# VST TILLERS & TRACTORS LTD

## Sector: *Agriculture/ farm mechanisation*

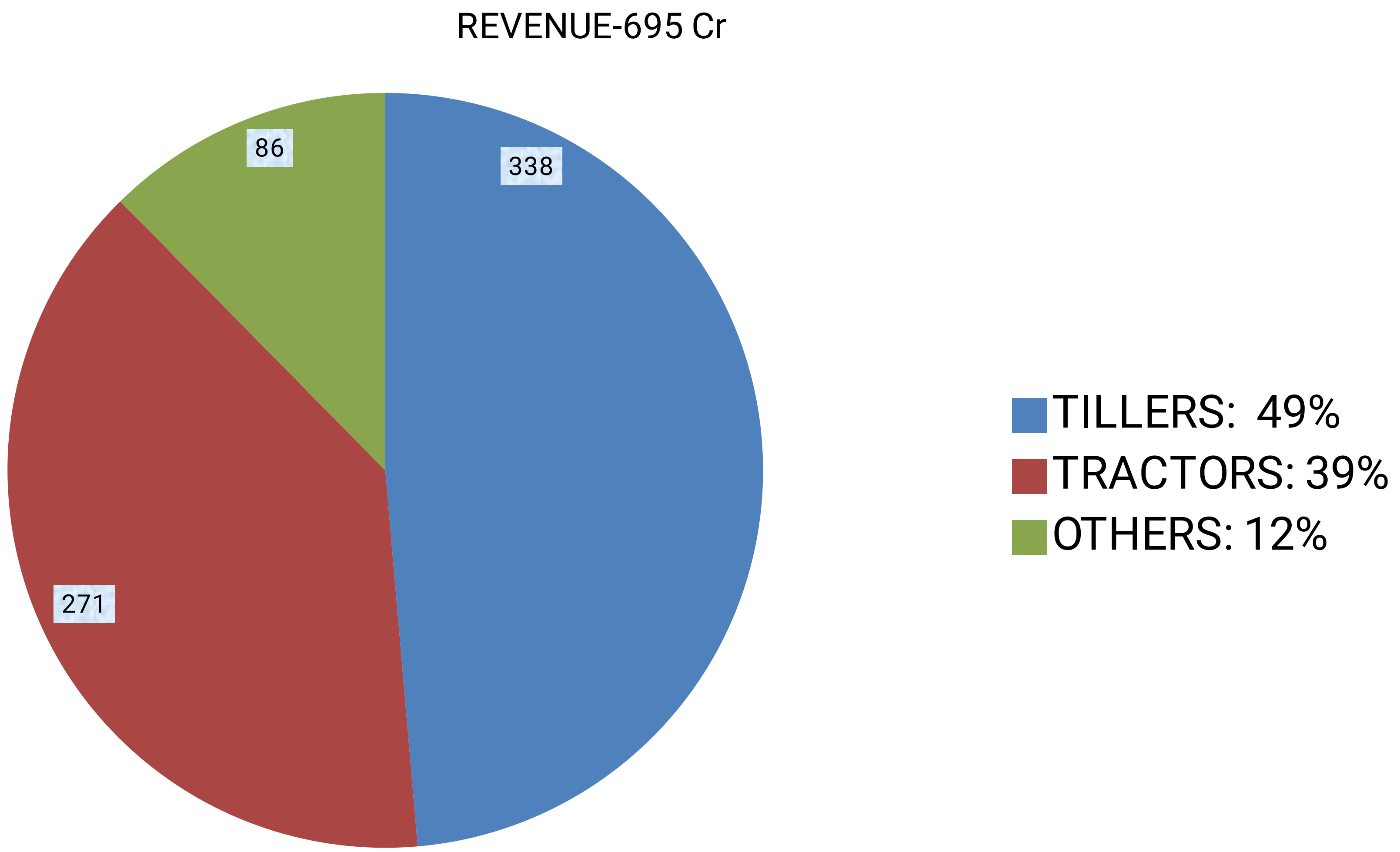
Discl:Invested(~5% of PF)

- Started as joint venture 60:20:20 in 1967
- Mr VT velu & brothers: Mitsubushi, Japan: Mysore State Ind. Corporation for tillers and diesel engine
- Commercial production of tillers in 1970
- 1984- Additional collaboration with Mitsubishi for manufacture of 18.5 HP tractors
- All collaborations expired

# Capacity & Plants

- Tillers: 60,000/yr, Whitefield , Bengaluru(acre:
- Tractors:36,000/yr, started in  fy 2014, Hosur
- Precision/auto components: Mysore

# Products & Revenue Share FY17



# Farm mechanisation

- India
  - 2.4% OF LAND
  - 4% OF TOTAL WATER RESERVE
  - 18% OF GLOBAL POPULATION
  - 55% of population
  - 40% farm mechanisation
  - 14%GDP contribution

# Level of farm mechanisation and GDP contribution

| country | % of GDP | LEVEL OF FARM MECHNISATION |
|---|---|---|
| USA | 1 | 95% |
| WEST EUROPE | 5 | 95% |
| BRAZIL | 5 | 75% |
| RUSSIA | 4 | 80% |
| CHINA | 10 | 45% |
| INDIA | 14 | 40% |

Source: agrimach,knowledge paper on Indian farm eupiment

## TABLE 1. LAND HOLDINGS IN INDIA

| | Percentage number of holdings in each category | | | | Area under each category | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Percentage | | | Average (ha) |
| Category | 1971 | 1991 | 2001 | 2011 | 1991 | 2001 | 2011 | 2011 |
| (1) | (2) | (3) | (3) | (4) | (5) | (6) | (7) | (8) |
| Marginal (<1 ha) | 50.6 | 59.2 | 62.4 | 67.0 | 15.0 | 18.7 | 22.2 | 0.38 |
| Small (1-2 ha) | 19.0 | 18.7 | 19.1 | 17.9 | 17.4 | 20.2 | 22.1 | 1.42 |
| Semi-Medium (2-4 ha) | 15.2 | 13.6 | 11.9 | 10.1 | 23.2 | 23.9 | 23.6 | 2.71 |
| Medium (4-10 ha) | 11.3 | 7.0 | 5.6 | 4.3 | 27.1 | 24.0 | 21.2 | 5.76 |
| Large (>10 ha) | 3.9 | 1.5 | 1.0 | 0.7 | 17.3 | 13.2 | 10.9 | 17.37 |
| Average holding size (ha) | 2.28 | 1.57 | 1.33 | 1.16 | | | | |
| All holdings (million) | 70.5 | 106.6 | 119.9 | 137.8 | | | | |

*Source*: (MOA, 2013).

**Percentage of agricultural workers to total workers (percent)**

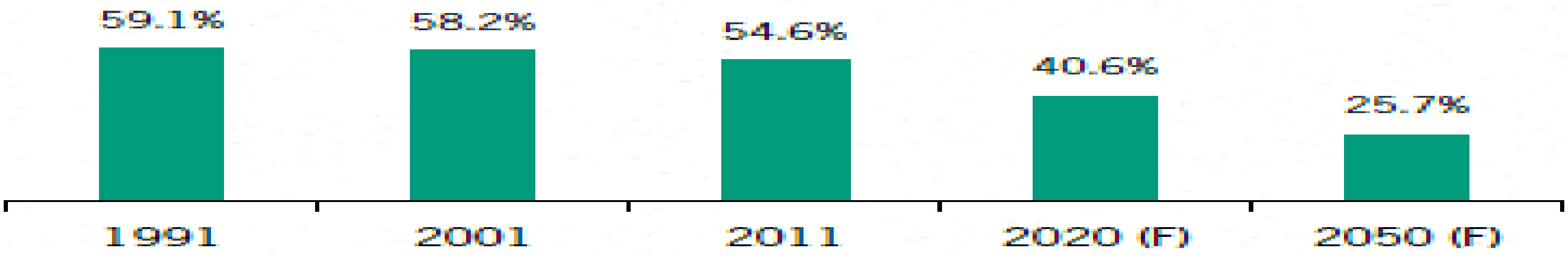



Figure 11: Agricultural workers as a percent of labour force
Source: World Bank estimates

