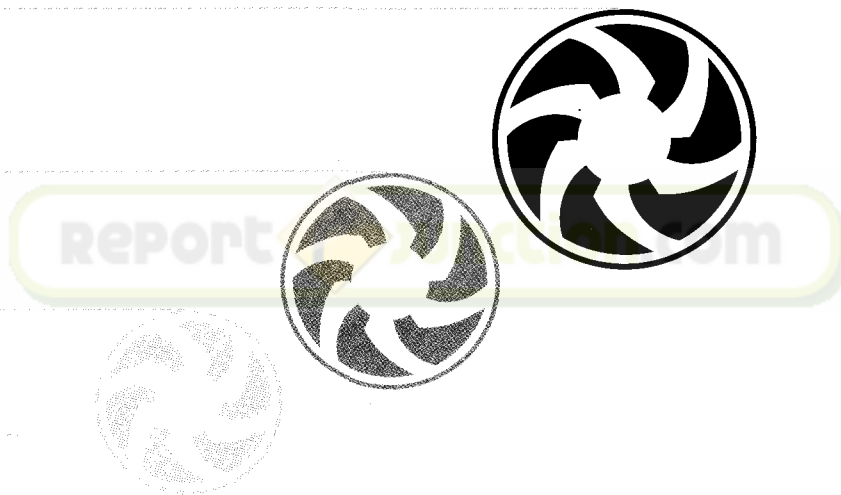


41st

ANNUAL REPORT 2008-09



V.S.T. TILLERS TRACTORS LTD.



LORD GANESHA



**Idol of Lord Ganesha at
VST Tillers Tractors Limited**



Board of Directors : Mr. V.K. Surendra - *Chairman*
 Mr. A. Hishikawa
 Mr. R. Subramanian
 Mr. M.K. Bannerjee
 Mr. V. Ramachandran
 Mr. K.K. Rai
 Mr. V.P. Mahendra - *Managing Director*
 Mr. B.C.S. Iyengar - *Executive Director*
 Mr. V.V. Pravindra - *Dy. Managing Director*

**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

Legal Advisers : M/s. M & C Partners
 Advocates & Solicitors
 2, Frontline Grandeur
 14, Walton Road, Bangalore - 560 001

Regd. Office : Plot No.1, Dyavasandra Industrial Layout,
 PB.No.4801, Whitefield Road,
 Mahadevapura Post, Bangalore - 560 048

INFORMATION

REQUEST TO 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 computation 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.



**Information as required under clause 49 (IV)(G) of the Listing Agreement
Brief resume of Directors seeking Appointment / Re-appointment**

Particulars	Mr. M.K. Bannerjee	Mr. R. Subramanian
Date of Birth & Age	16/08/1946 & 63 Years	03/10/1943 & 66 Years
Appointment on	12/06/1990	12/10/1990
Qualifications	MBA	FCA, AICWA, ACS, ACIS (London) MAC
Expertise in specific functional Areas	Operations Management & Software Development	Finance, Accounts & Taxation

