

THIRTYNINTH ANNUAL REPORT 2006 - 2007



VST TILLERS TRACTORS LIMITED



LORD GANESHA



Idol of Lord Ganesha at

VST TILLERS TRACTORS LIMITED



Board of Directors : Mr. V. K. Surendra - *Chairman*
: Mr. V. T. Velu
: Mr. A. Hishikawa
: Mr. K. Tanaka - *Alternate to A. Hishikawa*
: Mr. M. Tanaka
: Mr. R. Subramanian
: Mr. M.K. Bannerjee
: Mr. V. Ramachandran
: Mr. V. P. Mahendra - *Managing Director*
: Mr. A.T. Nahender - *Director (Operations)*

**Company Secretary
and Compliance Officer** : Mr. Subash B. K.

Auditors : M/s. Brahmayya & Company
10/2, Khivraj Mansion,
Kasturba Road, Bangalore - 560 001

Cost Auditors : M/s. Rao, Murthy & Associates
No.23/33, Surveyor's Street
Basavanagudi, Bangalore - 560 004

Bankers : M/s. Canara Bank
M/s. State Bank of India
M/s. Canbank Factors Limited

Legal Advisers : M/s. AZB & Partners
67-4, 4th Cross, Lavelle Road
Bangalore - 560 001

Refd. Office : Plot No.1, Dyavasandra Industrial Layout,
P.B.No.4801, Whitefield Road,
Mahadevapura Post, Bangalore - 560 048

INFORMATION

Request to the Members

1. Please bring your copy of the Annual Report to the meeting as no extra copies will be distributed owing to limited number of copies printed.
2. Members are requested to send their queries, if any, relating to the annual accounts and reports at least one week prior to the date of meeting to facilitate compilation of information.
3. Members/their proxies/representatives are advised to bring their Attendance Slip duly filled in for attending the meeting. An Attendance Slip and Proxy form are attached at the end of this Annual Report



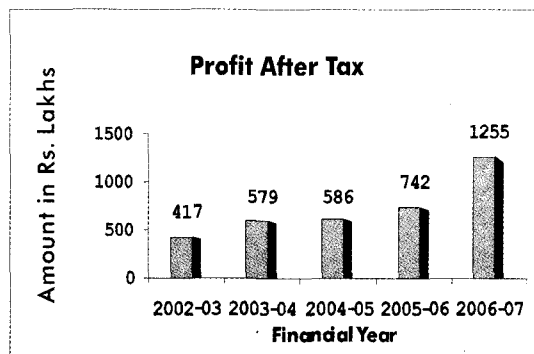
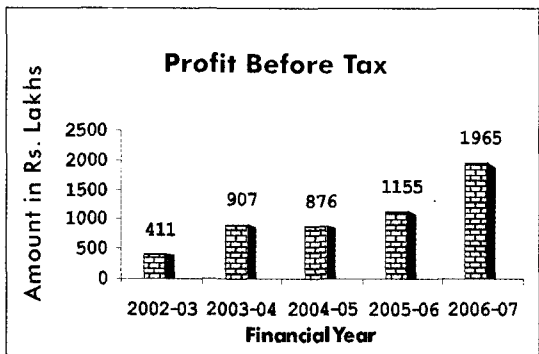
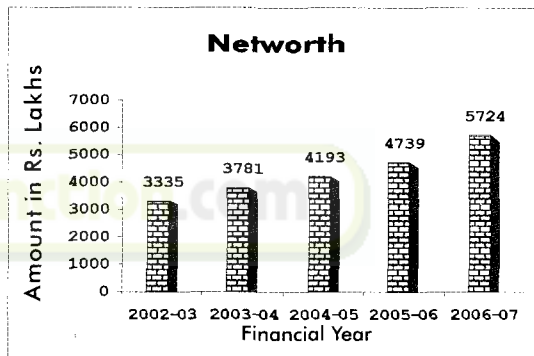
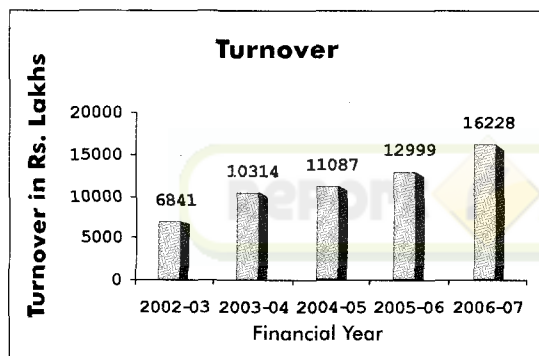
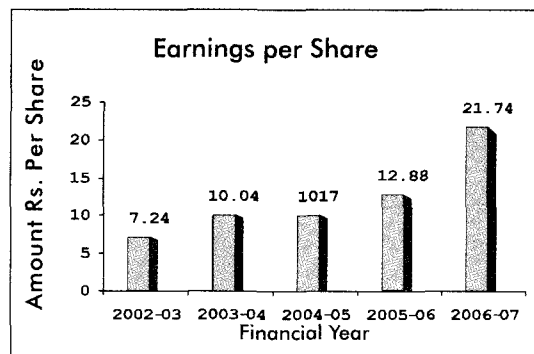
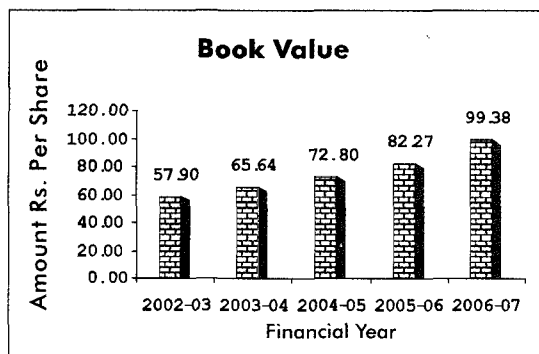
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FINANCIAL INDICATORS





