with consistent performance and for the year-end I think we should be about 5000 power tillers we should be selling in Karnataka and loss of market in Orissa which is the major market for all the power tiller industry that has been largely made good by increased and good performance in Andhra Pradesh.
- Mukesh Saraf:** The subsidy situation you expect it to be better next year in Orissa, the timely announcement of subsidies?
- B.C.S. Iyengar:** As we have been promised I think you could look for change for the better for the next year.
- Mukesh Saraf:** The Karnataka and AP should continue to kind of improve on this year?
- B.C.S. Iyengar:** On the performance side it is okay, but the subsidy still there are overdue in subsidy and that is reflected in the accounts also, Receivables piling up because of the subsidy overdue, but as far as the support is concerned, Karnataka has played well.
- Mukesh Saraf:** You had mention receivables piling up as receivables for VST from government subsidy. What will be current outstanding number Sir?
- B.C.S. Iyengar:** I could put in terms of value, the subsidy is about Rs.45 Crores.
- Mukesh Saraf:** Rs.45 Crores is outstanding right?
- B.C.S. Iyengar:** From various states.
- Mukesh Saraf:** Great Sir. I will get back into the queue. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Aditya Sundaram Edelweiss. Please go ahead.



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Aditya Sundaram: Thank you very much for the opportunity. If I just look at your overall results in the margin front, your gross margins have declined by about 100 plus BPS on a QOQ basis and on the other expenses side also, a large distinct has been lower substantially, which has offset and given us a good margin. Could you please explain the reason for that and what do you think would be the sustainable margin for our business going forward?

B.C.S. Iyengar: In fact this was spelt out in our previous concall also that, in the market conditions we are constrained to sacrifice on the margins and rather retain the market share and also we look at the increasing volumes. So that is why there is a marginal fall in the bottomline.

Aditya Sundaram: The other expenses number being sequentially lower why exactly is that?

B.C.S. Iyengar: The other expense which are you referring?

Aditya Sundaram: The other expense in a quarterly numbers, I think it has been down quite a bit on a QOQ basis if I look at that number, because in the press meet, Rs.19 Crores in Q2 is now effectively about Rs.15 odd Crores?

B.C.S. Iyengar: In fact the other expenditure includes the marketing expenditure also and we are now forced to open up our tractor markets all over India. We are forced to participate in various exhibitions, road shows etc., and you know the competition is also compelling us to look to other markets beyond Maharashtra and Gujarat where we are just introducing our tractors and the expenditure largely relates to this account.

Aditya Sundaram: So the difference is marketing expenditure and could just have squeeze in last question. What is your view on basically new product developments and how we are going to position that product as a strategy going forward, any particular HP we are targeting both on the power tiller and tractor side or certain states that we are looking at to increasingly penetrate going forward. Could you please give us an outlook on that?

B.C.S. Iyengar: I am requesting our CEO, Mr. Subbaiah to answer your question?

K.U. Subbaiah: Good afternoon everybody. One of the important strategies for us is to introduce new products in the market where we are present today. For example today, we are only in the 0 to 20 PTO HP range. We are definitely working on new products in the 20 to 30 PTO HP range. As we talk now we have just seeded 27 HP tractors in the market and after extensive trials, the bulk supplies will start by end of the year. Parallely we are developing the >27 HP models and these are expected to come into the market early next year or middle of next



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year. This is as far as the tractors are concerned. Even in case of tillers, traditionally we have been supplying only for the 13.5 HP Tillers. We are looking to launch higher horsepower tiller in the market. The work is in progress. We are conducting trials and also assessing the market potential for these products. Once we do that, and we find that there is a merit to introduce these higher HP tillers, we will certainly launch these tillers into the market including on the lower HP side. For example, 8 HP power tillers. We have some prototypes being made. Once again, we look at the market potential and decide to launch whenever necessary, this is what is happening in the product development side.

Aditya Sundaram: One followup on the 27 HP tractor that you are speaking about. If I just look at some of the industry data I see a lot of overall market shifting to 35 HP, 40 HP, so the opportunity 27 HP tractors still remains large?