By the Order of the Board
for **VST TILLERS TRACTORS LTD.**

Place: Bangalore
Date: June 26, 2009

Subash B K
Company Secretary

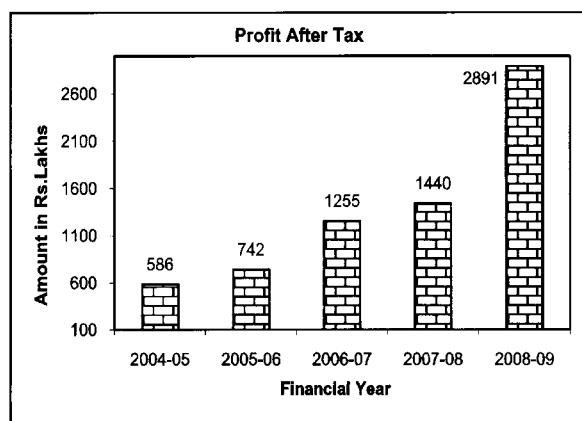
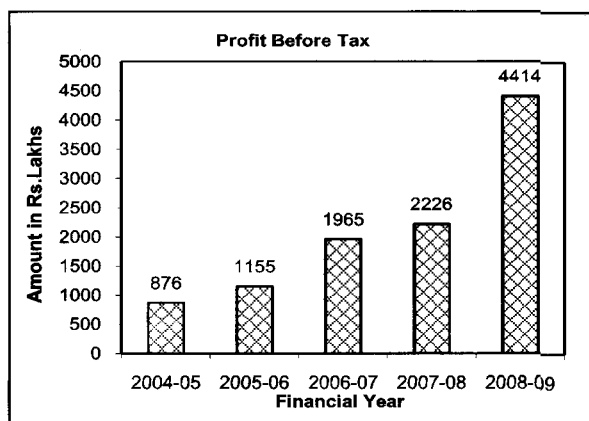
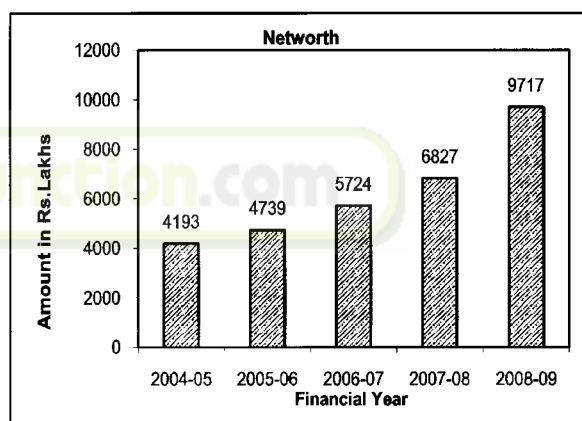
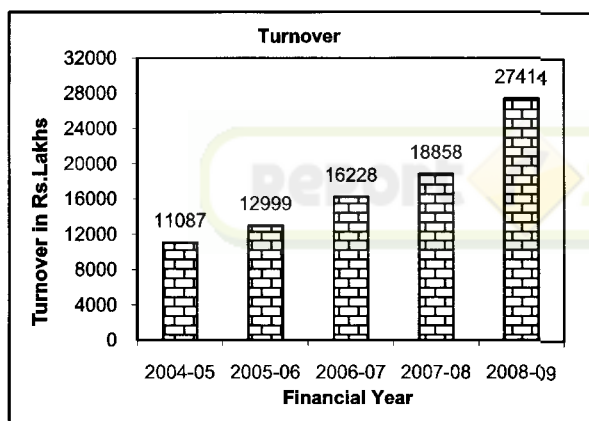
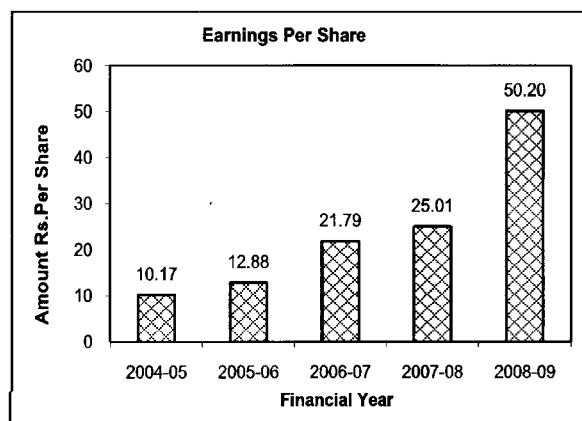
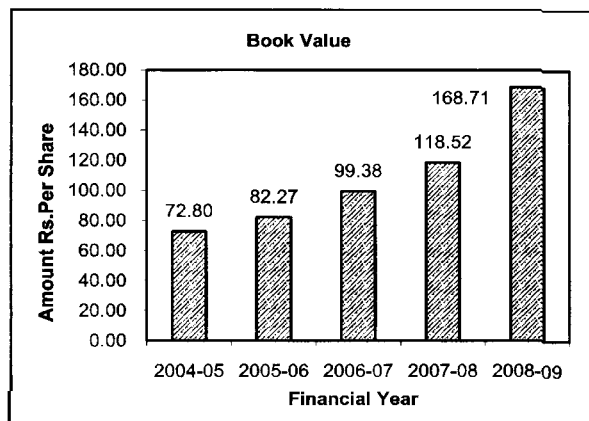


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FINANCIAL INDICATORS





DIRECTORS' REPORT



Dear Shareholders,

Your Directors are pleased to present the 41st Annual Report and the audited statement of accounts for the year ended March 31, 2009.

FINANCIAL PERFORMANCE

(Rupees in lacs)

Period	Year 2008-09	Year 2007-08
TURNOVER	27414	18858
OTHER INCOME	482	278
TOTAL INCOME	27896	19136
PROFIT BEFORE DEPRECIATION & INTEREST	4748	2569
INTEREST	53	53
DEPRECIATION	281	290
PROFIT BEFORE TAX	4414	2226
INCOME TAX	1523	786
PROFIT AFTER TAX	2891	1440
BALANCE B/F	880	777
SURPLUS AVAILABLE FOR APPROPRIATION TO:	3771	2217
DIVIDEND	432	288
TAX ON DIVIDEND	73	49
TRANSFER TO GENERAL RESERVE	2250	1000
BALANCE CARRIED FORWARD	1016	880

COMPANY'S PERFORMANCE

The year under report was an eventful year. Your Company has registered a record growth despite the overall economic downturn by selling over 16500 Tillers and 2300 Tractors. It continues to maintain its leadership position in the power tiller industry.