**Population demographics (percent)**

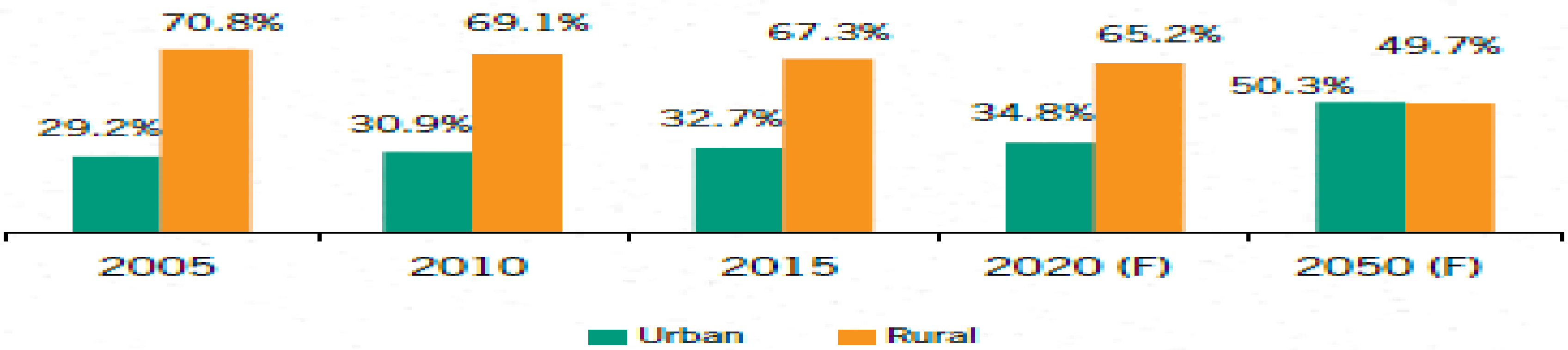
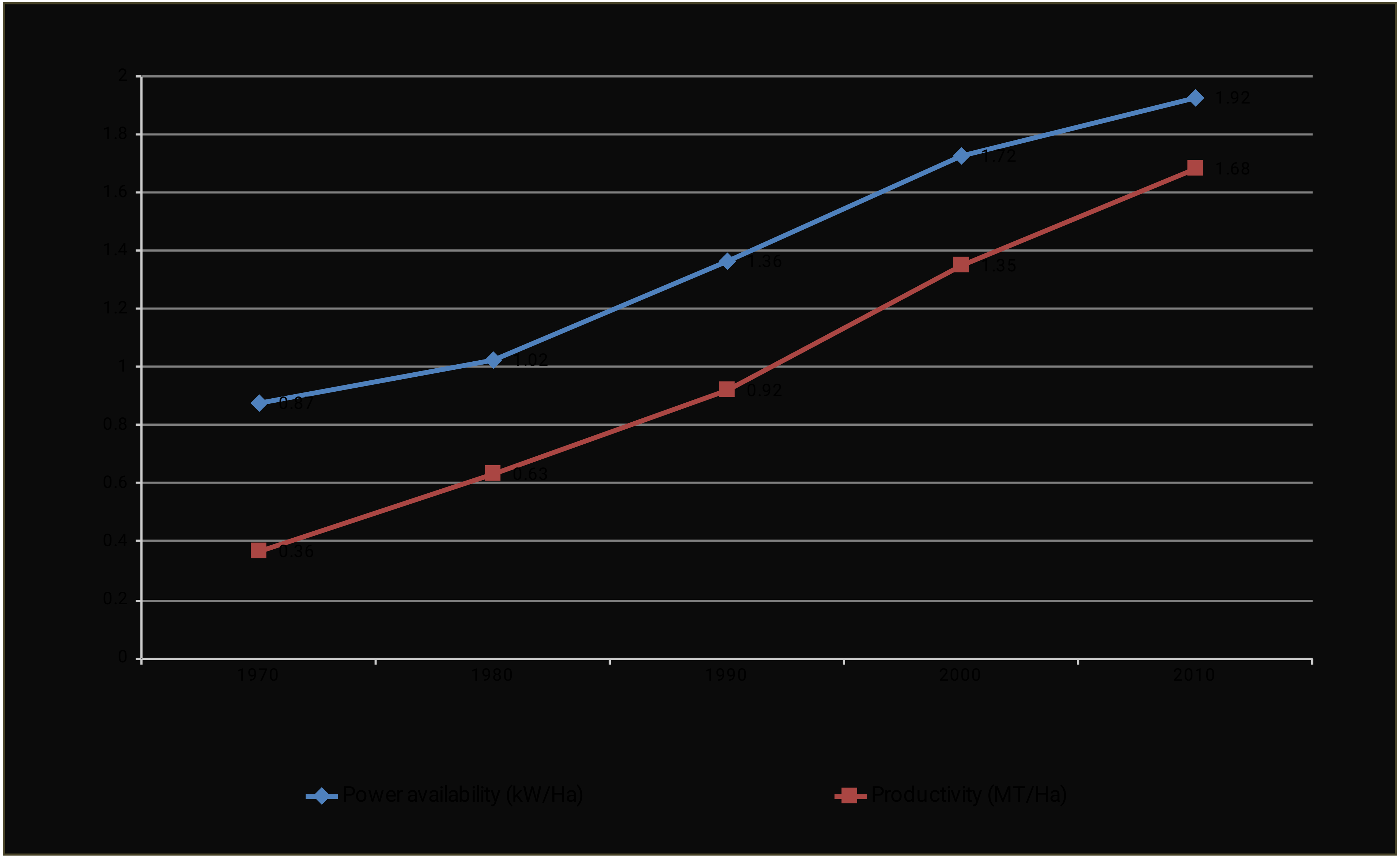



Figure 12: Population demographics
Source: World Bank estimates

agrimach,knowledge paper on Indian farm eupiment

# Power availability and productivity




Source:

# Govt subsidy

| Tillers | 40 to 70% |
| --- | --- |
| Mini tractors(15-20 hp) | 0.75 to 1.0 lac |
| Big tractors | Upto 2 lac |

# Govt focus on farm mechanisation

**Action plan proposed for 7 years in respect of Mechanization and Technology Division to promote the Agriculture Mechanization with a view of Doubling the income of the Farmers by 2022:**

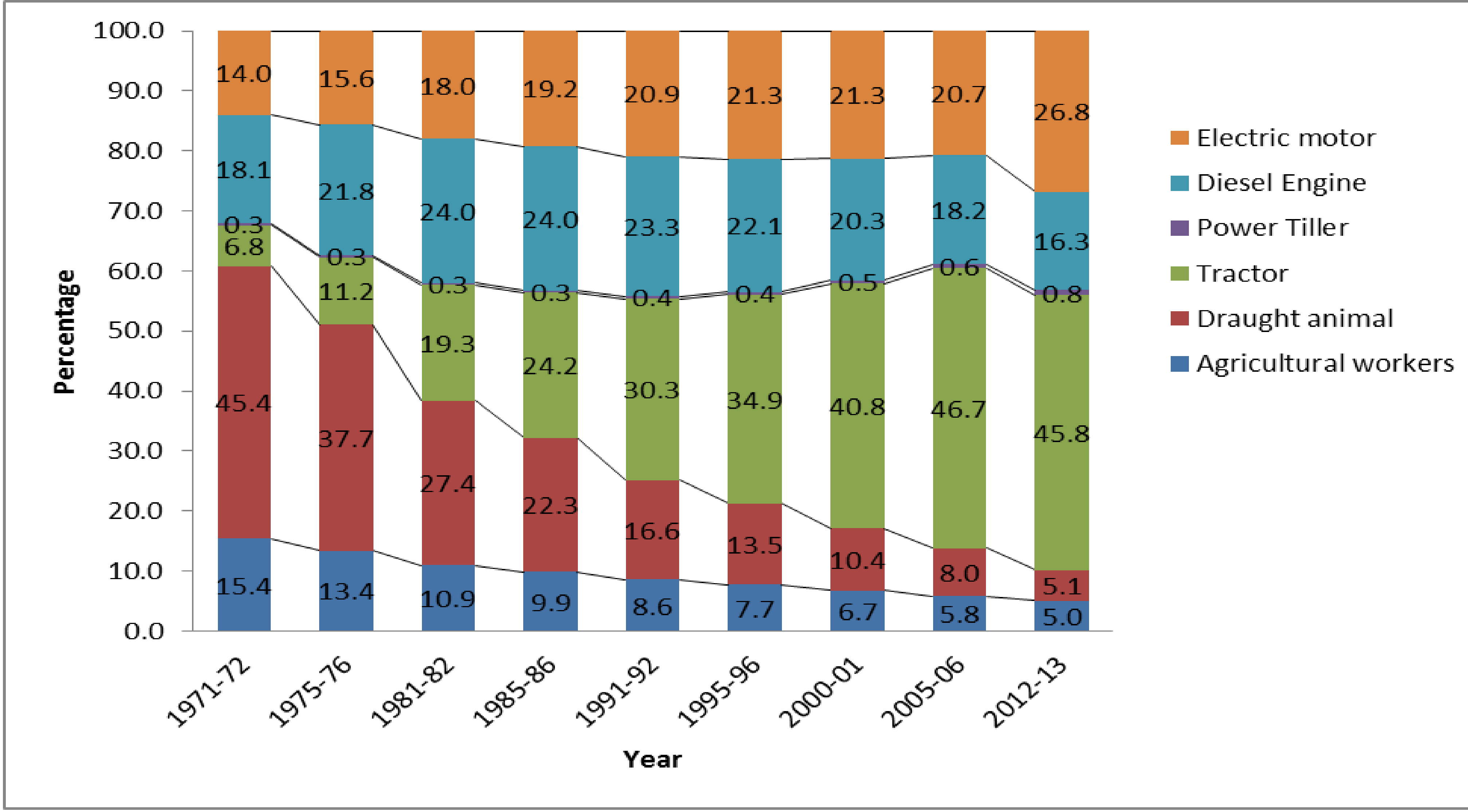
| 07 Years Vision 2016 -17 to 2021-22 | | |
|---|---|---|
| **Scheme** | **Vision and Outcome** | **Targets** |
| Sub Mission on Agricultural Mechanization. | 1. 1.To increase Farm power availability from the existing level of 2.02 kW/ha in 2016-17 to 2.8kW/ha by 2022 | 2.8 kW/ha to be achieved by 2022 |
| | 2. To develop Skilled man Power in Farm Mechanization sector | 1,48,000 trainees to be trained |
| | 3. To ensure the Quality, durability, safety and comfort of the farm machinery available to the users through testing. | 10,270 Agricultural Machineries including, Tractor, Power Tillers and Combine harvester are likely to be tested. |
| | 4. Technology diffusion and commercialization through demonstration, and entrepreneurship development for Custom Hiring Centres. Distribution of Farm machinery for individual ownership. | 2,80,000 nos of Custom Hiring Centers to be established at village level.<br>19000 field demonstration on farmer field to be organized<br>19,00,000 nos of farm machinery would be distributed under SMAM |

