



49th

ANNUAL REPORT

2016-17



V.S.T. TILLERS TRACTORS LTD.



LORD GANESHA



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

Board of Directors	: Mr. V.K. Surendra	- <i>Chairman</i>
	Mr. R. Subramanian	- <i>Independent Director</i>
	Mr. M.K. Bannerjee	- <i>Independent Director</i>
	Mr. K.M. Pai	- <i>Independent Director</i>
	Ms. Siva Kameswari Vissa	- <i>Independent Director</i>
	Mr. V.P. Mahendra	- <i>Vice Chairman & Managing Director</i>
	Mr. V.V. Pravindra	- <i>Non-Executive Director</i>
	Mr. V.T. Ravindra	- <i>Non-Executive Director</i>
	Mr. R.Thiyagarajan	- <i>Whole-time Director - Resigned w.e.f. 31/03/2017</i>
Chief Executive Officer	: Mr. K.U. Subbaiah	
Chief Financial Officer	: Mr. R. Thiyagarajan	
Company Secretary and Compliance Officer	: Mr. Chinmaya Khatua	
Statutory Auditors	: M/s. K.S.Rao & Co Chartered Accountants Flat No. 505, Golden Green Apartments, Irrum Manzil Colony, Hyderabad - 500 082	
Internal Auditors	: M/s. Brahmayya & Co., Chartered Accountants 10/2, Khivraj Mansion, Kasturba Road, Bengaluru - 560 001	
Cost Auditors	: M/s. Rao, Murthy & Associates No. 23/33, Surveyor's Street Basavanagudi, Bengaluru - 560 004	
Secretarial Auditors	: M/s. K. Narayana Swamy & Co "Amudhasurabi" # 48, 8th Cross, Visvesvaraya Colony Akash Nagar, B.Narayanapura Extn., Bengaluru - 560 016	
Bankers	: M/s. Canara Bank, Contonment Branch, M.G. Road, Bengaluru - 560 001 M/s. State Bank of India, SME Branch, Mahadevapura, Bengaluru - 560 048	
Regd. Office	: Plot No.1, Dyavasandra Industrial Layout, Whitefield Road, Mahadevapura Post, Bengaluru - 560 048 Ph : 080-67141111 e-mail: vstgen@vsttillers.com website: www.vsttillers.com	