The turnover for the year registered an increase of 45.37% from Rs 188.58 crores in 2007-08 to Rs. 274.14 crores while the operating profit almost doubled to Rs. 39.82 crores compared to Rs. 22.90 crores. This was mainly due to higher operating efficiency. Net profit amounted to Rs. 28.92 crores, an increase of 101% over the previous year. Earnings per share during the year increased handsomely from Rs. 25.01 to Rs. 50.20. On the financial front your Company continues to remain debt free.

The sale of power tillers during the year increased to 16691 units as against the previous year's sales of 12214 units; an increase of 37%. The company's

Tractor sales have grown to 2327 units as against 1714 units in the previous year and your company's aggressive plan to market Rice Transplanters has been showing encouraging results. During the year 460 units was sold in the rice growing belts in India which indicates shifting towards mechanization due to shortage of labor and cost effectiveness of these machines.

The performance of Precision Component Division has been subdued due to the global recession. During the year, export margins were impacted due to spiraling raw material costs with very little scope for passing on the higher cost. However, despite volatility of overseas orders, export revenue remained flat. This division is contributing to the overall performance of your Company. Various cost restructuring and waste elimination measures have been adopted in view of lower capacity utilization. The increase in production of components for captive consumption has enabled this division to maintain the operations.

DIRECTORS' REPORT



DIVIDEND:

Your Directors have pleasure in recommending a dividend of Rs.7.50/- 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.505 lacs including the distribution tax.

BONUS ISSUE OF SHARES

Your Directors recommend an issue of bonus shares in the ratio of 1 (one) equity share for every 2 (two) existing equity share held on the record date.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and Articles of Association, Mr. R Subramanian and Mr. M K Bannerjee, Directors of the Company retire by rotation and being eligible, offer themselves for re-appointment.

Mr. K Tanaka (alternate Mr. A. Hishikawa) has ceased to be on the Board of the Company w.e.f. January 28, 2009. Your Directors placed on record their sincere appreciation for the contribution of Mr. K Tanaka during his tenure as Director of the Company.

At the Board Meeting held on May 26, 2009, Mr. K K Rai was co-opted as Additional Director on the Board of your Company.

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.

DIRECTOR'S 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, and 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 March 31, 2009 and the profits of your company for the year ended March 31, 2009.

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.

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 41st 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 2009 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.

DIRECTORS' REPORT



MANAGEMENT DISCUSSION AND ANALYSIS

Industry structure and developments:

The fiscal year 2008-09 commenced on a positive note and the agriculture sector continued its moderate growth and was relatively insulated from the economic turmoil felt in other sectors in the economy. GDP which initially expected to be around 9% was revised to 7% by the RBI and tight monetary measures to control inflation were introduced during the year resulting in higher interest rates. The government in the second half of the year cut cenvat rates across the board to support the manufacturing industries thereby creating a platform for growth.

The agricultural sector contributes about 18% of GDP and engages over 50% of the countries workforce. With higher support prices and price realization improved to farmers, the overall growth in this sector has increased. The Power tiller industry which is largely dependent on Government subsidies continued to grow at around 20%. The industry is witnessing intense competition from Chinese made tillers which are increasing their presence in the domestic market.

The Indian tractor market which is the largest in the world saw a marginal decline during the year. The slowdown in financing due to stringent lending norms of banks has been the main factor for this de-growth. The tractor industry sold 342836 units compared 346501 units in the previous year with over 13 major players catering to various segments from 25HP to above 50HP. Your company commands a significant market share in Maharashtra and Gujarat in the below 20 HP tractor segment and in other states in the coming years we expect growth in other states also.

OPPORTUNITIES

The Agriculture sector is slated to register a positive growth of around 3%. This growth is largely dependent on the policies of the government to promote farm mechanization and a normal monsoon. Increase in credit availability and relaxing lending norms by banks provides opportunities for higher sales and better utilization of capacities. Various Government schemes such as Rashtriya Krishi Vikas Yojana (RKVY), Macro Management Scheme, National Food Security Mission has have given thrust to the demand for mechanization.

A higher Minimum Support Price fixed by the Central Government for rice and wheat will result in better price realization thereby increasing their purchasing power to mechanize operations. As the penetration level for power tillers is low in India compared to China, with proper emphasis on marketing there is scope for sustained growth as your Company is an organized player in the power tiller industry.

