

Transcripts

Conference Call of VST Tillers Tractors Limited

Event Date / Time : 31st May 2011, 12:00 PM IST

Event Duration : 01 hr 20 min

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Raghuram moderator for this conference. Welcome to VST Tillers FY11 post results conference call hosted by LKP Securities. As a remainder, for the duration of the conference, all participants shall be in listen only mode and there will be an opportunity for you to ask questions. I would now like to hand over the conference to Mr. S. Ranganathan, Head of Research, LKP Securities. Thank you and over to you sir.

S. Ranganathan: Thank you Raghuram. Good morning to all of you and apologies for the delay in getting connected to the management. On behalf of LKP, I would like to welcome all participants to this call. And I would especially like to thank Mr. Iyengar and the entire management team of VST Tillers.

Iyengar: Thank you.

S. Ranganathan: I would now handover to my colleague Ashwin Patil to take the call forward.

Ashwin Patil: Good afternoon to all the participants in the call. We have with us Mr. B C S Iyengar, Executive Director of VST Tillers Tractors Limited. Now, I request Mr. Iyengar to discuss how the year FY11 was for them and throw some light on the year going forward. Over to you, sir.

Iyengar: Hello, thank you Mr. Ashwin and Mr. Ranganathan. I will just give a summary of the results, which we considered at yesterday's Board meeting. To tell you very briefly, we are not very happy with the results, although it may be expected and analyzed. Last quarter, I will come to the last quarter first. We have sold about 7200 tillers as against 5900 tillers last year, a growth of 21% and in value wise a turnover of 82 crores as against 66 crores in the pervious year last quarter that is a growth of about 24%. And tractor sales, we have been able to record 1464 tractors and as compared to previous year 1031 tractors in the last year and the value wise it is 33 crores against 22 crores, yet an increase of about 42% in numbers and 47% in volume. And for the turnover for the year has been 425 crores as against 344 crores in the previous year, an increase of about 23%. The profit before tax, the current year, year ending 31st March we have ended up with a profit of 71 crores.

Moderator: Yes sir. You may go ahead sir.

Iyengar: Okay. So, that has been the thing and this is the brief summary. And why it is disappointing? As I told earlier I have been stressing that this

year we have lost considerable sales opportunity, because we are not able to source the raw materials, acute shortage of raw material coupled with increase in demand in automobile and tractors segment. We are not able to source the raw materials. Otherwise, probably we would have ended up selling at least another 1000 power tillers and about 500 tractors. The raw material position is slightly, but not significantly improved for the current year. So, this is the summary of the results. And we have declared a dividend of, we have recommended a dividend of 90% for the current year, so this is as far as the current quarter and current year is concerned.

Moderator: Thank you sir.

Iyengar: We can now take any questions that participants may have

Moderator: Mr. Iyengar, just stay on line sir.

Question and Answer Session

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

The first question comes from, Mr. Viraj Mehta from Equirus Securities.

Viraj Mehta: Hello sir. Sir, just had a few questions. Sir, regarding the, as you had mentioned about the raw material position, can you just throw more light as in, because we lost market opportunity sales last year, what would be your guidance, taking into account both the raw material availability as well as the market demands going forward in FY12 sir? Both in power tillers as well as tractors.

Iyengar: Our main problem last two years and current year also and probably in the coming year also, our limiting factor of growth would be the critical success factor would be the sourcing of component from the vendors. Last year we suffered very badly, because as compared to the global situation, in India in contrast we had under capacity, because of the sudden spurt in demand in the automobile and the tractor segment. And particularly the manufacturers of castings, sheet metals, the foundries, they were not prepared for this sudden growth and everywhere there was a shortage of material and coupled with the increase in raw material prices. But, although we were willing to pay and we had to pay for that, even then we were not able to get the material. Probably one reason is that, as compared to the other players like Mahindra or maybe Telco or any other bigger player in the tractor or the automobile segment, perhaps our volumes are less. So, therefore in a situation like this, where the demand is very high, probably the bigger players get the preference. That could be one of the reasons. And second reason is of course definitely that we have last thirty years or last four decades we have grown over the shoulders of small vendors manufacturers who have been with us for the last thirty-four years. So, probably they are also not able to keep pace with our growth. So, that is also one of the reasons. And this continues to bother us. And our efforts have been to continuously to look for new vendors, upgrade the capacity of existing vendors, help them wherever necessary. But, we are constantly in search of better vendors.

Viraj Mehta: Sure, sure. Sir, just wanted to get a sense, with this unavailability or shortage of vendors, what kind of growth can we as an investor expect in let's say the next two years time, in both the segments?

Iyengar: Minimum we can expect 20% to 25%. But, the opportunities are to grow much beyond that and our attempt will continue to grow much higher. But, looking to the prior experience and what we are facing now, we would not like to commit for anything more than 25%. But, believe us that our efforts are there to record a much bigger growth.

Viraj Mehta: Okay. And sir on the margin front, this quarter...

Iyengar: Yeah, margin is one of the things, which we have been constantly been maintaining the same this thing that please do not compare the two years back 2008-09 figure or 2009-10 figure, where we had a windfall of some excise duty release etc. And since then the raw material prices as you know has been going up, every quarter it has been going up. And we are not able to pass on for two reasons. One is that, our major product power tiller which accounts for about 65% of the total revenue, it is totally supported by the Government subsidy scheme, in which the prices are approved by all the States once in a year and we have to maintain the price irrespective of the raw material price increase. And second, we are under pressure from the competition, from the Chinese imports also, who are not very much affected. Yes, it is also price has gone up, but it is not to that extent. And our endeavor has always been to maintain the market leadership, rather than very much bothered about the percentage of profit, because ultimately we would like to register higher profits and need not necessarily be higher margins. And my personal opinion, I always maintain that we should not be unduly bothered, as long as it is around 15%.

Viraj Mehta: Sure, sure. It's not about 15%. I was just looking at the results and the selling and general expenses have gone up by almost 50% annually and double this quarter. So, just wanted to know what was that expenditure for.

Iyengar: No, if you compare it as a percentage of the turnover, it may not be much, but though in terms of volume, it may this thing. See, why it happens is that, the turnover sometimes in regard of the Government scheme, we may have to bill it directly to the Government department etc. at the MRP. And the discounts are to be passed on to the dealer who is offering the services etc. So, that comes as a marketing expenditure. So, the turnover is at a higher figure, the sales is at a higher figure as opposed to the sales, which is directly dealt with the dealer. So, in cases where the Government sales is direct to department buying is higher, the marketing expenditure gets loaded separately and the sales is reflected at the gross value.

Viraj Mehta: Okay, I get your point. It's just, it has been 10 crores this quarter vis-à-vis 7 crores in the last quarter and vis-à-vis around 5.6 crores the quarter Q4 FY10. So, is it anyway utilized for increasing awareness for the company's products or anything like that?

Iyengar: No, that has been a constant exercise. And in addition to that, this year we have introduced further schemes to upgrade the dealers' capabilities, target incentives and other things. Because, market as I told you that we are very much

concerned about the market leadership rather than very much bogged down by the (inaudible).

Viraj Mehta: Sure, sure, absolutely. And sir, your overall tax for the year is quite high?