K.U. Subbaiah: The opportunity for 27HP is large and as I told you we are also getting into the segment of 30 and marginally higher 30 HP segment also, so we would be covering entire gamut of so-called the compact and small segment tractors. With this we are will be present in all the ranges and we can compete with our competitors.

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

Viraj Kacharia: Can you provide the sales of value for tractors and tillers?

B.C.S. Iyengar: For the quarter?

Viraj Kacharia: Yes, for the quarter.

B.C.S. Iyengar: The quantity 6271 tractors.

Viraj Kacharia: No, I meant value Sir?

B.C.S. Iyengar: Value power tiller Rs.80.77 Crores and tractors Rs.48.66 Crores.

Viraj Kacharia: Basically if I see for tractors and tillers especially on the tractor side, for this quarter where do you see in the most of the growth coming from, have now getting into new territories and so bulk of the incremental growth is coming from those regions or it is primarily again only from the core markets of Gujarat and Maharashtra, which is where we are seeing growth coming from?



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- B.C.S. Iyengar:** The core market continues to be Maharashtra followed by Gujarat, but there are encouraging signs from the emerging market where Karnataka we have been doing well and Andhra Pradesh also is good and this will continue.
- Viraj Kacharia:** Even in the full year guidance, which you highlighted basically, indicate kind of key growth in the tractor volume in the fourth quarter. Because the overall industry as such has not improved much in Q3 and going into Q4 there has been much of a change. So, again in Q4 what challenges are you seeing and is entry into new markets will be good enough to offset that?
- B.C.S. Iyengar:** The new markets have slightly been able to contribute to make up the loss of sales in Gujarat and Maharashtra, but Maharashtra and Gujarat continues to account for more than 75%, 80%. But from next year, the contribution from the other states, from the new states of Karnataka, Andhra Pradesh, etc, that could be much better.
- Viraj Kacharia:** On the tiller side, which you guided of 15% growth for FY2017, this is despite some of the key states and going into elections next year. So, we are still expecting around 15% kind of a volume growth for tiller in FY2017?
- B.C.S. Iyengar:** The elections will definitely affect for a period of about 30 to 45 days, not for the full year. Because the code of conduct, etc., that will be in force for a period of about 30 to 45 days. Growth what we are envisaging is to make up for the loss. We had aberration in Orissa particularly which is our biggest markets. So, we are hoping that we will definitely pickup in the coming year.
- Viraj Kacharia:** On the inventory and receivables, is it possible for you to give a number for this quarter?
- B.C.S. Iyengar:** You want forecast on the inventory?
- Viraj Kacharia:** I want inventory and receivables we have as of Q3? So, you mentioned subsidy receivables or something like that Rs.45 Crores, so what is the comparable figures last year and this time around. Just to get a sense of how much?
- B.C.S. Iyengar:** Last year on the same?
- Viraj Kacharia:** On the subsidy part?



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B.C.S. Iyengar: Our current receivable is Rs.120 Crores, which is against Rs.99 Crores the corresponding period of the previous year. Which in terms of days, it is three days, some 67 days to 70 days of sale.

Viraj Kacharia: On the inventory side Sir?

B.C.S. Iyengar: Last December we carried an inventory of Rs.150 Crores close to that, we are marginally less than that this year; overall the entire gross, working capital, inventory and receivable both at the same level for the corresponding period.

Viraj Kacharia: For the employee expenses for this quarter, as you have been impact of Bonus Act in this quarter?

B.C.S. Iyengar: No, we have not people in that segment is a very negligible number, not a big factor.

Moderator: Thank you. The next question is from the line of Uttam Tiwari from I-Wealth Management. Please go ahead.

Veena Patel: This is Veena Patel from I-Wealth Management. Good afternoon everyone. Sir, I just wanted to know the reasons for the growth in the tiller segment has seen kind of in softening of the competition from China or have you been taking the market share from KAMCO?

B.C.S. Iyengar: This year, for the Chinese definitely market share has comparatively gone down.

