



43RD
ANNUAL REPORT

2010-11



V.S.T. TILLERS TRACTORS LTD.





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. J. Sagar Associates
Advocates & Solicitors
2, Frontline Grandeur
14, Walton Road, Bangalore - 560 001

Regd. Office : Plot No.1, Dyavasandra Industrial Layout,
P.B.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. K.K.Rai
Date of Birth & Age	16/08/1946 & 63 Years	04/06/1944 & 67 Years
Appointment on	12/06/1990	26/05/2009
Qualifications	MBA	B.A., CAIIB
Expertise in specific functional Areas	Operations Management & Software Development	Has over four decades of experience in Banking & Finance. He held top level positions in Vijaya Bank and Allahabad Bank both public sector Banks. He retired as the Executive Director of Allahabad Bank. Currently he is on the Board of four other listed and one non listed companies as Independent Director.

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

Place: Bangalore
Date: May 30, 2011

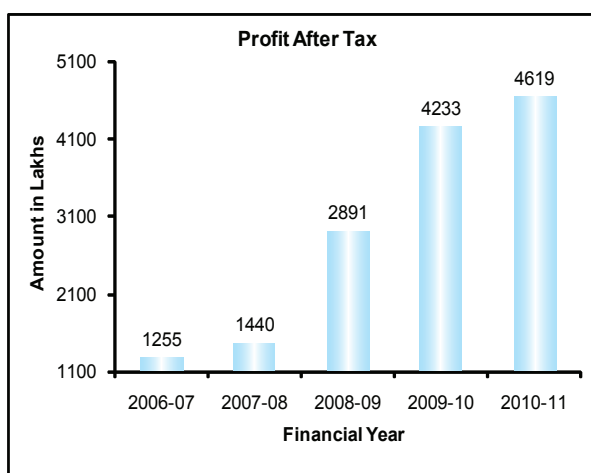
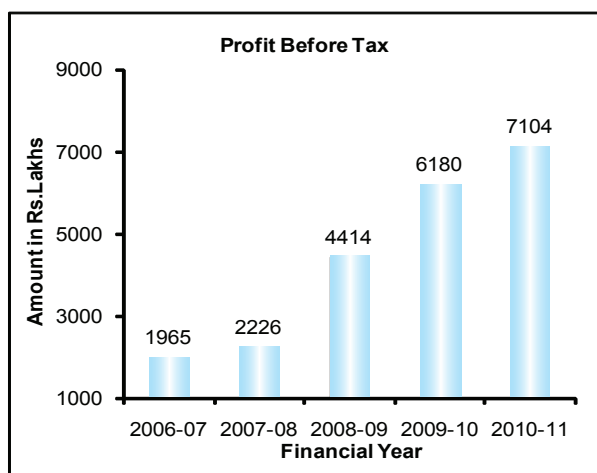
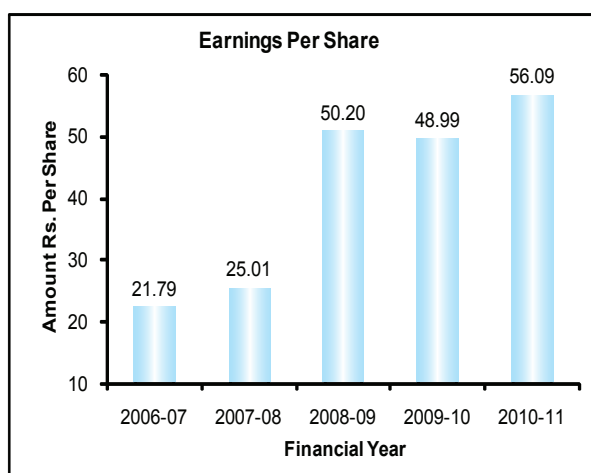
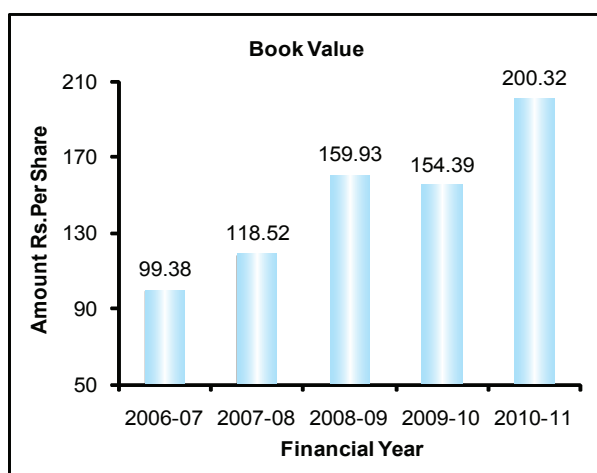
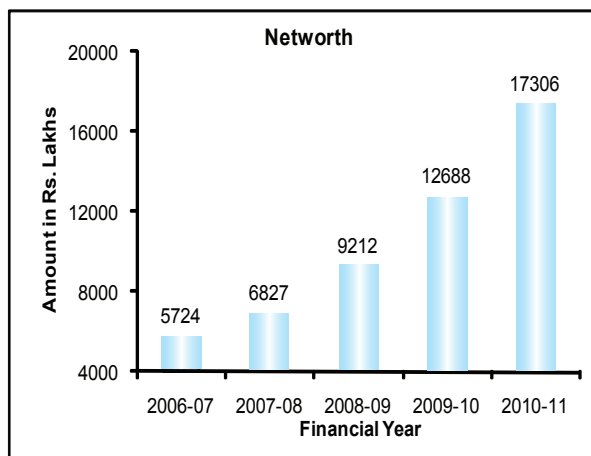
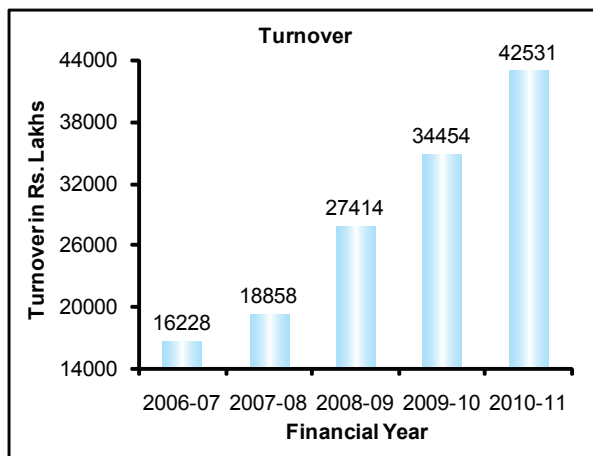
Subash B K
Company Secretary