Iyengar: Yeah, because we don't have any other tax filter we do not have our investment in R&D or any other this thing. And moreover we do not very much believe in buying tax relief.

Viraj Mehta: So, that is very much expected going forward also of around 34%-35% tax rate?

Iyengar: Yeah, we don't have much of a this thing. And our exports are also very limited. As you know there is no major revenue for us.

Viraj Mehta: Sure. Sir, out of the 32 crores of investments that you have added this year, where have those investments been, in debt funds, in liquid schemes?

Iyengar: Investment in mutual funds is separately shown.

Viraj Mehta: Yes, that is what I am asking, that 32 crores.

Iyengar: Mutual fund is what you would like to know about in the investments?

Viraj Mehta: Yeah, is there in debt funds or any equity funds?

Iyengar: No, it is in short-term, bank treasury funds.

Viraj Mehta: Treasury funds only, right?

Iyengar: Yeah.

Viraj Mehta: Sir, just wanted to get a sense, company has so much of cash, has no debt. And company also pays like less than 20% payout. So, is it going for a CAPEX going forward or does it intend to do something else with the cash, like a buyback or something?

Iyengar: I think I have shared this information with many of the investors that we are definitely going on for an expansion. Particularly on the tractors, we are going to shift our tractor production to Hosur.

Viraj Mehta: Tractor production to Hosur?

Iyengar: Where we have purchased the land and we have just started the construction and probably it will take another about fifteen months, where we move the operation of the tractor there. And the total expenditure estimated is about in the region of about 100 crores. Part of it is funded now. Already we have planned for the land and the other things.

Viraj Mehta: So, how much has been expended till now sir?

Iyengar: Already about 25 crores.

Viraj Mehta: 25 crores. And this is a completely new plant in Hosur, right?

Iyengar: Yeah, yeah.

Viraj Mehta: Sir, if the complete tractor production shifts, then the plant that we already have in Bangalore...

Iyengar: Will be completely available for power tillers.

Viraj Mehta: Will be completely available for?

Iyengar: Power tillers.

Viraj Mehta: Power tillers, okay. So, we have no intention probably to monetize that land going forward?

Iyengar: Not immediately, because for the tractors we are setting up a capacity about 12,000 to 15,000 tractors, because the demand is very good. So, on a single shift we would like to produce about 12,000 to 15,000 tractors. So, that is the capacity we are establishing there.

Viraj Mehta: Okay. On a single shift around 12,000 tractors.

Iyengar: Yeah.

Viraj Mehta: So, in a double shift, it could produce at maximum around 24,000 tractors?

Iyengar: Yeah.

Viraj Mehta: So, that would be like, if I look at the current year, the capacity utilization will be only around 25 odd percent.

Iyengar: Yeah.

Viraj Mehta: Okay. And that will be it from my side sir. Thanks a lot for your time.

Iyengar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Rajat Chandak from PRU ICICI Mutual Fund.

Rajat Chandak: Good afternoon sir.

Iyengar: Hi, good afternoon, welcome to you.

Rajat Chandak: Sir, can you just share some volume number of tillers and tractors we sold in the full year?

Iyengar: I think I just gave that number in the beginning. I will just repeat it for you. 23,449 power tillers.

Rajat Chandak: And tractors?

Iyengar: And tractors is 4735.

Rajat Chandak: Possible to get value wise sales break up?

Iyengar: Pardon?

Rajat Chandak: Sales break up also, if it is possible, how much of value wise sales came from tillers?

Iyengar: Power tiller value?

Rajat Chandak: Yeah.

Iyengar: Value is 262 crores.

Rajat Chandak: Okay and tractors would be?

Iyengar: Tractor is 104 crores.

Rajat Chandak: Okay sir, anything on the rice transplanters?

Iyengar: Rice transplanters, this year has been a disappointment, because we did not get the orders in the Punjab, because the Punjab labor situation is better and there is some other reasons also due to which we did not get the repeat orders in Punjab. So, we have sold only about 300 transplanters as compared to the previous year, about 400 transplants as compared to about 800 transplanters in the previous year.

Rajat Chandak: Okay. And sir, you said your pricing is somehow governed by Government.

Iyengar: Pricing under pressure.

Rajat Chandak: Yeah, so when does this price revision happen?

Iyengar: Generally it happens between April and June.

Rajat Chandak: Okay, has it already happened?

Iyengar: In some of the States it has been completed. So, most of the States, it will be around end of June.

Rajat Chandak: Okay. And in whichever States it has happened, what is the price increase we have got?

Iyengar: Price increase is in the region of about 3%.

Rajat Chandak: Okay. Hello, hello.

Moderator: Yes sir. You may go ahead with the question sir. Mr. Iyengar?

Rajat Chandak: Hello. I could not hear the management.

Moderator: Yes, just stay on line sir. Mr. Iyengar, can you hear me sir?

Ladies and gentlemen, you are requested to stay on line, while the management team is back into the call. Thank you.

Ladies and gentlemen, you are requested to stay on line, while the management team, Mr. Iyengar is connected back into the call. Thank you.

We welcome the management team of VST Tillers back in the call. Please go ahead sir.

Rajat Chandak: Hello, yes sir. Any State where we are seeing increase in subsidy or any such thing, more support from the Government coming for the tiller sales?

Iyengar: Increase in subsidy?

Rajat Chandak: Yeah, any State has increased any subsidy during the year?

Iyengar: See, the Central Government scheme recommends a subsidy, is giving a subsidy of 45,000. Some of the States are giving a higher subsidy. Like, in Karnataka the subsidy is 50,000 and in Orissa the subsidy is 60,000. And incidentally Orissa has now become the largest consumer of power tillers. Last year the total sale of power tillers in Orissa was close to 10,000 power tiller.

Rajat Chandak: This is for the industry or for us?

Iyengar: Total. Total industry.

Rajat Chandak: Total industry. And total industry also would have grown by 25%?

Iyengar: The total in the region of about 53,000 power tiller, including all the inputs.

Rajat Chandak: Okay. And sir, just on the margins, will we see further pressure on margins going forward because of commodity cost going up?

Iyengar: Yeah, as I told you that assuming that in the case of further increase in raw material, unabated increase in steel prices etc. as I told you beyond

June, where before which the correction factor has to take place, after that we will not be in a position to make any upward revision in the price of our products.

Rajat Chandak: But, how are you seeing that trend in commodity cost recently?

Iyengar: I do not see this thing, but going by the report, yesterday one of the papers reported that raw material prices are, there is likely to be increase. But, the manufacturers felt that they will be able to maintain the growth that is what they said. But, the report said that the prices are definitely going beyond, today we have seen that the oil prices are also going further. So, these will have definitely cascading effect.

Rajat Chandak: Just last one question sir. Demand scenario remains robust, both for tillers and tractors.

Iyengar: Yeah, more so for tractors.

Rajat Chandak: Okay. And tillers also will be having like waiting period, since we are constrained?

Iyengar: Tillers waiting period is not that much, because the competition in this sector is now heating up with so many imports, more than about ten players are there who are importing the power tillers. So, we are competing against countries which is manufacturing lakhs of power tillers. So, for them it's a child's play supplying some 10,000-20,000 power tillers.