Veena Patel: What is giving the confidence of maintaining 15% growth in the tiller segment?

B.C.S. Iyengar: As I told you that again I am repeating. We did not have such a good performance in the last 18 months due to change in the guidelines and administrative problems. The Odisha market has not fared well as against a consistent performance in the last three years about three to four years it has seen a very consistent growth. Last about 18 months, the performance has not been good and there are every reasons to believe that the coming financial year, it should change for the better in Odisha.

Veena Patel: Which are the top contributing straight for the tiller sales?

B.C.S. Iyengar: Orissa and Karnataka followed by Andhra Pradesh and northeast.



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- Veena Patel:** Karnataka and Odisha would be contributing how much?
- B.C.S. Iyengar:** Close to about 40%.
- Veena Patel:** What is your view on the subsidy disbursement, because we keep hearing from the channel checks of what dealers grumbling on the subsidy part, because of that is happened and impacted in few states?
- B.C.S. Iyengar:** Dealer grumbling?
- Veena Patel:** About the subsidy and that is led to the slowdown in the sales?
- B.C.S. Iyengar:** We are compelled to supply our products at subsidized rate to the farmers and we have to wait for the subsidy, the credit is extended largely by the company and the farmer gets at the subsidized price and we are forced to wait for these subsidy for the government and that is why you see the receivable swelling up.
- Veena Patel:** This has been the problem for the last two to three years right of the subsidy build up?
- B.C.S. Iyengar:** Every industry must have some problem and for our industry subsidy is boon and bane as well.
- Moderator:** Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** Thank you Sir for the opportunity. Three years from now how would we look at our marketing next for tractors and tillers? How would it change, how would it bring down the contribution of the larger states today?
- B.C.S. Iyengar:** As you have seen in the market, people are moving towards the smaller tractors that is 38 HP segment, 25 to 35 this segment appears to be growing and so also it is the competition and people are realizing that the smaller tractor would be much more preferable and maintenance wise also return on investment. Also based on the cropping requirement the smaller tractors could be well suited for their agricultural purpose, though not for commercial haulage, etc., and that is the reason which has prompted us to set up a capacity for about 36000 nos of tractors in Hosur about two years back.



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- Raghu Nandan:** What I wanted to understand is as you said Maharashtra and Gujarat contribute 75%, 80% currently for us and Andhra and Karnataka are picking up, so I just wanted to understand if you give it a three year period, which are the states where the contribution could go up and how the geographical mix could pan out for us, both in tractors and in tillers?
- B.C.S. Iyengar:** Today, the market share of Maharashtra and Gujarat is close to 80%. In three years horizon we are looking it should come down to at least about 50% to 60% or more than that and the remaining market should grow from 35% to 40%.
- Raghu Nandan:** Which are the promising states Sir. One is Andhra and Karnataka?
- B.C.S. Iyengar:** Andhra, Karnataka, Tamil Nadu, Bihar.
- Raghu Nandan:** How should the same trend come out in tillers?
- B.C.S. Iyengar:** Tillers as far as the growth in other states where we are present, our presence is almost negligible, the states are Rajasthan, Haryana, Punjab and UP. We do not aspire to look for a very big growth there, so I do not think. It is not a good number to speak about growing in these states. But will continue to grow in other states.
- Raghu Nandan:** What would be our expectations from the budget?
- B.C.S. Iyengar:** I think you read the things much better than us.
- Raghu Nandan:** Your guesstimate is better than myself. Just one small thing the capacity stands at 36000 and 60000 units?
- B.C.S. Iyengar:** 36000, mind your repeat this, it is only on an assembly capacity. The assembly capacity we can manufacture 36000 on a three-shift basis, so that is the capacity, but it does not mean that today if you give me an order for 36000 we are not in a position to produce, because largely we are dependent on vendors, so vendors also have to commensurately increase their capacity, because largely more than 80% we buy from the vendors and our manufacturing hardly about 15%, largely it is an assembly plant.
- Raghu Nandan:** It is a three-shift basis Sir if I understand correctly.
- B.C.S. Iyengar:** Yes.