RISKS AND CONCERNS

Credit flow to the agricultural sector and timely monsoons play a significant role with regard to demand for farm equipment. Given the seasonal nature of demand, capacity and inventory build up takes place for power tillers during some parts of the year and production volumes are altered taking into account changes in demand forecast.

During the year, several importers have been marketing power tillers under various subsidy schemes and this has intensified competition for your Company. Appropriate marketing strategies are being adopted to protect market share. The debt waiver scheme announced in the previous year has slowed the credit availability due to reluctance of banks to release fresh loans to farmers.

CMVR guidelines formed by the Ministry of Surface Transport for the power tiller continues to be an irritant and has pushed up the cost of manufacturing. Though representations have been made to the Government, the matter has not been resolved.

On the raw material front, input cost increases were a concern during the first half of the previous year. However there has been stability on this front during the subsequent period. The volatility in the export market for engine components due to global recession is another area of concern for the Precision component Division.

CURRENT YEAR OUTLOOK

The Indian Economy is expected to grow at a rate marginally lower than 8% during the previous year. With the Government is targeting over 3% growth for agriculture. Favourable monsoon coupled with ease of credit availability to farmers will have a positive influence on the power tiller and tractor industry. During the current year, your company is targeting a

DIRECTORS' REPORT



growth of **20% in volume**. In the overseas market, initial progress particularly for power tillers has been made and your company is taking steps to enlarge its coverage and sales network in specific markets.

The steps taken to introduce Rice Transplanters in various states are proving to be successful. Extensive work to train farmers on various aspects of adapting to mechanized transplantation is being pursued and your Company driven by these initiatives is expecting to reap rewards in the long term.

In today's challenging environment your Company is taking measures to remain financially robust, focusing on better inventory controls and receivables. On the operational front, changing the existing assembly layout and strengthening the supply chain is underway. A combination of higher outsourcing and rationalization of vendors is being carried out resulting in a smaller vendor base.

Demand for tractors is growing at a healthy pace and with higher volumes being planned, new markets for low HP tractor are in the process of being established.

At the Precision Component Division, we believe the export demand will remain subdued till the end of the calendar year. Steps have been initiated to cut all overheads and downsize manpower.

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. To strengthen this area your Company is looking at improved responsiveness from a fully integrated ERP. This will enable vendors to get information on material requirement and ensure streamlined supply of materials. The new system will improve its capability and speed of information to add more value. 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. Your Company is continuously taking initiatives for building organizational capabilities and enhancing people productivity. Various training and development programs were offered to the managerial cadre to upgrade their skills and develop the human resource base. Your company has been developing apprentices and trainees across various departments to cultivate new talent. Steps are also being implemented to strengthen specific areas that are considered 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 June 26, 2009. 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 banks, employees and the customers at large.

For and on behalf of the Board

Sd/-

Place: Bangalore
Date : June 26, 2009

V. K. Surendra
Chairman

DIRECTORS' REPORT**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 2009.

I. 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. Technology up gradation of VST I30DI Engine to meet the next emission norms of Trem IIIA is under final stage of completion.
- b. Conceptualization and development of a small weeder for dweeding in Rice transplanted fields.
- c. Conceptualization and development of Seat for Power Tiller.
- d. Conceptualization of Rice planting attachment to MT180D Tractor.

B. Technology Absorption:

- a. Technology absorption through up gradation of Engine testing Lab instrumentation through procurement of latest version smoke meter.

C. Benefits derived :

- a. Up gradation of instrumentation at Engine testing. Lab has enhanced the engine optimization capabilities.

D. Expenditure on R&D :

- a. The Company's expenditure on R&D (including capital expenditure) during the year was Rs.43,88,102.00

E. Future plan of action :

- a. Cost effective, light weight and latest technology engine under development for Power tiller application.
- b. Enhancing the marketability of Rice transplanter by providing supporting equipments for Rice cultivation like weeder etc.

3. Foreign exchange earnings and outgo:

- a) Complete information about exports, which have contributed towards foreign exchange earnings, is given in Para 6(f) of the Schedule 19 to the Audited Accounts annexed to this Report. Similarly, details of foreign exchange outgo on account of imports, expenditure on traveling, dividend etc. are shown in Para No.5(e), 5(f) and 5(h) respectively in Schedule 19, i.e., in Notes forming part of Accounts.
- b) Total foreign exchange used and earned :
 Foreign exchange earnings : Rs.15,17,47,186-00
 Foreign exchange outgo : Rs. 8,95,22,691-00