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FINANCIAL INDICATORS



DIRECTORS' REPORT



Dear Shareholder,

Your Directors have pleasure in presenting the 43rd Annual Report of the Company and the audited statement of accounts for the year ended March 31, 2011.

FINANCIAL PERFORMANCE

(Rupees in lacs)

Period	Year 2010-11	Year 2009-10
TURNOVER	42531	34454
OTHER INCOME	597	277
TOTAL INCOME	43128	34731
PROFIT BEFORE DEPRECIATION & INTEREST	7403	6506
INTEREST	72	67
DEPRECIATION	227	259
PROFIT BEFORE TAX	7104	6180
INCOME TAX	2485	1947
PROFIT AFTER TAX	4619	4233
BALANCE B/F	2493	1016
SURPLUS AVAILABLE FOR APPROPRIATION TO:	7112	5249
DIVIDEND	778	648
TAX ON DIVIDEND	126	108
TRANSFER TO GENERAL RESERVE	3200	2000
BALANCE CARRIED FORWARD	3008	2493

COMPANY'S PERFORMANCE

We are pleased to report another successful period for your Company's business. Your Company has clocked a modest growth by selling over 23000 Tillers and 4700 Tractors and continues to maintain its leadership position in the power tiller industry.

The turnover for the year registered an increase by 23% from Rs.344 crores in 2009-10 to Rs. 425 crores while the operating profit increased to Rs. 65 crores compared to Rs.59 crores. However, the operating margin declined by 1.83% due to increase in raw material costs. Profit after tax was Rs. 46 crores, an increase of 9% over the previous year and earnings per share during the year increased from Rs.48.99 to Rs.53.46.

The sale of power tillers during the year increased by 23%. While the Tractor sales have grown by 26% during the year. Your Company's aggressive plan to market Rice Transplanters has been encouraging primarily driven by expensive farm labor and government subsidy.