Brief resume of Directors seeking Appointment / Re-appointment

Particulars	Mr. V. K. Surendra	Mr. V. T. Velu
Date of Birth & Age	18-05-1941 & 66	24-11-1922 & 85
Appointed on	29-09-1980	07-03-1969
Qualifications	Commerce Graduate	Arts Graduate
Expertise in specific functional Areas	Automobile Distribution Management and Directorship on Companies	Industrialist

By order of the Board of Directors
For **VST TILLERS TRACTORS LIMITED**

Plac : Bangalore
Date : 28th July 2007.

(Subash B.K.)
Company Secretary



DIRECTORS' REPORT

Dear Shareholder,

Your Directors are pleased to present the 39th Annual Report and the Audited Statement of Accounts for the year ended 31st March 2007.

Financial Performance

(Rupees in Lacs)

PERIOD	YEAR 2006-07	YEAR 2005-06
TURNOVER	16228	12999
OTHER INCOME	211	165
TOTAL INCOME	16439	13164
PROFIT BEFORE DEPRECIATION & INTEREST	2283	1563
INTEREST	45	137
DEPRECIATION	273	271
PROFIT BEFORE TAX	1965	1155
INCOME TAX	710	414
PROFIT AFTER TAX	1255	741
BALANCE B/F	541	497
SURPLUS AVAILABLE FOR APPROPRIATION TO	1796	1238
DIVIDEND	230	173
TAX ON DIVIDEND	39	24
TRANSFER TO GENERAL RESERVE	750	500
BALANCE CARRIED FORWARD	777	541

Company's Performance

During the year under review your company continued the robust growth it had in the previous year and achieved a significant milestone in selling over 10,000 Tillers, an all time record coupled with a commanding market share.

Your Company's turnover for the year increased by 25% from Rs.129.99 crores in 2005-06 to Rs.162.28 crores while the operating profit rose by 43% i.e., Rs.21.31 crores mainly due to favourable market conditions. The Precision Component Division also improved its scale of operations contributing to the overall increase in profitability of your Company. Consequently, earnings per share increased from Rs.12.88 to Rs.21.79 for 2006-07. On the backdrop of a good financial performance, your Company continues to remain debt free.

The sale of Power Tillers during the year increased to 10,510 units as against the previous year's sales of 8,489 units an increase of 24%. To accelerate sales, your Company had introduced Chinese make "Dragon" Power Tillers which has since been approved for both emission and CMVR rules thereby qualifying

for subsidy in various schemes. It is also heartening to note that your company's Tractor sales have grown to 1,537 units as against 1,249 units in the previous year.

The Precision Components Division's performance has been encouraging due to higher revenues despite increase in raw material cost and lowering of DEPB rates. The key challenges for sustained growth in profitability is dependent on overseas buyers accepting an upward revision in price since profit margins could get impacted due to increase in input costs and the Rupee appreciating against all major currencies. Steps to continuously improve asset utilization to reap further benefits are also being taken.

Dividend

Your Directors have pleasure in recommending a dividend of Rs.4/- per equity share of Rs.10/- each for approval at the Annual General Meeting. The dividend if declared will result in an outflow of Rs.270/-lacs including the distribution tax.



DIRECTORS' REPORT

Directors

In accordance with the provisions of the Companies Act, 1956 and Articles of Association, Mr. V. K. Surendra and Mr. V. T. Velu, Directors of the Company retire by rotation and being eligible, offer themselves for re-appointment.

Corporate Governance

The Company strives to ensure highest standards in Corporate Governance and levels of transparency and has been compliant with all the provisions of Clause-49 of the Listing Agreement. A certificate from the Auditors to this effect forms part of Corporate Governance Report.