INFORMATION

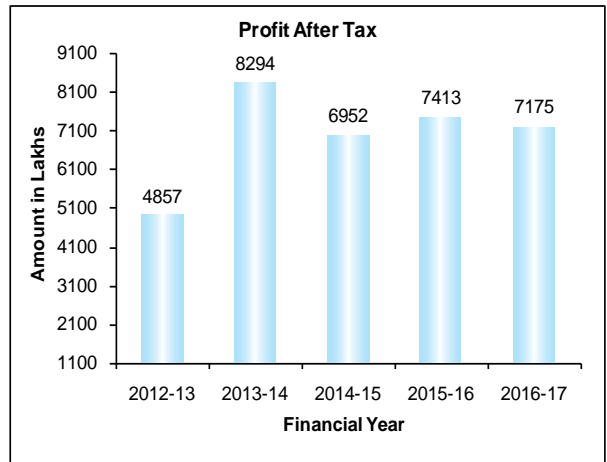
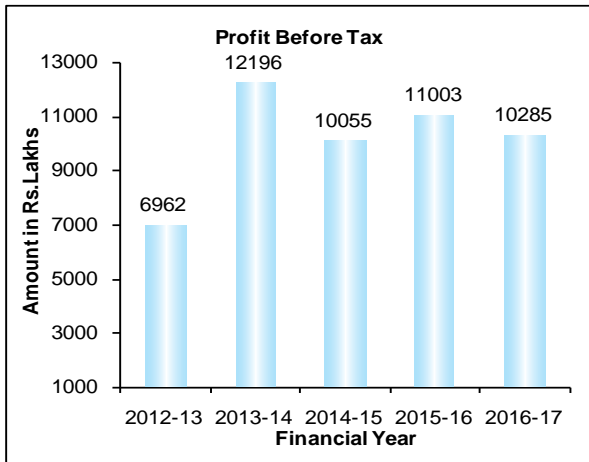
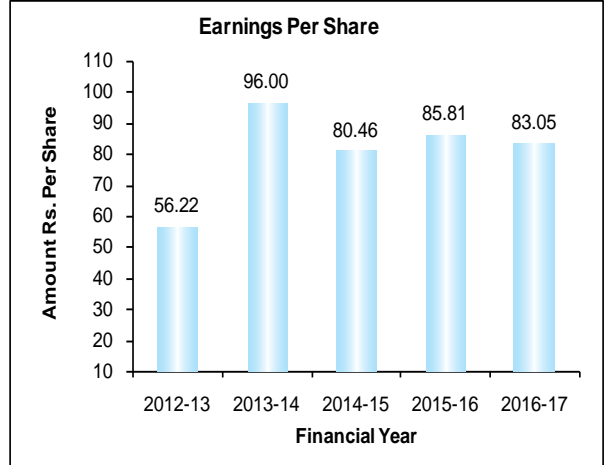
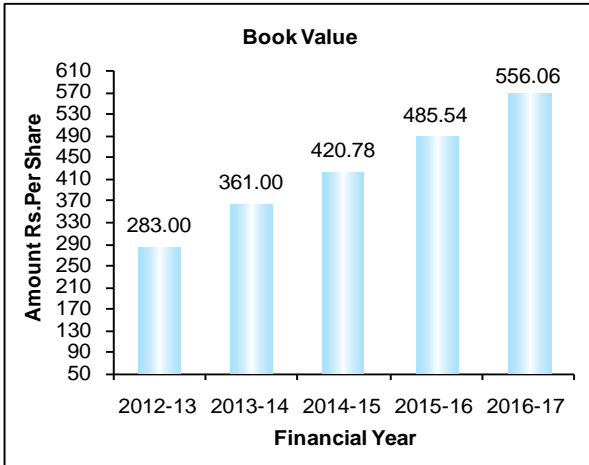
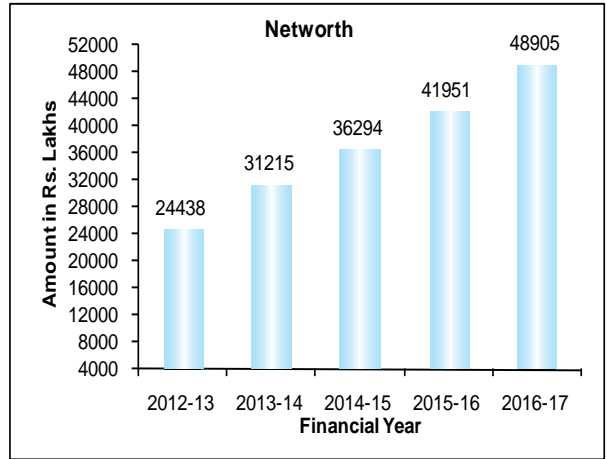
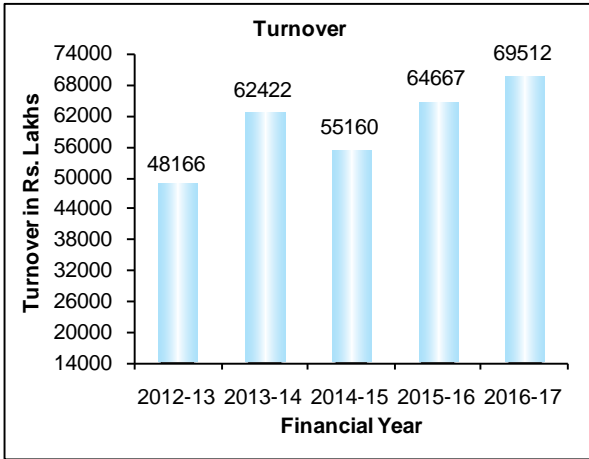
REQUEST TO MEMBERS

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 atleast 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.

Contents

Directors' Report	-	04
Report on Corporate Governance	-	30
Auditors' Report	-	42
Balance Sheet	-	48
Statement of Profit and Loss	-	49
Cash Flow Statement	-	50
Notes forming part of Financial Statement	-	51

FINANCIAL INDICATORS



Dear Shareholder,

Your Directors have pleasure in presenting the 49th Annual Report of the Company and the audited statement of accounts for the year ended March 31, 2017.

FINANCIAL PERFORMANCE

(Rupees in lakhs)

Period	Year 2016-17	Year 2015-16
OPERATING INCOME	69512	64667
NON-OPERATING INCOME	1560	1227
TOTAL INCOME	71072	65894
PROFIT BEFORE DEPRECIATION, FINANCE COST & EXTRAORDINARY ITEM	11434	12513
FINANCE COST	298	256
DEPRECIATION	1181	1254
EXTRA ORDINARY ITEM	331	-
PROFIT BEFORE TAX	10285	11003
INCOME TAX	3110	3590
PROFIT AFTER TAX	7175	7413
BALANCE B/F	10823	5166
SURPLUS AVAILABLE FOR APPROPRIATION TO FINAL / INTERIM DIVIDEND	17998	12579
TAX ON DIVIDEND	-	1296
CSR EXPENDITURE	222	196
BALANCE CARRIED FORWARD	17776	10823

COMPANY'S PERFORMANCE

The year under report was partially impacted with drought in States of Karnataka, Tamil Nadu and Kerala. In other parts of the country the monsoon was normal during the season. Structural changes in the subsidy schemes in few States, change over to DBT schemes and price fixation delays impacted the sales of Power tillers during the year 2016-17.