ANNEXURE:1

STATE WISE ,YEAR WISE FUNDS RELEASED UNDER SMAM

(RS. IN CRORES)

| STATE | RELEASED 2014-15 | RELEASED 2015-16 | RELEASED 2016-17 | RELEASED AS ON 20.09.2017 2017-18 | TOTAL RELEASED |
|---|---|---|---|---|---|
| Andhra Pradesh | 10.54 | 7.28 | 48.99 | 35.00 | 101.81 |
| Arunachal Pradesh | 0.49 | 1.88 | 1.33 | 2.75 | 6.45 |
| Assam | 5.62 | 0.00 | 1.08 | 10.00 | 16.70 |
| Bihar | 9.01 | 0.00 | 14.00 | | 23.01 |
| Chhattisgarh | 5.19 | 4.00 | 10.00 | 30.00 | 49.19 |
| Gujarat | 7.94 | 7.55 | 6.00 | 6.48 | 27.97 |
| Haryana | 2.55 | 0.00 | 0.00 | 45.00 | 47.55 |
| Himachal Pradesh | 1.02 | 0.75 | 4.95 | 9.01 | 15.73 |
| Jammu & Kashmir | 1.18 | 0.95 | 3.64 | 1.80 | 7.57 |
| Jharkhand | 3.58 | 2.54 | 2.25 | 1.00 | 9.37 |
| Karnataka | 9.62 | 0.00 | 44.41 | 30.00 | 84.03 |
| Kerala | 2.37 | 0.00 | 1.00 | 4.89 | 8.26 |
| Madhya Pradesh | 13.92 | 26.02 | 20.00 | 43.11 | 103.05 |
| Maharashtra | 20.34 | 15.96 | 15.00 | 17.06 | 68.36 |
| Manipur | 1.10 | 2.91 | 0.00 | 2.85 | 6.86 |
| Meghalaya | 1.25 | 0.00 | 0.90 | 0.50 | 2.65 |
| Mizoram | 0.50 | 2.03 | 2.00 | 3.66 | 8.19 |
| Nagaland | 0.62 | 2.85 | 3.33 | 11.41 | 18.21 |
| Orissa | 7.09 | 5.67 | 35.78 | 23.55 | 72.09 |
| Punjab | 2.09 | 0.00 | 52.09 | 48.50 | 102.68 |
| Rajasthan | 15.80 | 0.00 | 4.25 | 9.00 | 29.05 |
| Sikkim | 0.19 | 0.65 | 1.44 | 1.38 | 3.66 |
| Tamil Nadu | 8.44 | 21.39 | 30.30 | 23.28 | 83.41 |
| Telengana | 6.93 | 4.76 | 5.97 | 10.00 | 27.66 |
| Tripura | 0.39 | 2.44 | 2.00 | 7.76 | 12.59 |
| Uttar Pradesh | 21.21 | 16.51 | 37.98 | 43.97 | 119.67 |
| Uttarakhand | 0.91 | 0.78 | 2.56 | 3.56 | 7.81 |
| West Bengal | 5.98 | 5.65 | 4.00 | 10.00 | 25.63 |
| **TOTAL** | **165.87** | **132.57** | **355.25** | **435.52** | **1089.21** |



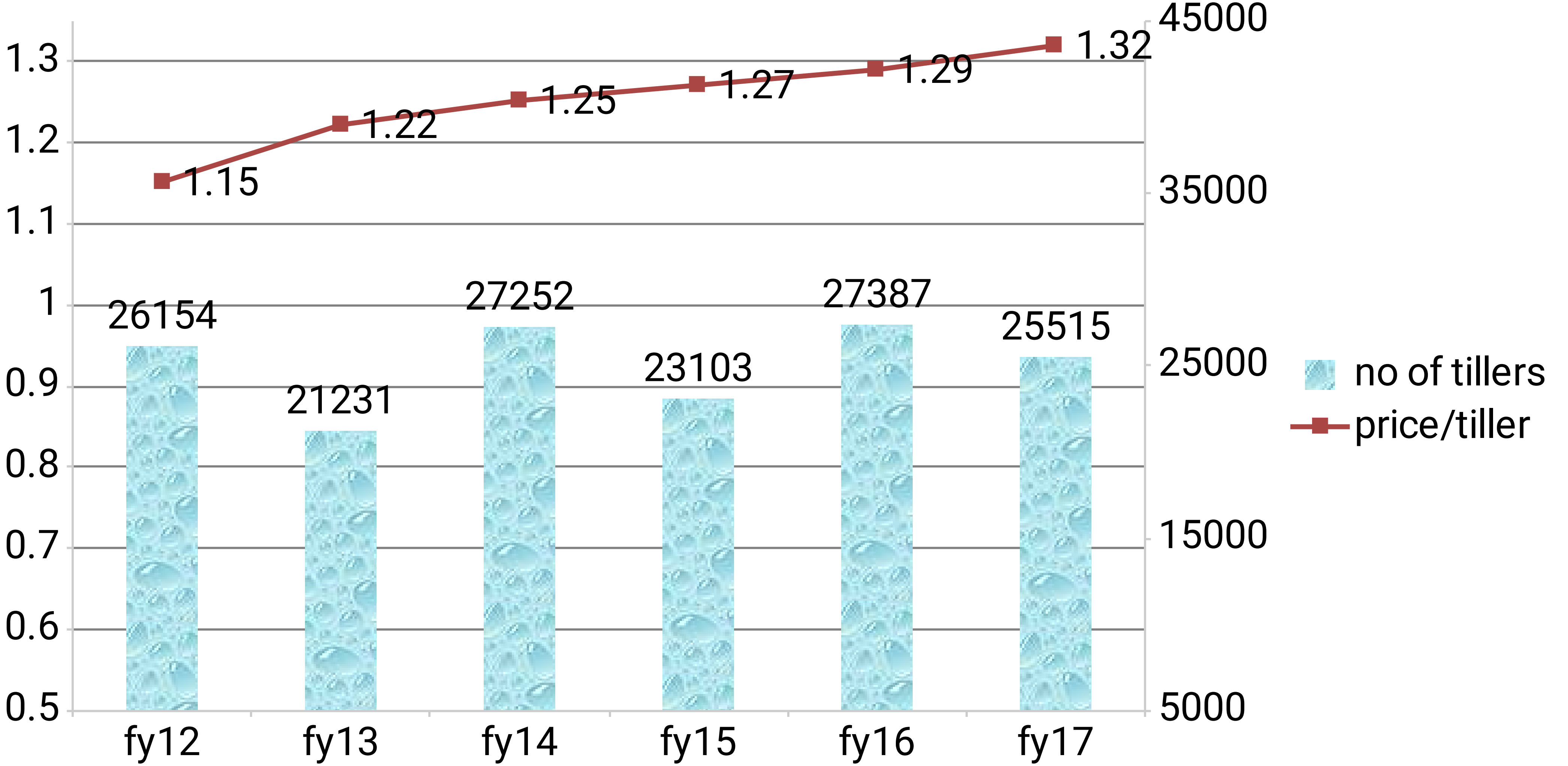

**Share of agricultural worker & draught animals came down from 60.8% in 1971-72 to 10.1% in 2012-13**

Original side:kk singh,icar,Bhopal

# Power Tiller

- Does most of the work done by tractor
- Hand tractor/walking type tractor
- 7hp to 15hp
- Suitable for small farmers
- Avg cost: 1.6lac
- Govt subsidy driven

# Power tillers



- Expected growth 5%
- Orissa, AP, Karnataka,TN and Eastern states
- DBT scheme, Increase in subsidy
- Increase in small/marginal farmers

- Two major players:
  - Vst tillers: 58% market share( from 42% in fy07)
  - Kamko: 23% market share(from 34% in fy07)
  - Others: Kubota, Kirloskar
  - Chinese imports