Rajat Chandak: Okay sir. Thank you sir and all the best.

Iyengar: Thank you.

Moderator: Thank you sir. Next question comes from Ms. Sudhir Kukreja from Dolat Capital.

Iyengar: Hello, hello.

Moderator: Ms. Sudhir Kukreja, please go ahead with your question. Ms. Sudhir Kukreja, please go ahead with your question.

It seems Ms. Sudhir Kukreja's line is not active sir. Shall I take the next question sir?

Iyengar: Yes.

Moderator: Next question comes from Ms. Sai Anjali from Capital Market.

Sai Anjali: Most of my questions have been answered, thanks a lot. But, I just want to know, what has been the engine sale for FY11 and Q4?

Iyengar: No, engine sales are negligible, probably because we have sold just about 300 engines, because we are in a situation where we are not able to

supply to the market, the products. So, engine is only an incidental business for us and our main focus is on the products.

Sai Anjali: Okay. And you are saying that...and sir could you elaborate more when you said that your main thing is of course tractors and tillers and engines are just incidental. Is it because that because of the high demand you are saying, is it?

Iyengar: No, our engines are only, some specific users, they are purchasing our engines. But, we do not compete with; say some Grease Engine or Kirloskar Engines etc. who are in that place specifically in genset and other this engines. So, our engines are not specifically for that, that is a different ballgame, we are not into it.

Sai Anjali: Okay. And what has been the CAPEX spend for FY11?

Iyengar: CAPEX for...?

Sai Anjali: FY11, the year that just went by.

Iyengar: Yeah, can you go on to the next question before I answer this?

Sai Anjali: And also in FY12, you said in fifteen months the new tractor plant would come up, which would be around 100 crores. And besides that, is there any other spend for FY12?

Iyengar: Besides that is a routine replacement of existing machinery and this thing, it's not much. And the addition during the year is about 47 crores.

Sai Anjali: 47 crores, this is for FY11?

Iyengar: Sorry, sorry, addition is 4 crores, 4 crores, 73 lakhs.

Sai Anjali: I am so sorry, you said 4 crores...

Iyengar: 4 crores, 73 lakhs.

Sai Anjali: This is beyond the 100 crores you are saying?

Iyengar: No, this is part of it. And last year, the land has already been reflected. Addition to land has already come in last year and which is about 14 crores. So, so far I said we have spent about 25 crores.

Sai Anjali: Okay fine, alright. That's it. Thanks a lot.

Moderator: Thank you ma'am. Next question comes from Mr. Divyesh Shah from Pragya Equities.

Divyesh Shah: Hello. Mr. Iyengar, congratulations for the good set of numbers.

Iyengar: Thank you very much. But, as I told you, we are not very, very happy.

Divyesh Shah: Yeah, so are we also. But, within the constraint, it remains that we have performed well and congratulations for enlightening on higher in the dividend payout. I think, this is the first time company has done in spite of flat performance.

Iyengar: Thank you.

Divyesh Shah: Mr. Iyengar, can you enlighten us with the competitive landscape in power tiller business and our positioning within that space?

Iyengar: Competitive?

Divyesh Shah: Competitive Scenario in power tiller business, where we are placed in that space?

Iyengar: As I was just explaining, the last year ending March, the total power tiller sales is around 53,000 power tillers. We have recorded about 44%, 23,400 power tillers. There is one other manufacturer in Kerala, who are manufacturing the Kubota brand of power tillers. They also have been in existence for the last four decades. They have sold about 12,000 power tillers. So, the rest of the power tillers is all Chinese brands which are imported.

Divyesh Shah: Okay. And sir, what is the roadmap set by the management for the next three years? Where do you see our company going in the next three years, with the full plan and Hosur coming up?

Iyengar: Our vision in next two years, our turnover should be 1000 crores.

Divyesh Shah: In next two years?

Iyengar: Yeah.

Divyesh Shah: So, by 2013?

Iyengar: Yeah.

Divyesh Shah: Okay. And sir, with Hosur going on stream after one year, in full capacity what will be the turnover of Hosur?

Iyengar: Hosur, the plant capacity will be about 12,000 tractors, that is the only thing achieved that is what we are having. The demand right now is good, but unfortunately for reasons already explained, we are not able to, our biggest constraint and probably the only constraint is getting the raw material.

Divyesh Shah: Okay. And sir, do you have any plan to form a JV with strategic partners?

Iyengar: We have this thing, but we in principle, the promoters are not willing to dilute the shares. So, that has been one, whenever we look for a partner, particularly from the Japanese companies etc. where we look for a better technology, they would like to have nothing less than 50%. They would like to have a major share.

Divyesh Shah: But, is that option open?

Iyengar: Pardon?

Divyesh Shah: Is that option open?

Iyengar: No, that option we considered. Their requirement was more than 50%, so which we are not willing.

Divyesh Shah: Okay, so we will hold all by ourselves?

Iyengar: Yeah, probably we can have a tie up only for purchase of technical know how or something like that.

Divyesh Shah: And sir, any plan for raising equity for Hosur or any future expansion in next one year, equity dilution by management?

Iyengar: Yeah, we did consider this. But, we thought that we should not raise the equity just for the sake of it and just because the opportunity is there and the investor is willing to subscribe. We have, as you have seen in the balance sheet, we have some cash reserves and we would not like to either borrow or add this thing, unless it is absolutely necessary. And probably that's why we are deferring that option; because our cash balance reserves what we have will definitely see us through for the next six months. And if the going is good as expected, perhaps we may not require additional funds.

Divyesh Shah: Okay. And sir, previously you have told that we have increased the price by roughly 3% in some States. And which, considering hypothetically the raw material cost remains same as it was in say 2011.

Iyengar: No, raw material cost is already going up, it will not remain same.

Divyesh Shah: No, with the higher raw material cost and increase of 3% in MRP, where will be our margins roughly, considering that there is no further increase of raw material?

Iyengar: I think we should be able to maintain around 15%.

Divyesh Shah: Around 15%.

Iyengar: Yeah.

Divyesh Shah: Okay. Okay sir. And another sir, one more question. Sir, regarding our raw material shortage, I think this is a perennial problem with VST from last three years, because I am attending the AGM from last three to four years. And

every year we have the same problem. So, any management thought process in how to cope up with the raw material shortage, any new plans which you have done?

Iyengar: Our biggest task everyday and every 365 days, that has been our main thing. But, probably one of the reason is, we are also little, probably what I should say, conservative or sentimental about our business. And we continue with the suppliers and dealers and vendors who have been with us. And probably it is difficult decision to drop them and go entirely to a new breed of vendors. One is sentimental and second is the practical aspect of it; practicability of it also has been one of the problems.

Divyesh Shah: But sir, because of that policy company is suffering from the growth and competitors are...

Iyengar: No, as I told you, it's not only that, second is whether it is practical to and it is not something that the handshaking or handholding with a new this thing, it cannot happen overnight. Some of the, particularly some of the critical components in the forgings or castings etc. is in a development period. And today, of course if you go to the new vendor, my own volumes may be high, but as compared to the bigger players in the tractor or automobile, those volumes are not very high. Today if I wind up say 10,000 tractors, it could be 100% growth for VST Tillers. But, 10,000 tractors as compared to the other players, it is miniscule. So, it has to be attractive to the vendors. So, there is a constant endeavor to see whether how far our existing vendors can upgrade, can grow with us. And also, we are constantly searching for new vendors, so there is a balance between the two. I don't think that we can choose one path which will be the right this thing.