The performance of Precision Component Division improved with exports registering a growth of 45% from Rs. 5.5 crores to Rs. 8 crores . However export margins have been impacted due to spiraling raw material costs with very little scope for passing on the increase to our overseas customers. During the year, this division has capitalized on growth opportunity in production of components for captive consumption which has indirectly contributed to the overall performance of your Company.

DIVIDEND:

Your Directors have pleasure in recommending a dividend of Rs. 9/- 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. 904 lacs including the distribution tax.

NSE LISTING

The shares of the Company were listed and admitted to dealings on the National Stock Exchange of India Limited w.e.f. June 20, 2011.

**DIRECTORS:**

In accordance with the provisions of the Companies Act, 1956 and Articles of Association, Mr. K K Rai, Mr. M K Bannerjee and Mr. A Hishikawa, Directors of the Company retire by rotation and are eligible for re-appointment.

CORPORATE GOVERNANCE:

The Company strives to ensure highest standards in Corporate Governance and levels of transparency in accordance with 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, 2011 and the profits of your company for the year ended March 31, 2011.

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 43rd Annual General Meeting and are eligible for re-appointment.

COST AUDITORS:

M/s. Rao, Murthy & Associates, Cost Accountants were re-appointed by the Board of Directors in its meeting held on May 30, 2011. The Cost Audit Report for the financial year 2009-10 was filed on September 8, 2010 and the due date for filing the report was September 30, 2010.

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 2011 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 grew at around 8.5% during 2010-11 as against 8% recorded in 2009-10. With the various measures adopted by the government and a normal monsoon the agriculture and allied sector posted a healthy 5.6% growth compared to a negligible growth during 2009-2010. The government's strategy to improve credit availability and interest subvention to farmers has spurred the growth in this sector.

The agricultural sector contributes around 17% to the GDP and engages over 65% of the countries workforce. Large parts of this sector are unorganized with limited bank finance and low farm technology.



However, with the higher support prices for food grains, realization has improved for farmers contributing to the overall growth. The continuation of government schemes such as the National Rural Employment Guarantee Act (NREGA) has indirectly given a fillip for increased demand for farm machinery.

The power tiller sector in India has evolved over the years and is at present in an intermediate stage of development as compared to China, however it is largely dependent on Government subsidies and is growing around 20%p.a. The industry is witnessing intense competition from Chinese brand tillers that are increasing their presence in the domestic market and posing a major challenge in this segment.

The Indian tractor market which is the largest in the world is expected to increase at a CAGR of 6-7% by 2014-15. With the rise in rural incomes and the governments focus on increasing mechanization, improvement in yields are expected. During the year under review the domestic tractor industry sold 482,237 units compared to 402,935 units in the previous year with over 12 major players catering to various segments from 25HP to above 55HP. Your company commands a significant market share in Maharashtra, Gujarat and Tamil Nadu in the below 20 HP tractor segment and the sales are expected to grow in other states in the coming years.

OPPORTUNITIES

The Agriculture sector is slated to register a positive growth of around 4% during 2011-2012. This growth will largely depend on the policies of the government to promote farm mechanization as well as a normal monsoon. Food security and rural development remain high on the Government agenda. Various Government schemes such as Rashtriya Krishi Vikas Yojana (RKVY), Macro Management Scheme, National Food Security Mission as have given thrust to farm mechanization. A higher Minimum Support Price fixed by the Central Government for rice and wheat coupled with Debt Relief Schemes will result in better price realization thereby improving their purchasing power to mechanize operations. This apart, the government's employment guarantee scheme has made farm labor expensive, compelling farmers to increase the level of mechanization.

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

Though various irrigation schemes have been conceived to enhance the cultivable area, the agricultural sector continues to be monsoon dependent. On another front, availability of bank finance for your Company's products in smaller towns and villages and delay in releasing timely subsidy by various states for power tillers is an area of concern. During the year, several importers have started marketing Chinese made power tillers under various subsidy schemes and this has intensified competition for your Company. Appropriate marketing strategies are being adopted to protect market share and strengthen the Company's competitive edge in the current scenario.

The government's fiscal policy of controlling inflation by hardening the interest rates could have an adverse impact on the demand for power tillers and tractors.