Directors' Responsibility Statement

Pursuant to sec 217(2AA) of the Companies Act 1956, amended as per Companies (Amendment) Act 2000, the Directors **confirm** that :

In preparation of the Annual Accounts of your Company the Accounting Standards laid down by the Institute of Chartered Accountants of India from time to time have been followed.

Appropriate Accounting policies have been selected and applied consistently, reasonable and prudent judgment and estimates have been made so as to ensure that the accounts give a true and fair view of affairs of your company as at 31st March 2007 and the profits of your company for the year ended 31st March 2007.

Proper and sufficient care has been taken for the maintenance of appropriate accounting records in accordance with the provisions of the act for safeguarding the assets of your Company and for preventing and detecting frauds and other irregularities if any.

The annual accounts have been prepared on a going concern basis.

The observations of Auditors in their report to Members have been adequately dealt with in the relevant notes to accounts. Hence no additional explanation is considered necessary.

Auditors

M/s. Brahmayya & Company, Chartered Accountants, retire as Auditors of the Company at the conclusion of 39th Annual General Meeting and are eligible for re-appointment.

Particulars of Employees

As required by provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975, as amended,

there are no employees who draw remuneration as set out in the aforesaid provision of the Companies Act.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2007 is enclosed as Annexure.

Fixed Deposits

Your Company has not accepted any fixed deposits within the meaning of Section 58A of the Companies Act, 1956 and rules made there under.

Management Discussion and Analysis

INDUSTRY STRUCTURE AND DEVELOPMENTS

The Indian economy recorded strong growth with GDP increase at 9.4% for 2006-07 driven mainly by the manufacturing and services sector. This is the highest growth after 10.5% recorded in 1988-89 according to the data released by Central Statistical Organization. However agricultural growth decelerated to 2.77% in the backdrop of difficulties faced by this sector coupled with high inflation. As per the policy in the 11th Plan, the quantum of private and public investment in this sector is expected to go up substantially. The demand for Power Tillers largely survives on Govt. subsidies and Bank Finance and though Public Sector Banks have been supporting the agricultural credit portfolio, timely disbursement of agricultural advances has been a constraint for the growth of Power Tiller Industry in India. Your Company has further consolidated its lead and emerged as the largest market player in the Power Tiller industry. In continuation of the strategy in the previous year, your Company has been importing Chinese Power Tillers and marketing under the brand name "DRAGON SHAKTI". The Power Tillers being imported by other players have also been growing rapidly and is posing a challenge for your Company in its endeavor to remain as a market leader. In the domestic Tractor segment, the industry as a whole grew to 3,19,014 units from 2,63,514 units in the previous year in line with the economic growth and improved flow of credit to the Farm Sector. Your Company caters to the < 20HP tractor segment and continues to maintain a predominant market share. The Indian Tractor Industry comprises of 11 players, two of them are multinational corporations.



DIRECTORS' REPORT

OPPORTUNITIES AND THREATS

Power Tillers and Tractors remain a crucial link with farmers for the development of agriculture since India's arable land is the second highest in the world. The shift of farm labor to urban areas and consequently a rise in wages augurs well for Agricultural Machinery Manufacturers. Power Tillers being a cost effective machine plays a vital role in increasing rural prosperity and spreading awareness of the benefits from Farm Mechanization. Meanwhile, the Government is continuing to focus on increased funding to the agricultural sector through NABARD and improve rural infrastructure including irrigation which will translate to better demand for your Company's products. Further, ensuring remunerative prices for farmers and accelerating the Bharat Nirman programme which will further improve sale of the products.

During the year, in line with WTO norms the Union Budget lowered the peak customs duty making imported Chinese Power Tillers cheaper. This has led to larger volumes being imported by many players leading to competitive pressures. VTTL has taken strategic initiatives as mentioned above to improve its market share by associating itself with a reputed Chinese manufacturer.

RISKS AND CONCERNS

With the recent introduction of CMVR rules by the Ministry of Agriculture, the power tiller industry has been subjected to extensive compliances with regard to emission and road use. Your Company's tillers are compliant with the above requirement and are eligible for subsidy under various schemes. However the increase in the cost of the product continues to be of concern and will have an impact on the margins. Improvements in product design and up gradation to meet stringent emission norms under TREM III are being addressed before it comes into force.

To achieve the goal of 4 % agricultural growth, the policy of the Govt. on agriculture requires focus specifically on better food grain procurement price and warehousing, as it will enable farmers to realize better returns for their produce. This apart, to extend the benefits of mechanization, financing of farm machinery should be made simpler.

While several programs are being implemented for raising the area under agriculture, this sector is still monsoon dependent in large parts of the country.