Divyesh Shah: And sir, with the change in Tamil Nadu Government and change in Government policies, do you find any change in Government policies regarding our business?

Iyengar: It's too early to say.

Divyesh Shah: Okay sir. Thank you. Thank you sir.

Moderator: Thank you sir. Next question comes from Mr. Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia: Yeah sir thanks for the opportunity. Sir, I just had a question on our subsidy. Sir, what do you see, how do you see it going forward like with the farming improving, MSPs going up? Do you see the kind of subsidy which we enjoy currently for our power tiller business would continue; say the outlook would be say three years or four years down the line?

Iyengar: No, from the 12th Plan, of course the subsidies in agricultural sector, it will continue, but the format could be different. Probably, the thinking on the Government is, they might encourage more of service providers, because more and more we are finding that the farmer himself is not going for cultivation etc. he is always going through the service providers and these things and where he is not willing to buy. The best example is our own transplanters. Although, we have introduced it about ten years back, has not been very successful, despite the labor problem. Because, the

farmer himself is not going to transplant or raise the nursery etc., but he doesn't mind paying, if somebody else can come forward to do it. So, there is a thinking on the Government to encourage the custom hiring business in agricultural this thing, where there is a huge necessity.

Kunal Bhatia: So currently, at least in the case of power tiller industry, what is the total subsidy which is there?

Iyengar: Pardon? 45,000 is Central subsidy. As I told, some of the States are giving higher subsidy up to about 60,000.

Kunal Bhatia: Sir, any amount which is totally allocated only for the tiller side?

Iyengar: No, the Central Government does not allocate for specific product, it is left to the State Government for mechanization and other means. So, every State has to identify its own needs and earmark the funds that is required, whether it is a tiller tractor, combined harvester, laser leveler, pump sets etc. So, it is left to, the decision is left to the State.

Kunal Bhatia: Okay. But, do you feel that going forward the amount could be reduced?

Iyengar: No, amount will not be reduced, but it will be in a different, the formats could be different, there are particular schemes. But, the total subsidy to the agricultural sector, in our opinion it will not go down, but the existing format and schemes, there could be some changes.

Kunal Bhatia: Okay. And sir, also I just missed out on the name you mentioned, one of your competitors who sold 12,000 tractors, who...?

Iyengar: Tillers, tillers.

Kunal Bhatia: Sorry, 12,000 tillers. Sir, what was the name for that?

Iyengar: Kerala Agro Machinery manufacturing company, KAMCO, shortly it's called, located in Cochin.

Kunal Bhatia: Sir, now coming to your tractor business, while entering in the new capacity of 12,000 to 15,000 tractors, so what range would you be producing?

Iyengar: What range?

Kunal Bhatia: Yeah.

Iyengar: Only the current model which we are producing, 18.5. We are unable to satisfy the demand, which is far ahead, not because of our, because our volume is very low and the demand is very high. And we are not looking for any other, because we are far from saturating or even meeting 50% of the demand for this product.

Kunal Bhatia: Okay. And sir going into the future have you witnessed that the power tiller industry has grown or is this growth because of the replacement?

Iyengar: We have seen that the last three years it has been growing around 20%-25%, it has been growing.

Kunal Bhatia: And going forward do you see that more of competition coming in would actually lead to more growth in this industry or it would be more of tractors?

Iyengar: No, the segment is totally different. See, it is just like comparing whether because of more car players etc. whether two wheelers will go away. It is a different thing, affordability is different, requirement is different. Though small farmers, we are looking for people who do not have any machinery or who are having only animal power to cultivate their land. Just like people who are using bus or going by cycle etc. they are going for two wheeler and not straight away graduating to four wheeler.

Kunal Bhatia: Okay sir. Thank you so much for the opportunity.

Moderator: Thank you sir. Next question comes from Ms. Shivani from Techno Shares.

Shivani: Good afternoon sir. I had a few questions. I wanted to know, out of the 23,449 tillers that you have sold this year, how much of this would be the Chinese imported CKD that you do?

Iyengar: The Chinese imported is about 800.

Shivani: Around 800. And last year sir, what was the number?

Iyengar: I will just give you madam. Sorry, Chinese is 562 and last year it was 371.

Shivani: Okay, 562 and 371.

Iyengar: Yeah.

Shivani: Okay, sir what is the difference in the realization of the Indian power tillers?

Iyengar: The price of Chinese power tiller is about 5% to 10% less.

Shivani: Sir, in our blended realizations, can you tell us how much is your manufactured tiller realization?

Iyengar: As I told you, out of 23,400 tillers, the imported tillers from China, which we are also trading is about 562 tillers.

Shivani: But, you won't be able to give me the realization of your own manufactured tillers?

Iyengar: Realization?

Shivani: Yes sir.

Iyengar: Realization, our price is, MRP is about 1,30,000. Chinese power tillers will be about 1.2 lakhs; it is 1.15 to 1.2 lakhs.

Shivani: Okay. Sir, in the market this supply constraint was felt across the market, RM cost supply constraint? Wouldn't it be possible for us to increase our sales volume had we imported more of the Chinese CKD?

Iyengar: No, no, see there is, we do not want to reduce our, what we are trying to do by offering Chinese power tiller, is to get a share out of the market which is preferring an economy model or a lower HP power tiller, but not to sacrifice our own (inaudible).

Shivani: Okay. And sir, can you just throw some light on the sub 24 HP tractor market? Who are the major players, how do you see that segment grow?

Iyengar: We do not compare ourselves to any of the bigger players. What we are saying and reaffirming again is, we are manufacturing only 18.5 HP, four wheel drive tractor. It has its unique features, in terms of compact size; it is a four wheel drive tractor, the weight of the tractor. So, it has because of its size, it is very much preferred in wherever like grape vineyards or cotton fields or sugar industry, where there is a huge demand for this particular tractor. So, we are just trying to satisfy that.

Shivani: Okay sir. Sir, how much of, credit must be very important when it comes to buying tillers and tractors. Have you seen some sort of a credit crunch happening on the side of the farmer for the purchase of tillers?

Iyengar: See, approximately power tillers, about one-third of the price is subsidized. The rest, of course, he has to bring some margin money and the bank loans etc. Credit crunch, not very much impacting on this thing, because it is not like big tractors, where the investment is about 5-6 lakhs. So, as far as the tractors is concerned, we are offering our tractors in commercial crops etc., there also we are not very much affected, because it is going to rich farmers like vineyard or cotton or sugarcane etc. It is not affecting us very much.

Shivani: Okay, so interest rate, rising interest rate scenario is not major threat to us?

Iyengar: No.

Shivani: Okay. Sir, would it be possible for you to tell me what is your component division outlook this year, the export and primarily exports, right sir?

Iyengar: Yeah. Export is a very small quantity.

Shivani: And last year it was around 4% to 5%. We don't expect exports to grow?