# Chinese Competition

- 30% of tillers imported
- Grown significantly from10% last few yrs
- Govt subsidy given to all
- Many companies (shrachi/kranti) import tillers and market them as indigenous
- Lack in after sale service and spare parts
- Without proper testing getting subsidy

| CHINESE | | INDIAN | VST | KAMCO |
|---|---|---|---|---|
| IMPORT COST | 77,655 | RAW MATERIAL COST | 90,000 | 93,700 |
| CUSTOM DUTY@7.5% | 8,278 | | | |
| DEALERS MARGIN | 13,671 | DEALERS MARGIN | 10,000 | 9,510 |
| COMPANY PROFIT | 10,091 | COMPANY PROFIT | 5,000 | 1,970 |
| SELLING PRICE | 1,47,135 | SELLING PRICE | 1,65,000 | 1,64,495 |

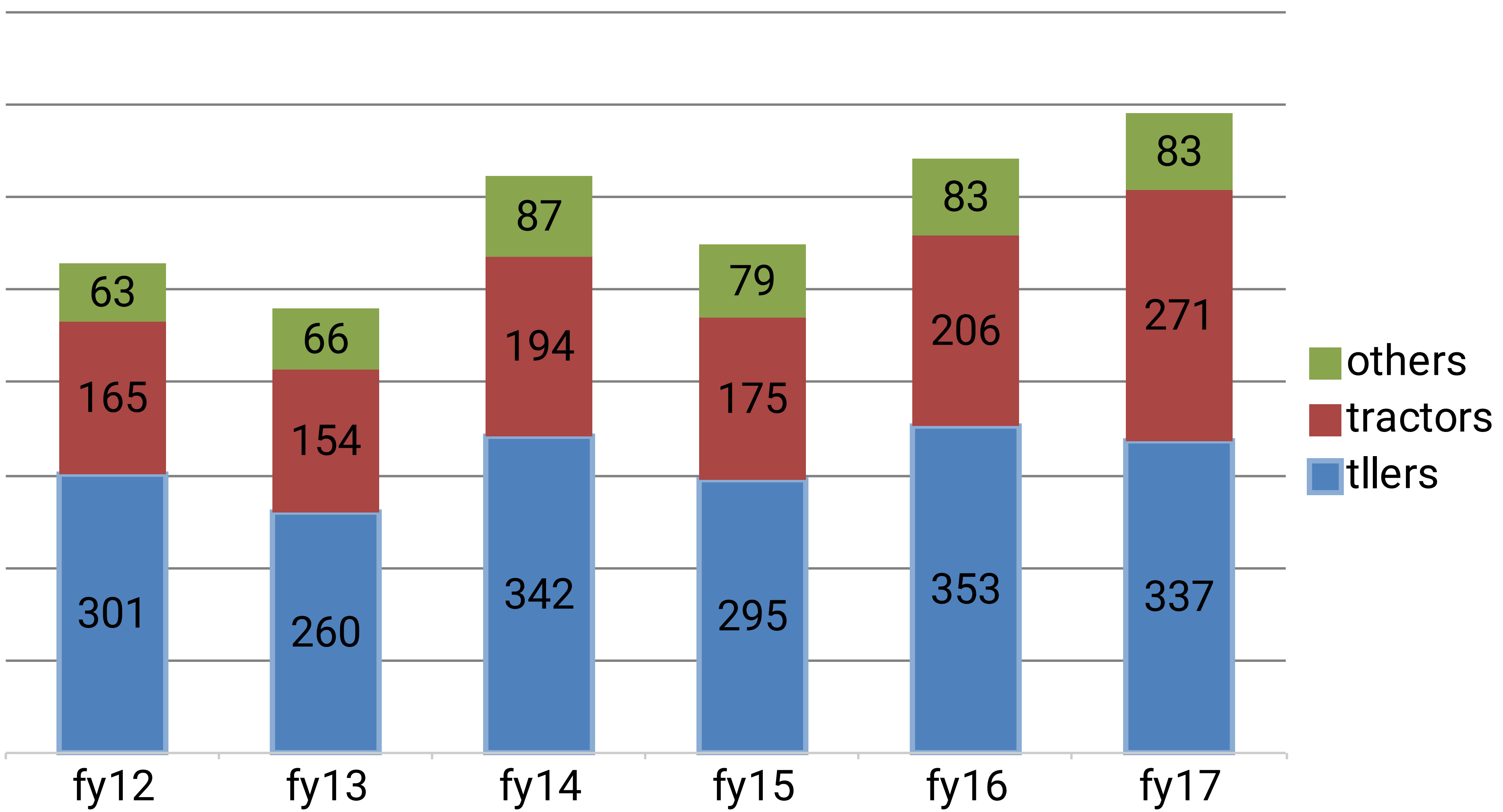
# RECOMMENDATIONS

- Preference for domestic manufacturers
- Increase in custom duty to 25% from current 7.5%
- Restrict import quota to 10% of total annual market
- Improvement in quality/testing /making certifications mandatory