CURRENT YEAR OUTLOOK

Your Company expects the growth outlook for 2007-2008 to be positive. The Government's

continued thrust on agriculture will help the economy in general and the farm community in particular. With a prediction of a normal monsoon, your Company expects the rural sector to perform well. The market for power tillers and tractors is expected to grow steadily during the current year with emphasis provided by the government to the rural economy. Your Company has set out plans to maintain its leadership position in the power tiller industry and simultaneously increase manufacturing capacity for tractors by two fold. Your Company expects that the momentum in sales will be strong in states like Karnataka, Orissa, Tamil Nadu Andhra Pradesh and Assam. However subsidy dues from the Government continues to be of concern in some states and sustained efforts to realize the same are being taken. Investments are being planned to upgrade technological capabilities and create additional capacity and attention is currently focused on strategies that would help further reinforce the Company's market share by expanding the dealer network and improving customer satisfaction.

The impact of material cost escalation will continue to have an effect on input costs. However by leveraging economies of scale and sourcing key forgings and other components from China is expected to minimize increase in product costs.

Your Company has been continuously looking at cost optimization measures such as downsizing of manpower, enhancing the usage of ERP support system and better utilization of machines. The full benefit of these measures will accrue in the coming years.

The Precision Component Division is striving to secure more orders and achieve higher revenues through sale of connecting rods and crankshafts for its overseas customers. Initiatives taken to improve efficiency and optimum use of machinery are expected to contribute to the overall profitability of your Company. Capital expenditure to expand capacities is being incurred which would start contributing to the revenue during the current year.

Your Company is currently engaged in discussions with Mitsubishi Heavy Industries, Japan for setting up a Joint Venture Company to manufacture a range of multi cylinder Diesel Engines up to 50 HP for varied applications.

INTERNAL CONTROL SYSTEMS

Your Company maintains adequate internal control system, which provides reasonable assurance that transactions in significant areas are monitored to prevent any misuse. The ERP package currently being



DIRECTORS' REPORT

used enhances the internal control measures commensurate with the size of your Company's operations. The Internal auditors carry out audits on a regular basis and submit their report once in a quarter to the Audit Committee. The Audit Committee reviews the report and recommendations of the Internal Auditors and advises the Management to strengthen and streamline the system wherever required.

INDUSTRIAL RELATION

Industrial relations have been cordial across all the plants during the year, simultaneously your Company is continuously taking initiatives to ensure employees assume higher responsibilities through better involvement. Various training and development programs were offered to the managerial cadre to upgrade their skills and develop the human resource base. During the year, the executive compensation was revised and steps are being implemented to strengthen specific areas that are key to the Company achieving its business goals.

FORWARD-LOOKING STATEMENTS

Statements in this release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those either expressed or implied due to factors such as Raw material prices, Government policies, competition, tax regime, market acceptance of new products and services, continued acceptance of existing products and services, changes in licensing programs, product price discounts, delays in product development and related product release schedules, sales channel disruption.

All information in this release is as of July 21, 2007. The Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

ACKNOWLEDGEMENTS

The Directors wish to convey their gratitude for the faith reposed in your Company by Mitsubishi Heavy Industries Limited, Mitsubishi Agricultural Machinery Company Limited, the financial institutions, employees and the customers at large.

for and on behalf of the Board
for VST TILLERS TRACTORS LTD.

Place : Bangalore
Date : July 28, 2007

Sd/-
V. K. Surendra
Chairman

ANNEXURE

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March 2007.

1. Conservation of energy

As the industry is not a power intensive unit, no capital investment was made and hence no benefit could accrue.

2. A. Research and Development (R&D)

- a. New tractor with re-designed aesthetics and higher horsepower engine as a variant to MT180D Tractor – Tested successfully for both dry and wet land cultivation.
- b. Small Power Weeder for hilly area cultivation.
- c. VST Shakti 130DI and VWH 120 engines approved as per latest emission norms.
- d. VST Shakti 130DI and Mitsubishi Shakti VWH 120 Power Tillers approved as per latest CMVR Regulations.
- e. S1100A2N engine which is the prime mover for Dragon Power Tiller approved as per latest emission norms.
- f. Product approval of Dragon Power Tiller completed, thereby making it eligible for subsidy under Government assisted programmes.

B. Technology Absorption

- a. Technology absorption through procurement of measuring instrumentation for emission study on engines.

C. Benefits derived

- a. Emission apparatus availability will enhance the engine optimization skill for varied applications.

D. Expenditure on R&D

- a. The Company's expenditure on R&D (including capital expenditure) during the year was Rs.40,59,207/-.

E. Future plan of action

- a. Higher horsepower Tractor as a variant to MT180D.
- b. Aesthetical improvement on Power Tiller engines.