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- Raghu Nandan:** Tillers would be 60000 on a two shift or a three-shift basis?
- B.C.S. Iyengar:** 60000 on a three shift basis. But again there is not a major constraint. It is an assembly capacity, which we can always increase. This is also similarly depends on the vendors where they have to gear up their capacities.
- Raghu Nandan:** Thank you. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mitesh Shah from OHM group. Please go ahead.
- Mitesh Shah:** Good afternoon. Just on the 27 HP tractor this will be by the year end FY2016 or it could be? 27 HP tractor, which we are currently seeded that would be fully commercialized by FY2016 and/or 2016 CY end?
- B.C.S. Iyengar:** Commercial, I think say we can, we will be in a position to introduce this tractor by may be around middle of current year, but the problem is it has to undergo this test at the central with testing institute only after which should be eligible for bank finance subsidy etc., that will take another about six months. So, probably the commercial full scale introduction from the next financial year.
- Mitesh Shah:** Next FY2018 or FY2017?
- B.C.S. Iyengar:** We will start our soft marketing may be middle of current year.
- Mitesh Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** In terms of average size of land holding going down, I just wanted your view as to how the market for tiller is evolving in that scenario how is strategy, what strategy we are working on?
- B.C.S. Iyengar:** The small and marginal farmer, which account for more than 75%, 80% of the farmer and that is the key driver of our products, because our tractors, our small power tillers, tractors, they are all ideally meant for small and marginal farmers. There is also a parallel action by the Central Government and all the state government to enable the farming community to



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afford mechanization they have introduced in a large scale and they are trying to support the custom hiring centers whereby a farmer who cannot afford to buy big tractor or big farm machinery can have access to these machineries through the custom hiring centers for which government is providing the subsidy.

Girish Raj: Where I am coming from is we would have 13.5 HP traditional tiller, but we also mentioned that you have been doing higher at the same time lower, but directionally which one is the better or how is the market evolving?

B.C.S. Iyengar: Traditionally, the power tiller even 12 HP, 10 HP is also sufficient, 13 HP is good enough, but there is also a trend which is emerging and which has already come in, that is power tiller attached to the seat. So there the farmer may find that slightly the power is inadequate with the 13 HP, But ideally the power tiller walking type is suited for this thing, but we had to respect the market sentiments and if the market wants higher horsepower power tiller whether for seating or for a larger coverage or speedier coverage of the lands etc., we should not fall back.

Girish Raj: Broadly it could be the lower ones, which would drive?

B.C.S. Iyengar: Yes.

Girish Raj: Thank you.

Moderator: Thank you. The next question is from the line of Lakshmi Narayan from Catamaran. Please go ahead.

Lakshmi Narayan: Thanks for taking my question. There are two tractors right. One is the Shakti 180 and the other one is Shakti 224 right. These are the two tractors we sell in right now right?

B.C.S. Iyengar: Yes.

Lakshmi Narayan: What is the split broadly, is it more 224?

B.C.S. Iyengar: More about 65% towards 22 HP now.

Lakshmi Narayan: Sorry 60?

B.C.S. Iyengar: About 60% to 65% towards the 22 HP.



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- Lakshmi Narayan:** If you look at the last nine months, other expenses have gone up and you attribute predominantly that to marketing expense increase right?
- B.C.S. Iyengar:** Yes.
- Lakshmi Narayan:** The third question is regarding the commercial introduction of 27 HP tractor you are seeing it happening in FY2017 or it happening in FY2018?
- B.C.S. Iyengar:** FY2017 as I told you soft launching will start, but the tractors will require the testing approval from the Central Testing Institute and the testing process lasts for about three to six months depending on the que etc, as it will take about six months. The full-scale commercial introduction will be in the following year, although we will start marketing it in the current year.
- Lakshmi Narayan:** Last call you mentioned briefly about the rice cultivators and you mentioned that India is really not fully prepared for that, but you are actually working on something may be importing?
- B.C.S. Iyengar:** We are still importing.
- Lakshmi Narayan:** You are still importing and do we sell any rice cultivators this year?
- B.C.S. Iyengar:** Yes we have sold this year.
- Lakshmi Narayan:** Any idea how many we have sold and what is the realization per cultivator?
- B.C.S. Iyengar:** We have sold for the year.
- Lakshmi Narayan:** Nine months I am saying.
- B.C.S. Iyengar:** We have sold about 426 numbers and it should be closed to about 600 numbers for the year.
- Lakshmi Narayan:** What is the realization on this?
- B.C.S. Iyengar:** We have two models. One is walk behind which the realization is about 2 lakhs and riding type, the realization is about 1.3 lakhs.
- Lakshmi Narayan:** Okay and on nine-month basis, what is the spare parts contribution and how are the sectors grown?