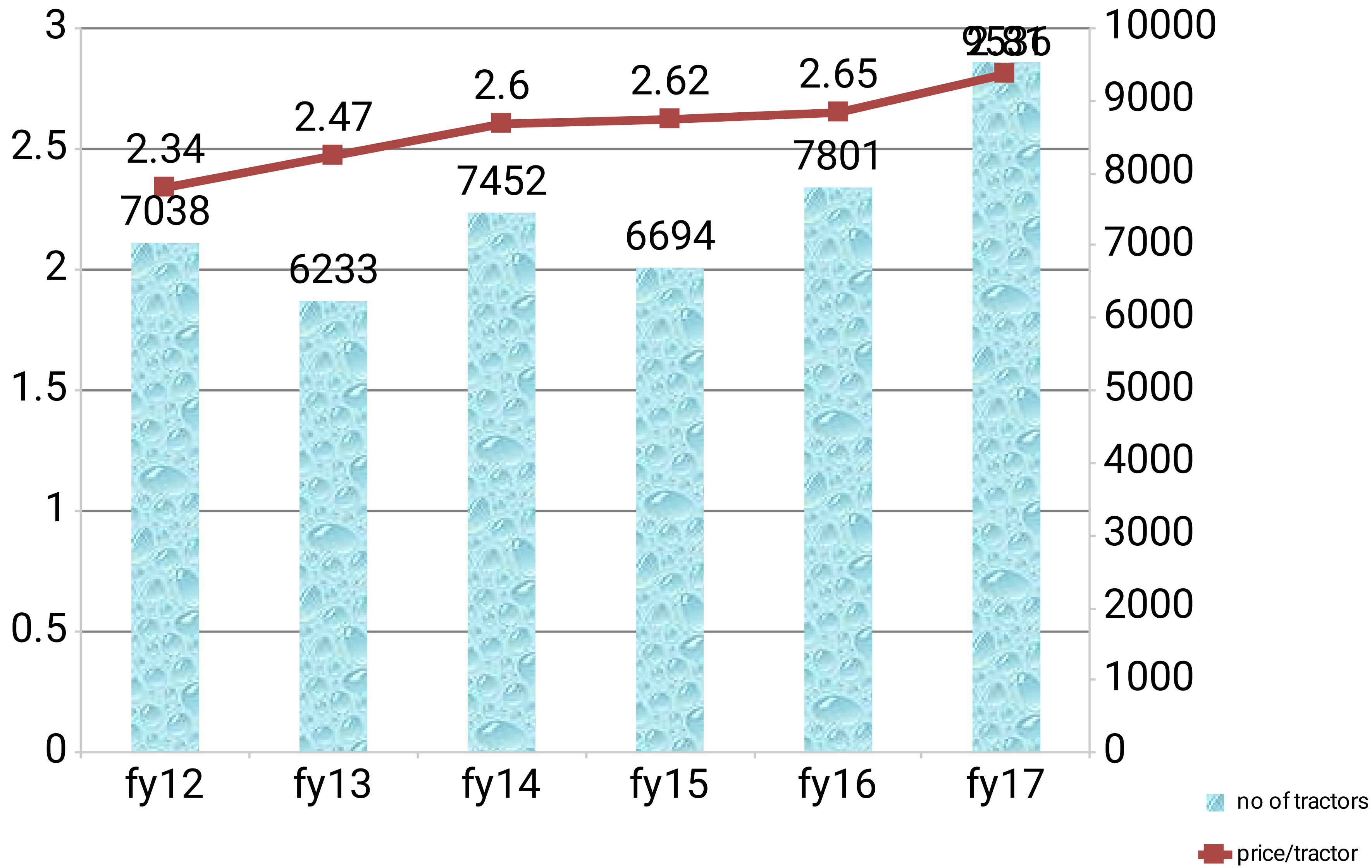
# Tractors

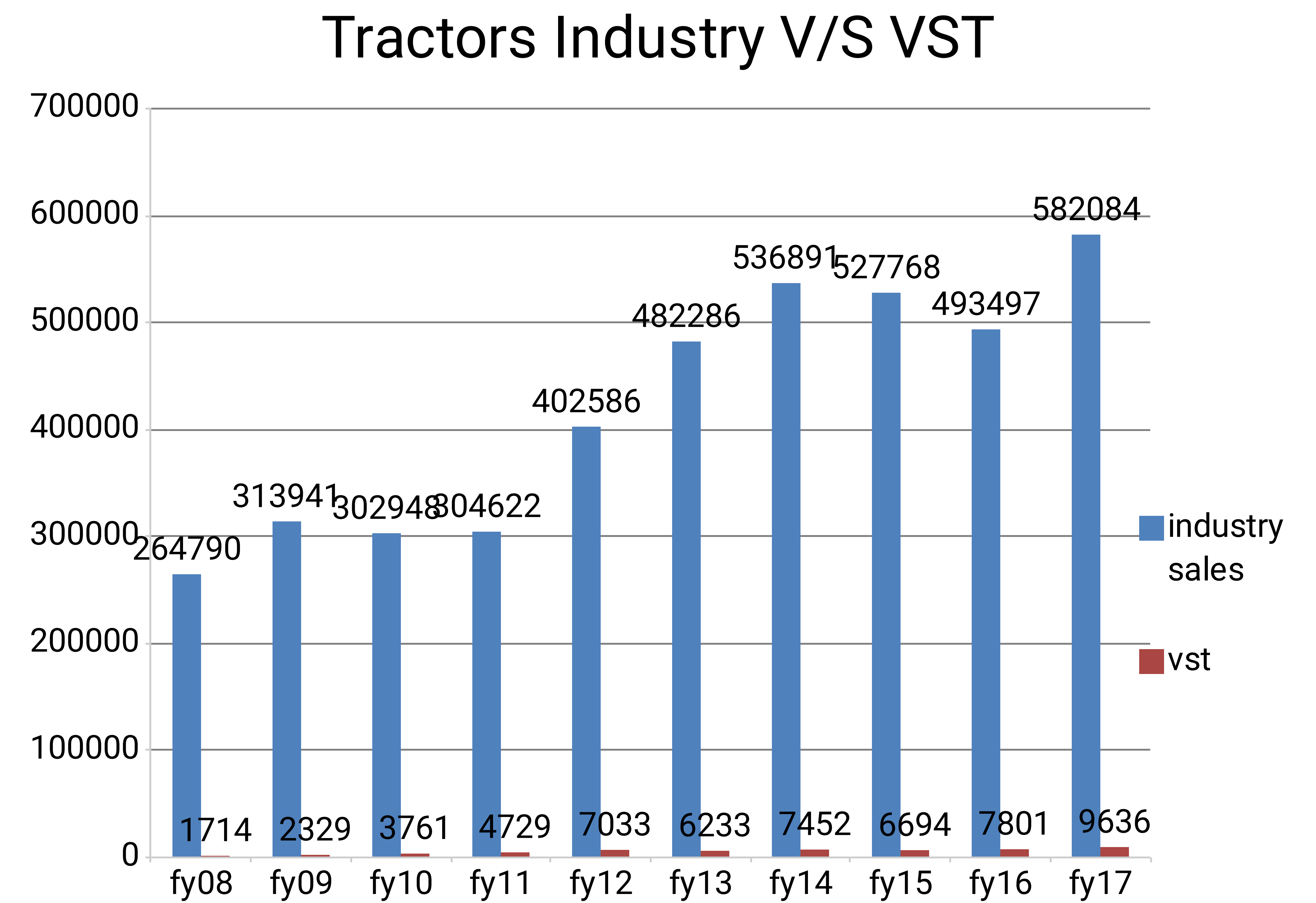
- Estimated market size: 6-7lac tractors
- ICRA long term growt forecast: 8-9%%
- Biggest tractor industry in world
- UP :largest tractor market
- Present average: 1 tractor/30 hectare