Iyengar: Not, it is about 8 crores, because that unit has been mainly supplying components for captive consumption and since our production is on the increase, so first priority is that.

Shivani: Okay. Okay sir, I will come back if I have any questions.

Moderator: Thank you ma'am. Next question comes from Ms. Shefali Doshi from KJMC Capital.

Shefali Doshi: Hello sir. Thank you for taking my question.

Iyengar: Thank you ma'am.

Shefali Doshi: Sir, of the total CAPEX and investment of 100 crores which you have mentioned.

Iyengar: Could you repeat it?

Shefali Doshi: As you mentioned that you will be investing 100 crores in the new capacity coming up at Hosur and 25 crores has been already expended. So, how is the balance CAPEX plan you intend to allocate the rest of the amount between next two years? Will we spend entirely in FY12 or how it will be done?

Iyengar: No, the current year, we expect another about 60-70 crores investment. And with the reserves what we have cashed, balance what we have and the generation for the current year, we are trying to see, trying our best to avoid any further raising of any debt or equity, if possible.

Shefali Doshi: So, most of the CAPEX will be done in this year only, investment, balance 95 crores?

Iyengar: Yeah.

Shefali Doshi: Okay, another thing sir. You were mentioning about developing a market in the Northern region, where there is not much presence by VST Tillers. So, is there anything specific which happened during the last quarter or during FY11?

Iyengar: Not exactly, because we are not able to go to new territories, particularly on the tractor, because the existing dealers, the demand waitlist is too much that we are not able to ignore that market and go to a new territory. So, probably unless our tractor production increases substantially, we may have to just close our eyes to the new market.

Shefali Doshi: Okay, while the Hosur facility is operational, you can focus on that area?

Iyengar: Yeah, yeah.

Shefali Doshi: Okay, so for FY11 how is the contribution from different States happen? Like, Maharashtra normally contributes 20% and Gujarat also contributes 20%.

Iyengar: The pattern is continuing.

Shefali Doshi: Okay, any major State, with major development in this FY11?

Iyengar: Major development, Orissa is continuing to grow.

Shefali Doshi: Sir, what is the contribution and what was the growth?

Iyengar: Orissa, the total market size is, we have grown from about 3000 to 4500 power tillers last year. And the total market is about 10,000 power tillers.

Shefali Doshi: Okay, so Orissa you see and how you see for FY12 or next two years, Orissa, how will be the situation there?

Iyengar: Orissa, current year it is going to be further this thing, it could be in the region of about 12,000 to 13,000 power tillers.

Shefali Doshi: Okay. For FY12 also you see some same kind of growth here?

Iyengar: Pardon?

Shefali Doshi: For FY12 also, you see same kind of growth here.

Iyengar: Yeah, in Orissa I am telling.

Shefali Doshi: Yeah, but 12,000 is the total industry size or the tillers which you will be selling in Orissa?

Iyengar: We will continue to grow and about 25% we will continue to grow.

Shefali Doshi: Okay fine sir. And other thing which I would like to know was regarding your capacity utilization for the tractors, what will be your current capacity utilization for tractor?

Iyengar: What is the...?

Shefali Doshi: Capacity utilization for the tractors?

Iyengar: No, we have a combined capacity for power tillers and tractors.

Shefali Doshi: Okay, so what would it be sir?

Iyengar: We have a capacity of 36,000 power tillers and tractors together.

Shefali Doshi: No, sir utilization, what would be the capacity utilization?

Iyengar: Utilization we have 23, plus we have done about 28,000. So, it's about...

Shefali Doshi: 75%-80%?

Iyengar: Yeah.

Shefali Doshi: Okay. And with sir Hosur capacity netting in operational, any capacity utilization numbers if you can give us initially for first year? Sir, first thing, when it will start contributing to revenue, the Hosur facility?

Iyengar: The new facility?

Shefali Doshi: Yeah.

Iyengar: The new facility, probably the tractors will be, first tractors will be rolling out in the first quarter of the next year.

Shefali Doshi: FY13 Q1?

Iyengar: In the end of first quarter, maybe May-June.

Shefali Doshi: Q1 FY13, you mean to say?

Iyengar: May or June 2012.

Shefali Doshi: Okay. And the initial capacity will be 12,000?

Iyengar: Yeah.

Shefali Doshi: Okay fine sir. Fine sir, thanks and all the best.

Iyengar: Thank you.

Moderator: Thank you ma'am. Next question comes from Mr. Raunak Nagda from Value Quest Research.

Raunak Nagda: Good morning sir.

Iyengar: Very good morning.

Raunak Nagda: Sir, you spoke about 12,000 tractor capacity that would come up by May-June. Sir, on double shift it would be 25,000 tractors, am I right?

Iyengar: Yeah.

Raunak Nagda: So, the capacity will be almost, from 36,000 it would go to roughly 60,000?

Iyengar: Yeah.

Raunak Nagda: So and sir you spoke about that by FY13 you want to do 1000 crores top line?

Iyengar: That is our wish. That is our wish and the opportunities are also there.

Raunak Nagda: So, would it be mainly from the tractors division going forward?

Iyengar: No, both. Power tiller we are expecting 25% growth, tractor much higher growth, because of the demand.

Raunak Nagda: And sir, what are your realization in tractors?

Iyengar: Tractor?

Raunak Nagda: Yeah.

Iyengar: Tractor is around 2,12,000.

Raunak Nagda: And sir, you gave a number of 4700 tractor for the full year FY2011 and the value was?

Iyengar: For power tiller?

Raunak Nagda: No, value of tractors?

Iyengar: Tractors, each, per unit?

Raunak Nagda: Yes. Not per unit, as a whole.

Iyengar: Total is 104 crores.

Raunak Nagda: 104 crores?

Iyengar: Yeah.

Raunak Nagda: Okay sir. All the best. Thank you.

Iyengar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Deb Banerjee from Quant Broking.

Deb Banerjee: Thanks for taking my question sir. Could you tell me currently the segmental margins in tillers and tractors respectively?

Iyengar: Margins, overall margin if you see it is around 15%. So, we think tractor is slightly lower. Power tiller is maybe about 18%. And tractor is maybe about 12% to 13%.

Deb Banerjee: At PBIT level or EBITDA level?

Iyengar: PBT.

Deb Banerjee: PBIT level. And sir going ahead, when you are expanding your tractor capacity in a big way, so can one assume that your bargaining power from vendors will also improve? So, your RM cost can come down substantially down the line. So, can that lead to tractor margin improvement down the line?

Iyengar: No, as I was just telling, maybe in terms of percentage growth, we may grow on 40% or 50%. But, yet a production of even 7000-8000 tractors, is a very low volume as compared to the other players.

Deb Banerjee: No, from current levels of sub 5000, you can potentially move up to as high as 15,000 to 20,000 tractors units in next three years time?

Iyengar: Definitely.

Deb Banerjee: So, that might lead to a better bargaining power from the vendors?

Iyengar: Yeah, in course of time. So, we don't expect it to happen next year, current year.

Deb Banerjee: No, by FY14.

Iyengar: Yeah.

Deb Banerjee: From that basis your tractor margin can reach to the levels of tiller margin?