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- B.C.S. Iyengar:** The spare part is about Rs.36 Crores.
- Lakshmi Narayan:** Okay and identical nine months last year?
- B.C.S. Iyengar:** 33, which has grown up by 10%.
- Lakshmi Narayan:** In terms of exports sometime back you mentioned that you are of course looking at some areas may be in African or may be in Myanmar and so on right. Now any firmed up plans on exports or has it changed in the last six months?
- B.C.S. Iyengar:** Not very much, as I told you that Africa is a good market for power tillers. It is dominated by cheaper imports from China where we are not able to compete the price. It will take sometime.
- Lakshmi Narayan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Salil Gupta from Enam Holdings. Please go ahead.
- Salil Gupta:** Good afternoon Sir. I just wanted to ask you for the quarter, what would be the sales quantity for the power tillers and the tractors please?
- B.C.S. Iyengar:** For the?
- Salil Gupta:** For the tillers and the tractors, what would be the sales quantity for the third quarter Sir?
- B.C.S. Iyengar:** I already repeated.
- Salil Gupta:** Could you please repeat it, I missed that in the beginning, apologies.
- B.C.S. Iyengar:** It is 6271 power tillers as against 4057 in last year corresponding quarter and 1850 tractors against 1327.
- Salil Gupta:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aakash Manghani from Bank of India AXA Mutual Fund



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- Aakash Manghani:** Thanks for taking my question Sir. Earlier you alluded to the issue in Odisha, which led to poor sales for the last 18 odd months and with Odisha being I think 20% of your tiller volumes. I just wanted to understand what was the run rate before the regulatory change sort of hampered your growth rate in Odisha and what sort of run rate are you expecting going forward in FY2017 by which you are giving 15% sort of volume growth guidance overall sales?
- B.C.S. Iyengar:** Odisha we expect that the total market should be around 12,000 power tillers of which, our share should be more than 5000 power tillers.
- Aakash Manghani:** This is as of now?
- B.C.S. Iyengar:** No, this year it has not been good last 18 months as I told you because of the various changes in the administration etc. The subsidy disbursal has not been meeting the entire demand. As I told the demand is around 12000 power tillers.
- Aakash Manghani:** Earlier you are selling 5000 odd, what it would be the right now?
- B.C.S. Iyengar:** This year it could be about 3000 to 3500 power tillers.
- Aakash Manghani:** For the full year?
- B.C.S. Iyengar:** Yes.
- Aakash Manghani:** You are expecting this to come back to 5000.
- B.C.S. Iyengar:** Come back to 5000 plus.
- Aakash Manghani:** Without getting into nitty-gritty's of when do you think this whole subsidy will sort of happen?
- B.C.S. Iyengar:** It should happen for the next financial year.
- Aakash Manghani:** With regards to entering new states for your tillers, is there any plan to do Sir?
- B.C.S. Iyengar:** As informed earlier, the scope for introduction and the marketing of the concept of power tillers in states like Punjab, UP, Haryana and large part of Madhya Pradesh, which is a market for big tractors, the scope is very little for power tillers.



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Aakash Manghani: Generally over the last nine months and going into next year, how do you see the competitive scenario with regards to the Chinese and the remaining Indian players?