# Increasing Tractor Revenue Contribution

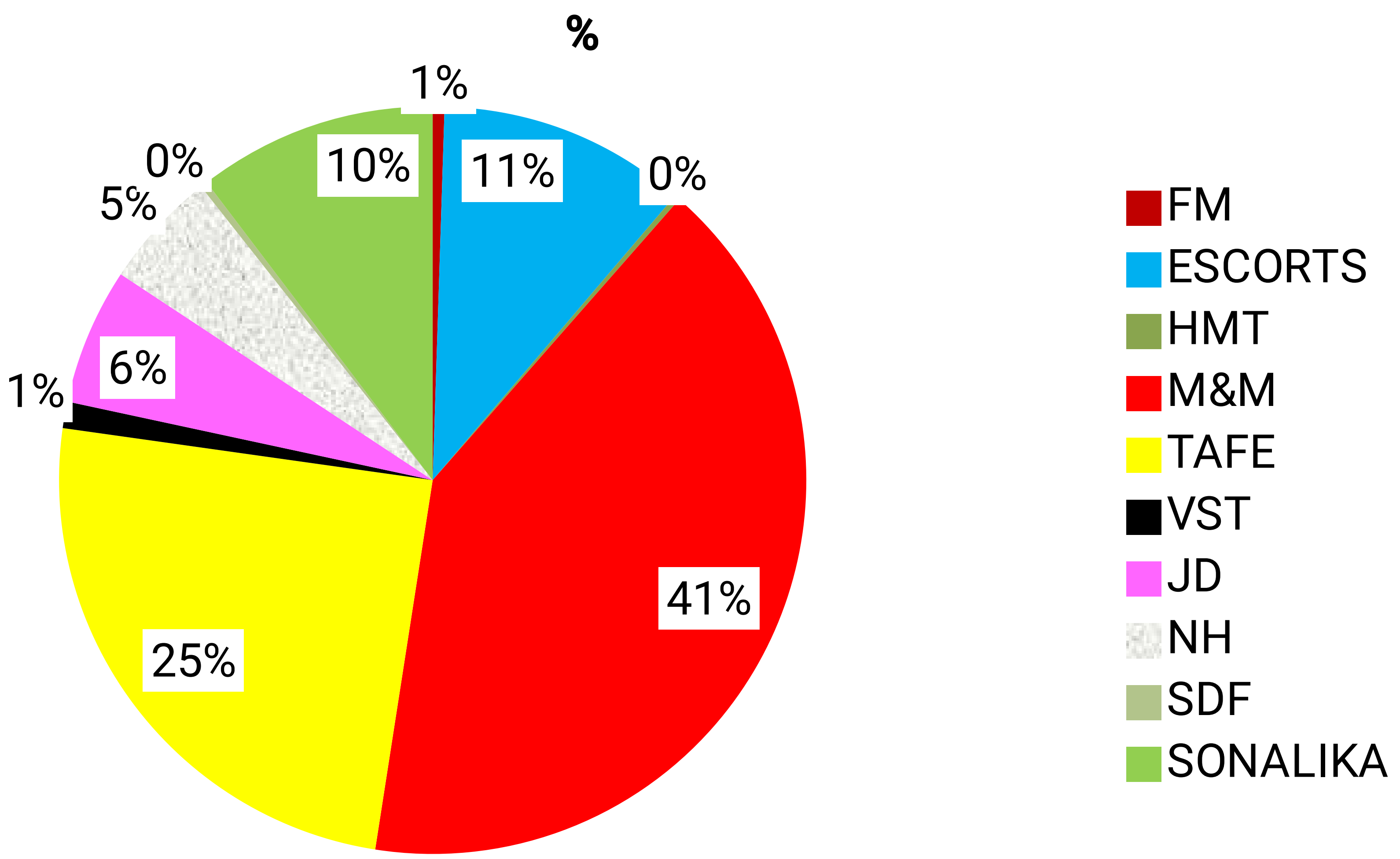


# VST Tractors Sales & Avg Price

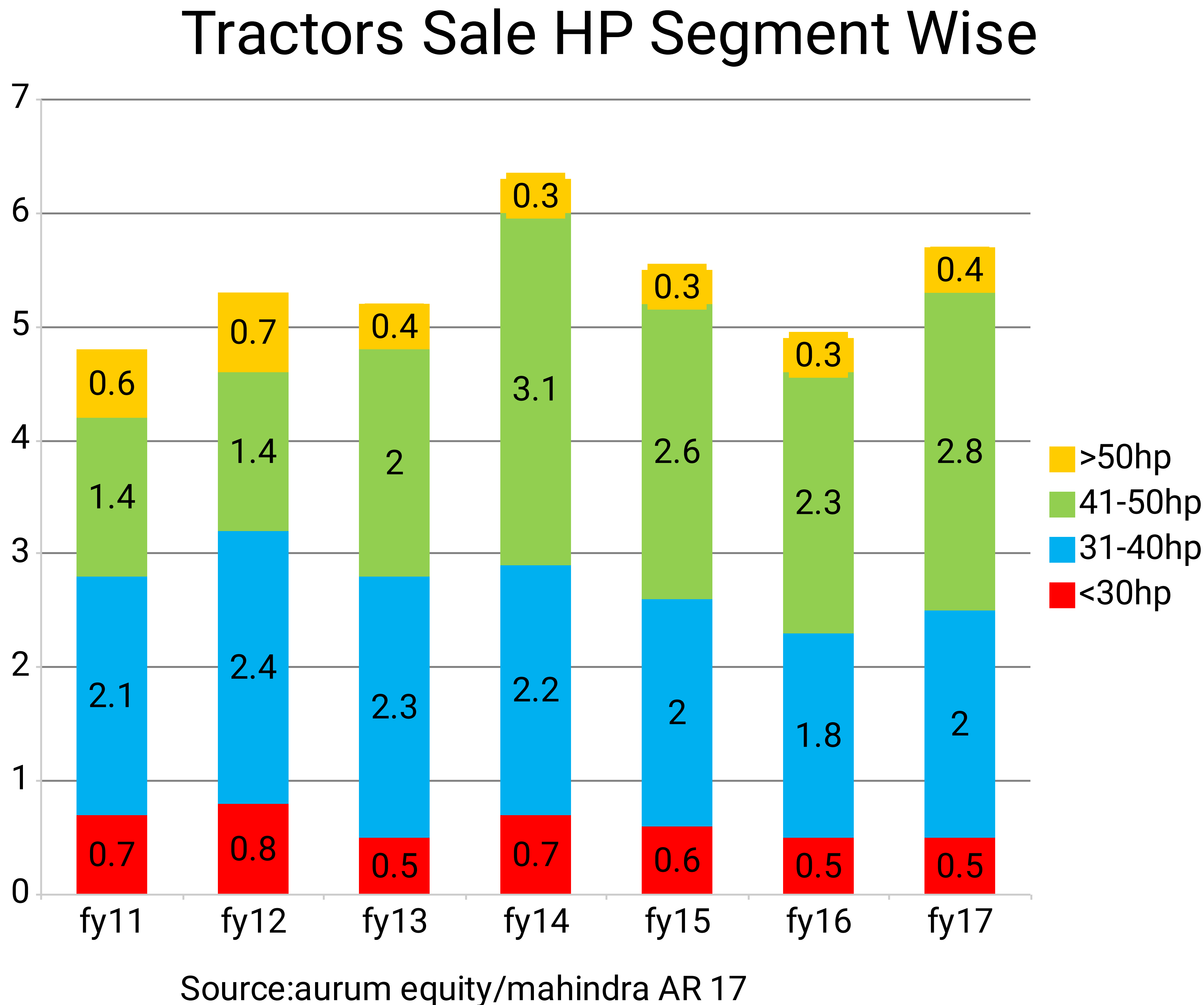



Tractors Industry V/S VST
700000
600000
500000
400000
300000
200000
100000
0
264790
313941
302948
304622
402586
482286
536891
527768
493497
582084
1714
2329
3761
4729
7033
6233
7452
6694
7801
9636
fy08
fy09
fy10
fy11
fy12
fy13
fy14
fy15
fy16
fy17
industry sales
vst

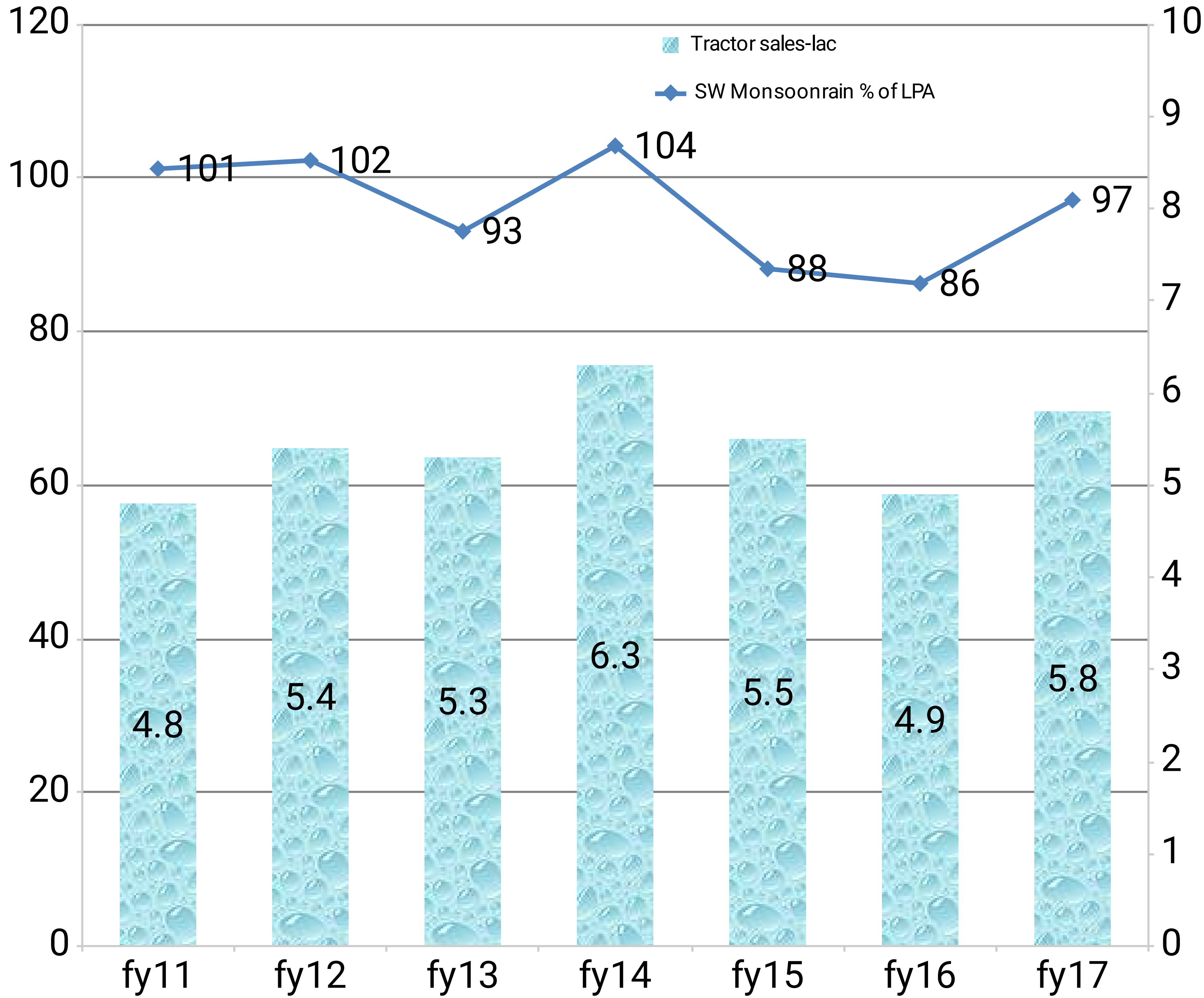
# Tractor Industry Share




Based on fy14..source:G.singh..ind.jn of agri econ./TMA

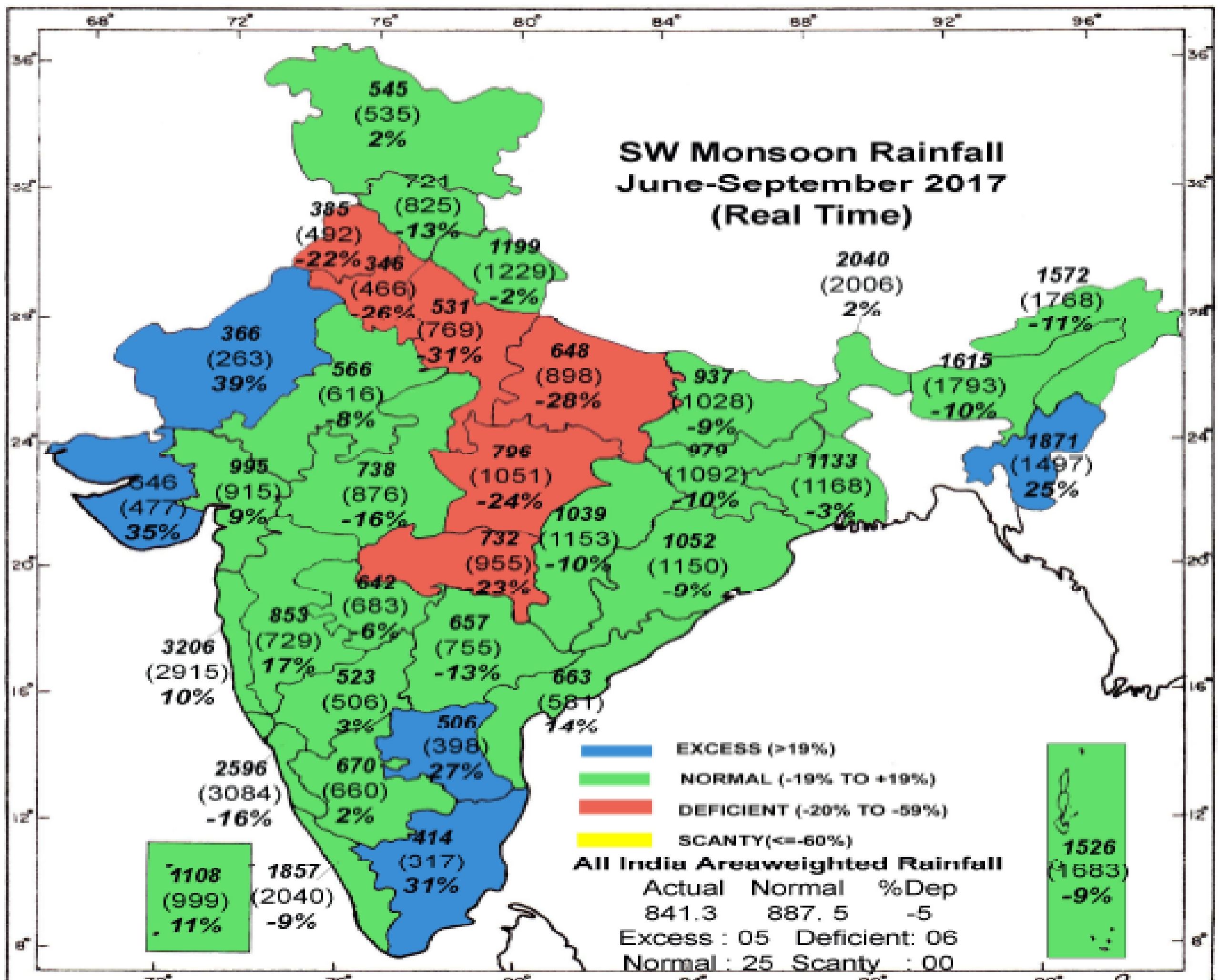

Tractors Sale HP Segment Wise
0
1
2
3
4
5
6
7
0.6
1.4
2.1
0.7
0.7
1.4
2.4
0.8
0.4
2
2.3
0.5
0.3
3.1
2.2
0.7
0.3
2.6
2
0.6
0.3
2.3
1.8
0.5
0.4
2.8
2
0.5
fy11
fy12
fy13
fy14
fy15
fy16
fy17
>50hp
41-50hp
31-40hp
<30hp
Source:aurum equity/mahindra AR 17