Iyengar: And one thing I would like to say, there are other factors also. Two years back, when the entire automobile sector was down, we were in a buyers market and we were able to bargain better price, better this thing, get the supplies etc. Suddenly, when there is an all round turnout and there is a demand in the automobile and tractor segment, everything goes, then it becomes a sellers market. So, there are other factors also we have to see. It remains to be seen, how the other segments will grow, what is going to be there?

Deb Banerjee: Okay, thank you sir.

Moderator: Thank you sir. Next question comes from Mr. Jinal Sheth from Multi-Act Equity.

Jinal Sheth: Hello sir. I just had a basic question. Sir, which year did you go in for your IPO?

Iyengar: IPO?

Jinal Sheth: Yeah, when did you become a public listed company?

- Iyengar:** It's a listed company from a long back.
- Jinal Sheth:** From the beginning itself.
- Iyengar:** Yeah, from the beginning.
- Jinal Sheth:** Any particular reason when did the promoters had raised the fund from the market? Why had they done that, for expansion?
- Iyengar:** Last time when did we raise from these things?
- Jinal Sheth:** Not the last time. The thing is when you guys went in for IPO, any particular major reason?
- Iyengar:** The Company went into production in 1970. The capital was, first issue was sometime in 1971, 1969-70.
- Jinal Sheth:** Right, so that was the time when the company was actually public?
- Iyengar:** Yeah, yeah, right from the inception, it's a public limited company.
- Jinal Sheth:** Okay, right from the inception, it's a public limited company. Okay, alright. I am done, thanks.
- Moderator:** Thank you sir. Next question comes from Mr. Divyesh Shah from Pragya Equities.
- Divyesh Shah:** Hello. Hello Mr. Iyengar.
- Iyengar:** Welcome to you.
- Divyesh Shah:** Sir, one again regarding our...do we have any plan to go in farm service business, because to add the additional revenue or to tie up with any other company like Coromandel, they are also going into the farm service business, which utilizes our tiller and we give extra services to the farmers. So, do we have any plan like that?
- Iyengar:** No, there is a concept probably, I don't totally agree with this thing, but since there is a thinking that for customizing, bigger machines are more useful. So, we are in the small segment. Like, maybe you take our power tiller or tractor or even the rice transplanter, so they are probably, they are going for bigger tractors, bigger harvesters.
- Divyesh Shah:** Okay. So, no plan for any farm service business?
- Iyengar:** No, we have probably specialized for the small farmers requirements. So, when you talk of custom servicing, they are looking for bigger machineries.

Divyesh Shah: Okay. And sir, another question, when we shift our facility to our new tractor facility, from this facility to Hosur, so our tractor facility will be idle. So, what will be the tiller capacity then in the existing plant?

Iyengar: We will have, the entire capacity will be available, 36,000 it will be available for power tiller.

Divyesh Shah: We will be having this facility entirely for power tiller?

Iyengar: Yeah, entirely for power tiller.

Divyesh Shah: Okay. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Ruchak Mehta from Parag Parikh Finance.

Ruchak Mehta: Hello.

Iyengar: Welcome to you Mr. Ruchak.

Ruchak Mehta: Yeah, good afternoon sir.

Iyengar: Good afternoon.

Ruchak Mehta: Sir, my question is about the Chinese imports. Just wanted to understand, is the number of these players and their sales increasing in the market?

Iyengar: It is increasing.

Ruchak Mehta: No, what is it like? How is it, when it comes to after sales service, does it include the factor that the farmer considers before buying these, even though they are cheap? What is it?

Iyengar: In fact I would consider it necessary that it is that factor which has been exactly responsible, contributing for us or helping us to retain our market share. Better service, better quality and durability.

Ruchak Mehta: Okay. And yet at the same time, we are experiencing those sales also increasing?

Iyengar: Yeah, because there are more number of players stalking for each other. So, the cake is big enough and everybody is working for a share.

Ruchak Mehta: Sir, anything about the quality of these products?

Iyengar: No, as I told you, because of the quality, although there are more number of players and the price of the product is about 10% less than our product and the horsepower is also higher. Still most of the farmers prefer the Indian made power tillers, because of its durability and quality. And we are able to retain 45%. And the total number of Chinese power tillers sold is much less than our sales. Total Chinese power tillers sales is around 17,000 power tiller.

Ruchak Mehta: Okay, that's all from my side sir. Thank you.

Moderator: Thank you sir. Next we have a follow up question, from Ms. Shefali Doshi from KJMC Capital.

Shefali Doshi: Sir, thanks for taking my question again. Just wanted to know about how the replacement market is there for the tillers as well as the tractors?

Iyengar: Power tiller, it will easily serve for about fifteen years-twenty years.

Shefali Doshi: Fifteen years, okay. So, there is not much replacement market in the immediate, like three to five years?

Iyengar: No, fifteen years it will, ten to fifteen years it can definitely.

Shefali Doshi: And tractor?

Iyengar: Tractors also it will definitely, it has the same this thing only, the capacity difference. Just like an automobile madam, it will definitely, any scooter etc. it can be used comfortably for ten years, unless you abuse it.

Shefali Doshi: Okay, fine.

Moderator: Thank you ma'am. Dear participants, please press * and 1 for your questions.

Next follow up question comes from Ms. Shivani Mehra from Techno Shares.

Shivani Mehra: Sir, just one question. Sir, I was just calculating the average realizations on your tractors. You have done 107 crores this year in sales and 4735 in numbers. So that comes to around 2,19,640 average realization.

Iyengar: Yeah, 2,21,000.

Shivani Mehra: Yeah. And sir what are the going realization, if you have taken, have you taken any price increase this current year? Like, you have taken 3% on tillers?

Iyengar: Yeah.

Shivani Mehra: What is the price realization sir, current?

Iyengar: Current tractor prices have been increased by about Rs.7500.

Shivani Mehra: 7500. So, from 221 we have added 7500. Okay sir. That would be it. Thank you.

Moderator: Thank you ma'am. Next question comes from Mr. Kaushik Dhanuka from Dhan Commercial.

Kaushik Dhanuka: Hello sir.

Iyengar: Yeah, welcome to you.

Kaushik Dhanuka: Good afternoon.

Iyengar: Good afternoon.

Kaushik Dhanuka: Sir, any plans for NSE listing of stock split to improve?

Iyengar: Yeah, we have already submitted. Probably you can expect it in before the end of this quarter.

Kaushik Dhanuka: Before June end?

Iyengar: Yeah.

Kaushik Dhanuka: NSE listing?

Iyengar: Yeah.

Kaushik Dhanuka: Okay. And sir, any further plans to split the stock for increasing liquidity?

Iyengar: I was answering the present CAPEX for the expansion etc., we are able to carry through for the next six months. And perhaps if the internal generations are also going on the expected lines, there may not be a necessity to raise the requirement. As much as possible, we would like to desist from borrowing also and not unnecessarily raise the equity. Because, once this thing, then the servicing the investor family, all of you is a bigger challenge, so we would like to...

Kaushik Dhanuka: That's right. But, sir NSE listing should happen before June 2011, right?

Iyengar: Yeah, yeah.

Kaushik Dhanuka: Okay. And sir, what are the main risks which you can share with us as of now for your target of 1000 crores turnover for 2012-13?