On the raw material front, input cost increases are a concern and the prices of commodity items like steel, non-ferrous, rubber and fuel costs continue to rise thereby posing a serious threat to sustain current margins during the year. With the automotive industry booking capacities of suppliers, sourcing and capacity will continue to be a challenge.

CURRENT YEAR OUTLOOK

Agriculture is the mainstay of more than 600 million Indians but is highly fragmented. The Government is targeting over 5% growth for agriculture in the Eleventh Five Year Plan and according to the Economic Survey, expenditure on rural development and investments are expected to grow. A favorable monsoon coupled with ease of credit availability to farmers will have a positive influence on the power tiller and tractor industry. Your company is confident of maintaining its growth momentum. On the export front the outlook is positive for tractors and your company is taking steps to expand production capacity to cater to specific markets.

The steps taken to introduce Rice Transplanters in various states is on going. Extensive work to train self help groups 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.

Currently, the most challenging task is efficiency in procuring Components. Due to the robust growth experienced in the automobile sector, availability of adequate material has been affecting the Company's production leading to opportunity losses. Recognizing that scale and market growth are essential, your Company is revamping vendors commensurate with growth and is increasing value added activities. In the above background, your Company will continue to focus on retaining its advantage in power tillers in the year ahead and scale up tractor supplies to meet the growing demand.

During the year, your Company has embarked on establishing a new Tractor manufacturing plant in Hosur, Tamil Nadu with an installed capacity of 15000 units p.a. to cater to the increased demand in the lower hp tractor segment. The financial outlay for this project is budgeted at Rs. 66 crores and is proposed to be funded with a mixture of internal accruals and debt. The plant is expected to go on stream during the third quarter of 2012. This project will also give the Company the prospect of introducing more tractor models in the future.

At Precision Component Division, infrastructure is being upgraded in required areas to cater to higher captive consumption. We believe the export demand would remain flat as your Company's aim is to concentrate on in-house supplies.

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 increasing the strength of 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 in 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 May 30, 2011, 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, the financial institutions, employees and the customers at large.

for VST TILLERS TRACTORS LTD.

Sd/-

Place: Bangalore
Date : May 30, 2011

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 2011.

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. Successfully completed upgradation of 3 cylinder engine for tractor to the next stage of emission compliance Trem IIIA and is under production.
- b. Higher horse power 21 HP Tractor test marketing being conducted.

B. Technology Absorption:

Software upgradation in the design section.

C. Benefits derived :

- a. Enhancement of product evaluation and testing capabilities.

D. Expenditure on R&D :

- a. The Company's expenditure on R&D (including capital expenditure) during the year was Rs.40,08,954/-

E. Future plan of action :

- a. Testing and approval of 21 HP tractor under progress.
- b. New aesthetics for 21 HP tractor under development and Production implementation.
- c. Homologation updation for Tractor for European Market.

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. 12,55,77,885/-
 Foreign exchange outgo : Rs. 14,06,76,998/-

CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO) CERTIFICATION

To,

The Board of Directors
VST TILLERS TRACTORS LTD

We, the undersigned, in our respective capacities as Chief Executive Officer and Chief Financial Officer of VST Tillers Tractors Limited ("the Company"), to the best of our knowledge and belief certify that:

- (a) We have reviewed the financial statements and the cash flow statement for the year ended on March 31, 2011 and based on our knowledge and belief, we state that:
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain any statement that might be misleading;
 - (ii) These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws, and regulations.
- (b) We further state that to the best of our knowledge and belief, there are no transactions entered into by the Company during the year, which are fraudulent, illegal, or violative of the Company's code of conduct.

We hereby declare that all the members of the Board of Directors and Management Committee have confirmed compliance with the Code of Conduct as adopted by the Company.

- (c) We are responsible for establishing and maintaining internal controls and for evaluating the effectiveness of the same over the financial reporting of the Company and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated, based on our most recent evaluation, wherever applicable, to the Auditors and Audit Committee:
 - (i) Significant changes, if any, in the internal control over financial reporting during the year;
 - (ii) Significant changes, if any, in the accounting policies made during the year and that the same has been disclosed in the notes to the financial statements; and
 - (iii) Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having significant role in the Company's internal control system over financial reporting.

V. P. Mahendra
Managing Director & CEO

R. Thiyagarajan
V P Finance - & CFO

Bangalore, May 30, 2011