# ?LOW HP TRACTOR: GUJ/MH




*Source: Aurum Equity/Imd*

| Season (June to September) rainfall | | | |
|---|---|---|---|
| Region | Long Period Average (LPA) (mm) | Actual Rainfall for 2017 | |
| | | Rainfall (mm) | Rainfall (% of LPA) |
| All India | 887.5 | 841.3 | 95 |
| Northwest India | 615.0 | 552.9 | 90 |
| Central India | 975.5 | 918.8 | 94 |
| East & Northeast India | 1438.3 | 1386.4 | 96 |
| South Peninsula | 716.1 | 717.6 | 100 |



# Vst Tractors

- LOW HP TRACTORS:
  - 17
  - 18.5
  - 22
  - 27 launched in 2016-17
- Once dominate share in low hp tractors
- Presently 30% market share in compact segment

# Focus on tractor growth

- Launching higher HP tractors from FY19.
- Technology agreement  for higher HP tractors:
  - M/S Kukje machinery ltd,N.korea
- Professsionla CEO/New marketing team/ Increase in sales promotion
- Increase in dealership network
- Entering new states: presently GJ/MH accounts for 70-80% of sales

# Price variation with HP

| HP range | Price(avg) in lacs |
|---|---|
| 15 | 2.0 |
| 20 | 2.5 to 3.0 |
| 25 | 3.0 to 5.0 |
| 30 | 4.5  to 6.0 |
| 35 | 5.0 to 6.0 |
| 40 | 5.2 to 6.0 |
| 45 | 6.0 |
| 50 | 6 to 7.0 |
| 55 | 7 to 8.2 |

# Expanding dealership/new states

- 273DEALERS IN FY16..69TILLER DEALERS. .57TRACTOR...147COMMON DEALERS
- 350 DEALERS BY 2020
- 450 dealers by 2021 from 250 current level.

# Competitors/Capacity

- Mahindra: >40%  market share
- TAFE (Massey Ferguson/Eicher):25% market share. ~3 lac /yr
- ITL (Sonalika):3 lac /yr
- Escorts:10% market share. 1 lac /yr
- John Deere
- others

# Opportunity through Custom hiring centres

- Karnataka: 79 centres.. VST:150 tractors and 300 tillers in fy17

- Karnataka govt tender for 256 CHSC in Fy17-18

- Govt target in 7 yrs:  2,80,000 CHS in villages. (total no of villages in India : 6,40, 867)

# Scuttlebutt/AGM

- Mahindra & Massey Ferguson(TAFE)
- Most farmers prefer higher HP (>35)
- Low HP (25) by Massey: prefer for water supply
- Brand doesn't matter much
- After sale quick service is most important
- Most are happy with Mahindra & Massey
- Prefer to own tractor than hiring for rent
- >10 acres with water source have tractors
- Malur plant
- AGM

# Capex/new launches

- 200 cr in next five yrs, can be easily met by internal accruals
- 77 cr for new product development
- New facility at Malur- tillers,new products
- More efficient/reduces requirement of work force by 50%

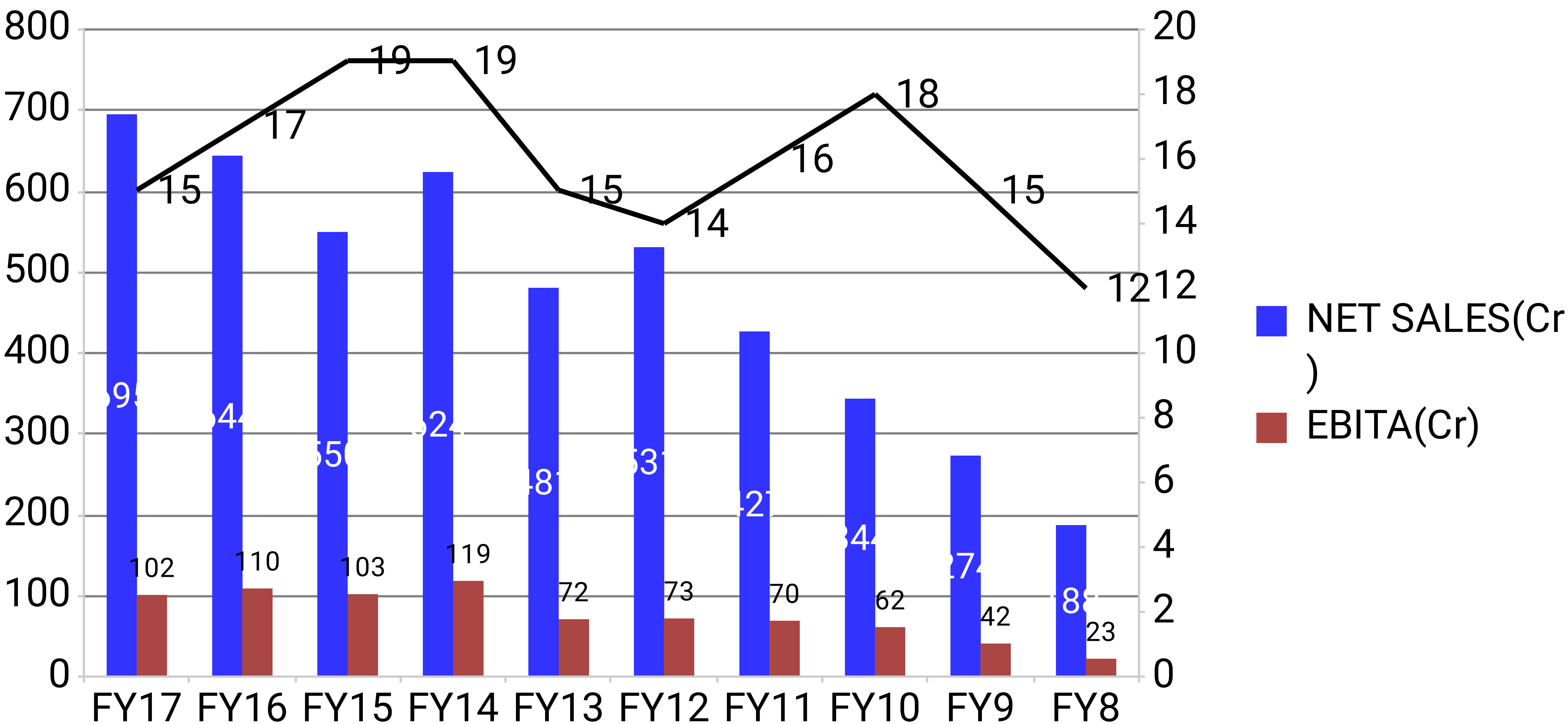
# Risks/Negatives

- Monsoon
- Delay in subsidy/ change in govt policy
- Urbanisation/moving away from agriculture
- Reduction in average size of farm holdings
- Raw materials cost/inability to pass on price hike
- High competition/low margins
- Low capacity utilization/creating more assets
- Increase in chs/mobile sharing app

# DUPOINT ANALYSIS

| | FY17 | FY16 | FY15 | FY14 | FY13 | FY12 | FY11 | FY10 | FY09 | FY08 |
|---|---|---|---|---|---|---|---|---|---|---|
| NP MARGIN | 10.3 | 11.4 | 12.5 | 13.3 | 9.9 | 9.4 | 10.7 | 12.2 | 10.2 | 7.4 |
| ASSET TURNOVER | 1.2 | 1.28 | 1.16 | 1.54 | 1.45 | 1.86 | 1.93 | 1.96 | 1.96 | 1.69 |
| FINANCIAL LEVERAGE | 1.17 | 1.19 | 1.29 | 1.29 | 1.35 | 1.39 | 1.32 | 1.39 | 1.53 | 1.65 |
| ROE | 14.7 | 17.6 | 18.9 | 26.6 | 19.6 | 24.5 | 28.2 | 33.3 | 30.7 | 20.8 |