Iyengar: One is that power tiller main this thing is that our biggest assumption on which we are relying and continuing the risk is that the Government policies on these subsidies, regarding subsidy and priority to the agriculture sector, particularly the small farmers will continue. So, that is the biggest assumption which we are making.

Kaushik Dhanuka: Okay and sir anything apart from this?

Iyengar: And the tractors where we are betting on, the risk is that, there is no one to one competition for our tractors, so we cannot rule out the possibility, but somebody else can bring a similar tractor. But, then it is a question at what price they will bring in and what will be the advantage, something like that. For example, today Kubota Tractors have brought in similar tractors to get into the, to compete in the vineyard etc. and also been selling in this thing. But, the price, it is imported from Japan and they are selling at around 4.5 lakhs. So, we cannot rule out the possibility of somebody indigenizing and totally reducing the price etc. In which case, we should also have to pull up our socks.

Kaushik Dhanuka: Okay. Okay, thanks a lot sir.

Moderator: Thank you sir. Next question comes from Mr. Anuj Anand Wala from Parag Parikh.

Anuj Anand Wala: Hello. Sir, looking at the broader picture, what kind of constraints do we see for the company due to all the competition that is coming in, say from the Kerala company that you mentioned KAMCO, as well as the Mahindra is also very much, they were long time into the tractor segment and all. What kind of overall competition and constraints do we see on the tractor side as well as on the tiller side?

Iyengar: No, I think competition per se we should not shy away from the competition. We would like to positively see more competitors, the market is also growing. One good factor about more than one dozen importers of Chinese brand is the fact that instead of only two players, earlier until last one decade, there were only two players speaking for power tiller and many times we had to go and even to the powers that we had the Krishi Bhawan, we had to tell them what a power tiller is. So, today with so many persons talking for power tiller, that has long back response. And everybody knows what a power tiller and power tiller has come to be recognized force as far as the Krishi Bhawan corridors are concerned. So, they know it is important. So, the competition is also helping us to grow and more number of players are seeking for the product and its importance is also growing. That is as far as the power tillers. As far as the tractor is concerned, as I told you if we are able to keep our competitive edge in production and keep the cost contained, then we should be able to continue this thing, because it has been established and the brand is much accepted and the quality is accepted.

Anuj Anand Wala: Okay. Sir, we look at India being very much under penetrated in terms of farm mechanization and would be around 2 to 3 horsepower per hectare. Now, going ahead say probably five years, ten years down the line, looking at the long term picture, what kind of figures do we see for India vis-à-vis the other Asian competitors?

Iyengar: Yeah, what will happen is, every farmer will be forced to have mechanization, because today there is no labor available and everybody is migrating to cities. And second, working in farm cities is considered as a lowly paid job or is not prestigious this thing. So, these are the two issues which Government has to address, because even if you make it remunerative also, psychologically people are shunning this agricultural work. But, there is an urgent need to increase the agricultural production, productivity, because although for example we are the second largest producer of rice. But, in terms of wheat we are probably ranking about ninth or tenth.

And China is producing double the quantity of rice with lesser land. So, there is so much of scope for increasing our mechanization and productivity. And we are compelled to go for mechanization. So for example, transplanters, if we have been working, so we are still struggling, but there will be a need definitely when people are forced to go for mechanized transplantation because we don't get people to work in the field.

Anuj Anand Wala: So, are we seeing the farmers' knowledge increasing say on the rice transplanters or on the power tillers?

Iyengar: Yeah.

Anuj Anand Wala: What kind of efforts have been made and put in by the Government to increase the knowledge of farmers on these new technologies and all?

Iyengar: Yeah, they are doing. They are doing this thing and we are also contributing. We are working now for example in Karnataka, we have hit up on a novel scheme to encourage the service providers to go for mechanization and Government has accepted that we need not necessarily go only for the farmers, who is not going to cultivate. So, any person who is coming forward to do the mechanized agricultural services, he could be given subsidy. So, that we have just now caught upon this thing and working on the rice transplanters. If the end of the season, which is going to be in the next July-August, if it is success, I am very confident that it can become a national model.

Anuj Anand Wala: Okay. Thanks a lot sir and all the best.

Iyengar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Dhananjay Mishra from Sushil Financials.

Dhananjay Mishra: Good afternoon.

Iyengar: Very good afternoon to you.

Dhananjay Mishra: Just one question, which are the States you are seeing perform, Maharashtra, Gujarat, Orissa for the demand coming for this power tillers?

Iyengar: Power tillers mainly come right from Karnataka, Orissa, West Bengal and North East and Bihar and parts of Maharashtra and Gujarat. Where we are not present of course is most part of UP, Rajasthan nowhere, Punjab.

Dhananjay Mishra: So, what is our strategy to penetrate this whole untapped market?

Iyengar: Pardon?

Dhananjay Mishra: What is our strategy to penetrate those untapped?

Iyengar: As far as the power tillers, it has been long considered as and also far much more utility in the rice fields, in the paddy fields. So, we are

concentrating on that. As far as the other markets, they have remained as the market for bigger tractors. So, there is psychological barrier or a mental block to go for a smaller power tiller.

Dhananjay Mishra: So, in terms of dealership we have PAN India presence?

Iyengar: Yeah, except these States like Punjab, where we are not present.

Dhananjay Mishra: How many dealers are there in India?

Iyengar: We are about 150 dealers.

Dhananjay Mishra: 150 dealers. And what is our market share in tractors segment?

Iyengar: No, very, very less. Very, very less.

Dhananjay Mishra: 3%, 4%?

Iyengar: Volume is just, last year we ended up selling 4700 tractors as against probably about 4 lakhs tractors.

Dhananjay Mishra: Okay, it's still at just 1%-2% levels.

Iyengar: No, you cannot straightaway draw the this thing, because we are in a very small segment of the lowest HP.

Dhananjay Mishra: Okay. So, we are low cost manufacturer?

Iyengar: It is not low cost, lower HP model, because the price of our tractor is definitely higher as compared to its nearest tractors.

Dhananjay Mishra: Okay. And this new capacity coming in, we are coming up with the same HP or maybe?

Iyengar: No, same HP.

Dhananjay Mishra: Same HP?

Iyengar: As I told you, we are not able to meet the demand, the existing demand. So, we are extending this.

Dhananjay Mishra: Okay, thanks a lot. Bye sir.

Moderator: Thank you sir. Next follow up question comes from Mr. Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia: Yeah sir, I just had a question on your Hosur facility. Sir, do we enjoy any kind of benefits there?

Iyengar: No, no. Hosur is developed this thing, area. It is an industrially developed area, nothing is available there, no facility.

Kunal Bhatia: Okay. And sir, how much of, like we have purchased the full land, everything is done or what stage of development are we on now?

Iyengar: Yeah, land is already acquired.

Kunal Bhatia: Pardon sir?

Iyengar: Land is acquired, construction is going to begin.

Kunal Bhatia: Okay. And sir, how many acres would that land be?

Iyengar: 14 acres.

Kunal Bhatia: And sir, current plant is how big?

Iyengar: Pardon? Current is 19 acres.

Kunal Bhatia: Sir, and we do and our corporate building is also are, I believe there were some rumors regarding some sale of land.