B.C.S. Iyengar: Chinese are largely dependent on eastern belt of Odisha and also the north east and because of the downtrend in Odisha, their market share overall has reduced and that is why we have also grown from about 45% to we are able to increase our market share in the current year, to almost 55%. We are very strong in other belts like Karnataka, we have more than 80% market share in the western Maharashtra and Gujarat also we have 75%, 80% market share.

Aakash Manghani: The Odisha market share is actually halved you are saying, if I work back?

B.C.S. Iyengar: Odisha the competition is very intense. All the Chinese products, there are about 50 brands of Chinese power tillers which are all working in Odisha and we have another domestic manufacturer, KAMCO based in Kerala, they are also very active. So that is why historically our market share was about 45%, but thanks to this, current year our market share could be about 50% there.

Aakash Manghani: Thank you.

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

Viraj Kacharia: Thank you for the opportunity. Just you indicated that we also will be launching plus 30 HP tractor currently in the development phase, what is the broader thought process there?

B.C.S. Iyengar: Upto 30, We did not say 30 plus.

K.U. Subbaiah: Presently, we are only envisaging between 20 and 30 HP PTO.

Viraj Kacharia: Probably I missed out, I think Mr. Subbaiah or someone said that you were looking at slightly about 30?

B.C.S. Iyengar: In the long range, but in the medium term we are looking up to 30 HP only.

Viraj Kacharia: For the next two to three years, the focus is primarily on 30 HP and plus 30 HP tractor are we looking at as per any technology tie ups, what are the thought process?

B.C.S. Iyengar: It is largely in-house.



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- Viraj Kacharia:** For tillers, the 8 HP tillers, which you indicated, we will be launching in FY2017?
- B.C.S. Iyengar:** That is the variation of earlier model we have. There appears to be some encouragement from the government to give sub 8 horsepower, some special schemes etc., to give us to sub 8 HP power tillers. So, it is a just variation of earlier model.
- Viraj Kacharia:** Okay, so that would be in the market in Q4 or it will be in FY2017?
- B.C.S. Iyengar:** It is ready to be introduced, but it depends on the requirement of specific market depending on the schemes that the governments are contemplating to bring about, so we are just ready to needs that requirement.
- Viraj Kacharia:** Which states would be these?
- B.C.S. Iyengar:** It is not spell out, but in the Central Government policy to encourage this sub 8 HP power tillers. Earlier there was no subsidy for power tillers less than 8 HP, so bring it and get back, so we are just ready with that.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayan from Catamaran. Please go ahead.
- Lakshmi Narayan:** Thanks for taking my question again. On a nine-month basis on power tillers and tractors, what has been our volume?
- B.C.S. Iyengar:** I just repeat it 1850 tractors.
- Lakshmi Narayan:** Nine months?
- B.C.S. Iyengar:** Sorry 19447 tillers and 5868 tractors.
- Lakshmi Narayan:** In these tillers, you mentioned in the last call that the subsidy gets paid not to the dealer but directly to the individual, in some states it is actually getting in. Now, broadly if I take around 20000 power tillers you have sold. How many of them you think have actually moved to the subsidy given directly to the end customers?
- B.C.S. Iyengar:** It is happened in Karnataka only.
- Lakshmi Narayan:** Which means that your mediate distributor?



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- B.C.S. Iyengar:** He has to get it back from the farmer.
- Lakshmi Narayan:** In the other case, the distributor?
- B.C.S. Iyengar:** The farmer is authorizing the government to pay to the dealers or to the company.
- Lakshmi Narayan:** So the government will be debtor for a dealer, now it has moved to the customer. Thank you Sir. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Mitesh Shah from OHM Group. Please go ahead.
- Mitesh Shah:** Government is working on new tenancy laws in terms of getting smaller margin or farmer is working with the landlords, would this have a big impact on the demand for tillers and small tractors?
- B.C.S. Iyengar:** There are lots of disturbances. Will you please repeat your questions?
- Mitesh Shah:** Government is currently working on new tenancy law, would this have a big impact in terms of demand of small tractors and tillers going ahead?
- B.C.S. Iyengar:** New tenancy, could you please elaborate on this, what is the implication?
- Mitesh Shah:** The landlords many of the farmers who are working on the landlord farms, basically farmers are getting leasing and all those stuff. So, would this have demand for the additional kickers in terms of tillers?
- B.C.S. Iyengar:** We have not seen actually impacting as of now. It could be as a policy, but it has not really translated into the field. But if it happens where it is large parts of lands are poled. It could move towards the bigger machineries also.
- Mitesh Shah:** How much of current cash balance is available net cash?
- B.C.S. Iyengar:** Rs.150 Crores.
- Mitesh Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.