AVG ROE:23%



800
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600
500
400
300
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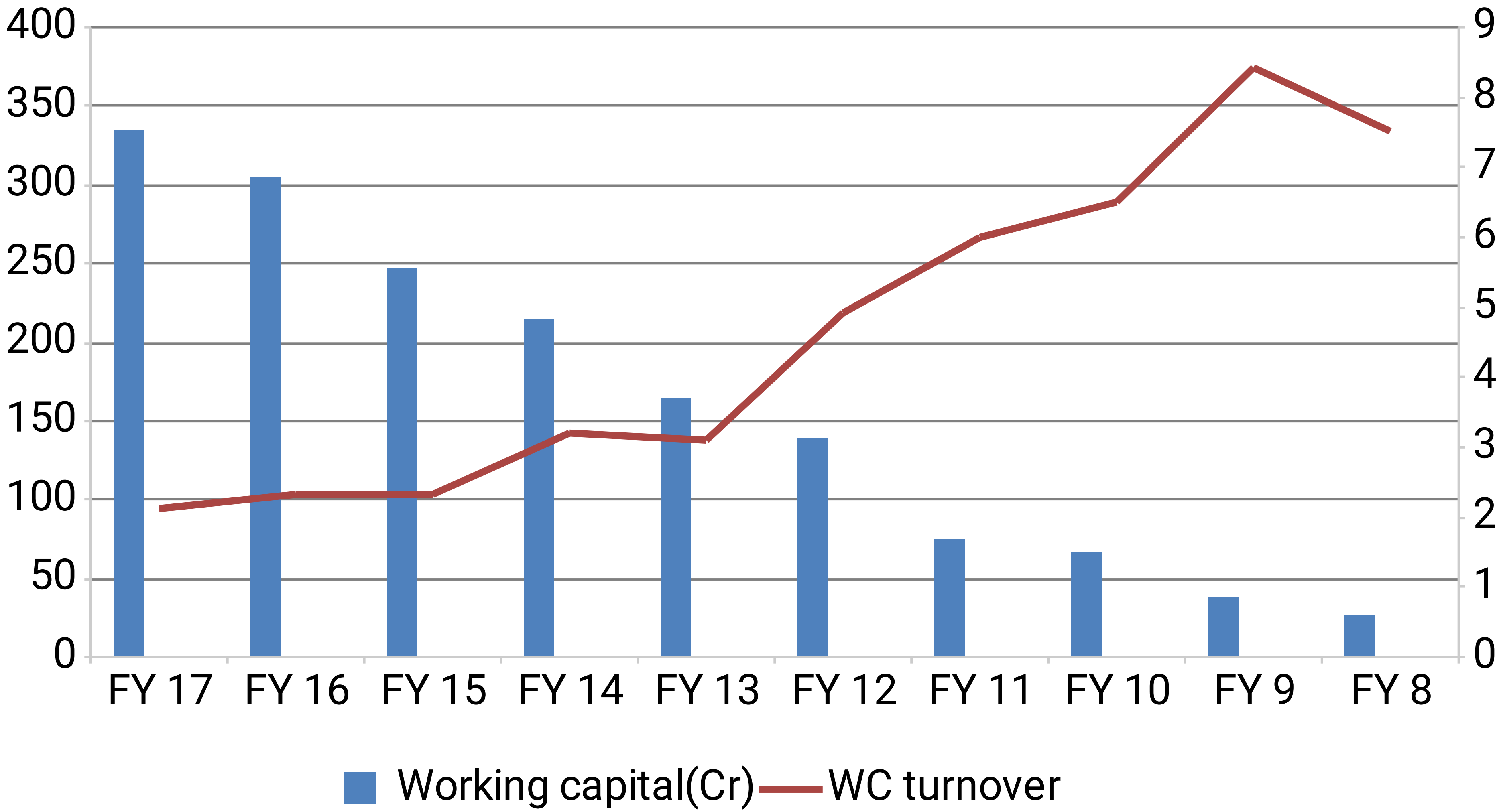
16
14
12
10
8
6
4
2
0
15
17
19
19
15
14
16
18
15
12
102
110
103
119
72
73
70
62
42
23
FY17 FY16 FY15 FY14 FY13 FY12 FY11 FY10 FY9 FY8
NET SALES(Cr
)
EBITA(Cr)



400
350
300
250
200
150
100
50
0
9
8
7
6
5
4
3
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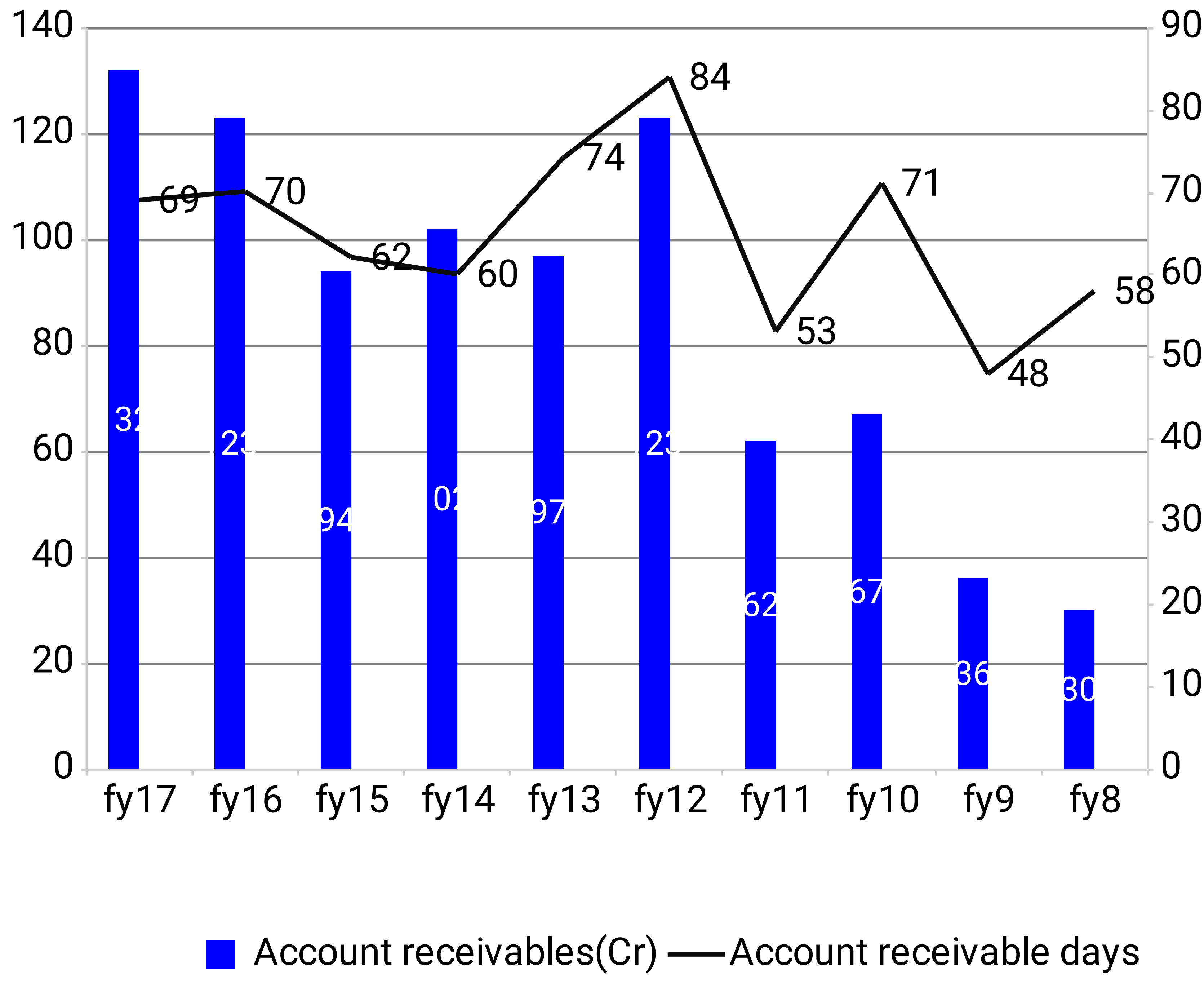
1
0
FY 17
FY 16
FY 15
FY 14
FY 13
FY 12
FY 11
FY 10
FY 9
FY 8
Working capital(Cr)
WC turnover



140
120
100
80
60
40
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90
80
70
60
50
40
30
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10
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69
70
62
60
74
84
53
71
48
58
32
23
94
02
97
23
62
67
36
30
fy17
fy16
fy15
fy14
fy13
fy12
fy11
fy10
fy9
fy8
Account receivables(Cr)
Account receivable days

# SUMMARY

- DEBT FREE COMPANY
- CONSERVATIVE MANAGEMENT
- 15-20% GROWTH STORY
- TRACTOR SALE TO DRIVE THE REVENUE
- MONSOON AND GOVT. SUBSIDY RISK

# sources

- AR OF VST/Mahindra/Escorts
- Vst concall
- Vp forum
- Jana blog
- Other research reports/presentations