Iyengar: No, not immediately.

Kunal Bhatia: Okay sir. Thank you.

Moderator: Thank you sir. Next question comes from Mr. Aditya Podar from Alok Industries.

Sorry sir, Mr. Aditya's number seems not active sir.

Next question comes from Mr. Keshav Garg from K J Equity Research.

Keshav Garg: Good afternoon sir. Sir, I want to know from you, sir since FY11, the selling and distribution expenses are up 50% from 21 crores last year to 31 crores. Sir, what explains this rise in selling and distribution expenses?

Iyengar: No, two things I already explained. One is, you look at the percentage. Second thing is as I told you, in certain contracts where we have to sell the power tillers or the tractors to the Government departments, the margins that would have otherwise been payable to the dealer, they are booked separately as marketing expenditure as overriding commission. So, that ratio and that proportion makes some difference there.

Keshav Garg: Okay sir. And sir, like our growth in volume terms in tillers as you said is around 23% and in tractors it is 28%. And sir also, but our total sale growth for FY11 is 23%. Sir, so has there been no realization growth in FY11?

Iyengar: Realization growth? I didn't understand, what do you mean by realization growth? You mean unit realization?

Keshav Garg: Yes sir.

Iyengar: Unit realization is, in fact if you look at this thing, the volume growth and the realization growth, it's just about 2% increased.

Keshav Garg: Sir, 2% increase in realization?

Iyengar: One minute. See, power tiller has grown up by 23% in quantity. Value has grown up by 25%. And tractors has grown up by 26%, the value has grown up by 29%.

Keshav Garg: Okay sir. And sir, you said that in Karnataka, Punjab, Rajasthan and Uttar Pradesh, you are not present.

Iyengar: Karnataka we are present. Rajasthan, Punjab.

Keshav Garg: Sorry, sorry, Rajasthan, UP, Punjab, that means VST Tillers and Tractors does not...

Iyengar: Punjab is market for big tractors.

Keshav Garg: Sir, I am talking about tillers.

Iyengar: Tillers, no, no. Once they prefer only big tractors, power tillers they walk behind machines. So, they say this is not at all useful.

Keshav Garg: So that means the 150 dealers that we have, in these States we don't have any dealers?

Iyengar: No.

Keshav Garg: Okay sir. And these 150 dealers are they constant or are they increasing? Is the company increasing the number of dealers?

Iyengar: Not every year, maybe about 5% to 10% are increasing.

Keshav Garg: Okay sir. Sir, you said that there are ten importers of tillers in India that is Chinese tillers.

Iyengar: Yeah.

Keshav Garg: Sir, one thing I wanted to know sir, the sales break up. Sir, tillers constitute 61% approximately of our sales?

Iyengar: Yeah.

Keshav Garg: Tractors, approximately 24½?

Iyengar: Yeah.

Keshav Garg: And sir, the rest 14% is contributed by what?

Iyengar: We have got spare parts, we have got rice transplanters, we have attachments.

Keshav Garg: Sir, this Hosur plant when will it come on stream, when it will start production?

Iyengar: I told you that probably you can expect the production to rollout in the June, next year May and June.

Keshav Garg: Okay sir. And sir, you said that 562 tillers we imported this year. Sir, the rest we manufactured or rest we are sourcing domestically from vendor?

Iyengar: No, we are manufacturing my dear. We are manufacturing.

Keshav Garg: So, apart from the Chinese tillers?

Iyengar: 23,000 power tillers are totally indigenously manufactured in our plant.

Keshav Garg: Okay sir. They are manufactured. So, are you assembling them or are you manufacturing them?

Iyengar: It is largely assembly, because we don't manufacture say, forgings, castings etc. we don't manufacture. Our manufacturing is limited to critical components like crank shaft, connecting rods, transmission case, cylinder block. These are the components which are the core components of diesel engine and transmission are manufactured. So, we don't manufacture this thing, we don't have a foundry or we don't have workshop.

Keshav Garg: Right sir. And sir, you said that Chinese imports, out of 53,000 tillers sold last year, the Chinese tillers consisted 17,000 units?

Iyengar: 17,000.

Keshav Garg: Okay sir. And, sir this Hosur plant, sir in the annual report, the installed capacity of tillers and tractors is given as 13,000 units.

Iyengar: Hello, that is on a single shift and now it is only an assembly capacity. It is not a total plant capacity. Now that assembly capacity can be expanded by putting up one more station and that is not a limiting factor.

Keshav Garg: Sir, so like you are saying that demand for small tractors is exceeding supply by almost 50% and there is a waiting period. So sir, if we don't have capacity, then why don't you increase the prices?

Iyengar: Not our capacity, the vendors are not able to, our existing vendors are not able to upgrade their capacity to meet our requirements.

Keshav Garg: Sir, so VST Tillers has got spare capacity in its plants, but the vendor is not able to supply them.

Iyengar: Yeah, yeah.

Keshav Garg: Okay sir. And sir, once your Hosur plant is operational, that is next June, will you shift your production from Whitefield Plant?

Iyengar: Hosur, the tractor production we are shifting.

Keshav Garg: Okay sir. But, tillers will still be made in...?

Iyengar: Tiller will continue to be in Bangalore.

Keshav Garg: Okay sir. And sir also you said that out of this 100 crores CAPEX in Hosur, 25 crores you have already spent?

Iyengar: Yeah.

Keshav Garg: Sir, but if we see the balance sheet of this year...

Iyengar: Last year the land is already purchased last year, some of the machines from last year.

Keshav Garg: Okay sir, then it makes sense. Sir, that is all.

Moderator: Yes sir. Next final question comes from Mr. Avinash Gupta from Globe Capital Market.

Avinash Gupta: Thank you for taking my question. I joined a little late; maybe you have answered this question already. You are saying that we are in a very small range of horsepower tractors, what is your approximate market share there, in that range of small horsepower tractors?

Iyengar: I think the smaller range they are manufacturing around about 60,000 tractors.

Avinash Gupta: Okay. This is below 20 HP?

Iyengar: Below 20 HP is probably the production is only about, I meant smaller is up to 35 HP, if you are talking of less than 20 HP, it would be around maybe 20,000 or less.

Avinash Gupta: Okay. Yours is below 20,000 range?

Iyengar: Yeah.

Avinash Gupta: Okay. And a small thing, tillers apart from you, you said one more manufacturer is there.

Iyengar: In Kerala, yeah.

- Avinash Gupta:** In Kerala. How much is his production approximately?
- Iyengar:** Pardon?
- Avinash Gupta:** How much is his production?
- Iyengar:** How much?
- Avinash Gupta:** Your production is 23,000 tillers.
- Iyengar:** We are producing 23,000.
- Avinash Gupta:** 17,000 have been imported.
- Iyengar:** They are producing about 12,000
- Avinash Gupta:** 12,000, that means something like about 50,000 plus is the total market size?
- Iyengar:** 53,000 power tillers.
- Avinash Gupta:** Okay thank you sir.
- Moderator:** Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Ashwin Patil of LKP Securities for closing comments.
- Ashwin Patil:** Thanks a lot Mr. Iyengar for your valuable time.
- Iyengar:** Thank you. Thank you very much.
- Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.