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Shashank Kanodia: Good afternoon gentlemen. Firstly, is there any scope for margin improvement for us given that we can initiate the prices of power tillers with the state government in next fiscal?

B.C.S. Iyengar: Will you please repeat it, a little louder?

Shashank Kanodia: Is there any scope for margin improvement for us, can we go higher from 17.5% kind of EBITDA margins?

B.C.S. Iyengar: Always maintained that the margins what we are enjoying now 17% is on the higher side. We should be content around 15% or even lesser. We should concentrate on increase in volume growth not on margins. I think for manufacturing industry, we have 15 is sufficient do not you agree?

Shashank Kanodia: Next year, what would be your margin guidance, is there anything?

B.C.S. Iyengar: As long as we are showing increase in topline and bottomline why are you unduly bothered about margins I do not understand.

Shashank Kanodia: Given that we might have to renegotiate our prices for power tillers and tractors for the next fiscal. Can they be a price drop given that the metal pricing are softer?

B.C.S. Iyengar: In fact there is no room to increase our prices, because you should understand that we have to go through the approval from the various government which are giving subsidy and every year the tendering process goes on and we are accountable for asking any in price increase and it is very well known that the commodity prices, steel prices, etc., prices are stable and there is no merit in asking for a price hike.

Shashank Kanodia: Can they be a price cut let us say to the tune of 5%?

B.C.S. Iyengar: If the competition forces, definitely we will drop our prices as it as happened in the tractors.

Shashank Kanodia: On the working capital that you have mentioned in this year we might be flat in terms of working capital days, vis-à-vis last year. So is there any focus for improvement of working capital in FY2017?

B.C.S. Iyengar: Actually if you look at the receivables. It is the number of days appears to be growing, but it is largely because of the subsidy and of course there has been very good improvement in the state of Andhra Pradesh where we have been able to receive the subsidy, but



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correspondingly there is increased in subsidy dues from Karnataka and Assam etc., it is a area of concern, but it has lot to do with the way we had to work with the government and streamline the procedures and they also promised to make some changes from the next financial year. We are confident that it would improve for the better.

Shashank Kanodia: Lastly, your dividend policy given that we have surplus cash on the books with minimal capex requirement through? Is there any scope for increasing dividends, payouts going forward?

B.C.S. Iyengar: I think I will leave this to our Managing Director to address.

V P Mahendra: This is Mahendra here. This is a question, which is frequently asked, but I think we by and large will maintain the same ratio as we have been giving in the past.

Shashank Kanodia: 20% payout ratio?

V P Mahendra: Yes.

Shashank Kanodia: Lastly on the competition part, large number of players have been very aggressive on the power tiller segment be it the Greems or be it the Kirloskar or be it the Honda Sale Power rest of? How is the contributing shipping in the market right now?

B.C.S. Iyengar: Kirloskar has just introduced in the last year, they would have sold around 400 to 500 power tillers and Kubota they have just launched the power tillers. It is also on the positive side, we are looking at there are more players it also speaks for the market growth also. As long as we are able to grow in numbers it is all right.

Shashank Kanodia: Thank you.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I would now like to hand the floor to Mr. Annamalai Jayaraj for his closing comments. Over to you Sir!

Annamalai Jayaraj: Thanks the participants for participating in the call and special thanks to the VST Tiller Management for providing his opportunity to host the call. Thank you.

B.C.S. Iyengar: Thank you all the participants. Thank you B&K., Thank you Jayaraj.



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Moderator:

Thank you very much to the members of the management. On behalf of Batlivala & Karani Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.