The number of Power Tillers sold in during the year was 25,515 units as against the previous year sale of 27,387; registering an adverse growth in sales of 6.8%, while the industry as a whole shrunk by 10.6%. However, your market share moved up to 59%.

Your company registered a recordable growth in Tractor numbers. We sold 9,635 tractors as against 7801 tractors in 2015-16 registering a growth of 23.5% in the compact segment in comparison to 1% industry growth in the compact segment. Your company market share in the compact segment moved from 13.2% in 2015-16 to 16.5% in 2016-17.

Your company will be investing around Rs.80 crores in new product development over next 4 years. The company will launch new Tiller variants and Tractor variants. During the year 2016-17 your company launched the 27 HP Viraat Tractor model to the market which made us represent in the 21-30 HP compact segment category which otherwise we were not present. We also launched the 17 HP single cylinder tractor 'VST SHAKTI SAMRAAT' and the upgraded version 'VST SHAKTI VIRAAT PLUS' in April 2017. Both these models are with 8+2 constant mesh gear box. The enhanced marketing campaign to reach out to end users and offering innovative & affordable farm mechanisation solution enabled us to grow during the year.

Your Company has been successfully running more than 75 Custom Hiring & Service Centers under the scheme launched by the Government of Karnataka. Small farmers and marginal farmers are taking the farm equipment on lease through these Custom Hiring & Service Centers.

Your company has planned to invest around Rs.150 crores which includes new product development (Rs.80 crores), plant infrastructure and machinery over the next 4 years.

DIVIDEND:

The Board has recommended final dividend of Rs.15(150%) per share for the financial year 2016-17 and the same will be disbursed on or after 14th August 2017. The total outflow will be Rs.1560 lakhs including the dividend distribution tax of Rs. 264 lakhs, if approved by the shareholder at the 49th AGM.

Transfer to reserves

There was no proposal for transfer to general reserve for the year 2016-17.

MANAGEMENT DISCUSSION AND ANALYSIS**Industry – Opportunities & Challenges**

Need of mechanization in agriculture has become a necessity due to limited availability of labour and high cost of labour. The aging population in the agriculture sector needs machines to reduce the manual effort. Your company is in the business of manufacturing and selling machines and attachments for various crop cultivation. The company products target largely the small and marginal farmers who account for more than 70% of the land holding. Also, there is necessity to increase the productivity in agriculture through mechanization and shortage of rural labour force continues to be the key driver for business growth. Moreover, the income of our farmers need to increase with increase in productivity in the land size that they own. There is lot of opportunity to support the farmers for customized crop solutions. Your company is offering total crop solutions to the farmers at competitive pricing which will assist in growing the business. The company has developed packages for various crops like Paddy, Cotton, Sugarcane, Horticulture, Grapes etc. for Compact tractors and Power tillers.

Delays in subsidy schemes announcement by the State Government, bureaucracy associated with the administration of schemes, weak Monsoon etc. continues to be the challenge for your company.

Entry of more and more competition tractors in the compact segment is demanding your company to

come out with more and more variants to counter the competition.

RISK & CONCERN

The Central as well as State Governments are encouraging more and more Custom Hiring Centres to support the marginal and small farmers. This movement can impact the sales of Tillers and Tractors to the farmers as they may use the machines available in the Custom Hiring Centres on hire. Major portion of Power Tillers are sold under government subsidy schemes. In case the subsidy allocations are reduced it can adversely affect the demand for these products. Most State Governments are switching over to DBT scheme for subsidy which would mean without good retail finance support available for the farmers they will not be able to buy the Tillers.

Your company fully endorses the call to “Make in India”.

CURRENT YEAR OUTLOOK

With prediction of normal monsoon and continued focus on farm mechanisation by the Government. We expect our revenue growth will be on par with the overall industry growth.

DETAILS OF DIRECTORS APPOINTMENT/ REAPPOINTMENT AND RESIGNATION:

In accordance with the provisions of the Companies Act, 2013 Mr. V V Pravindra (00239888) Non-Executive Director of the Company will retire at the ensuing AGM and is eligible for reappointment.

Mr.V.T.Ravindra (DIN: 00396156) has been appointed as Non-Executive Director of the Company with effect from 27/05/2016

Ms.Siva Kameswari Vissa (DIN: 02336249) has been appointed as Independent Director of the Company with effect from 29/07/2016.

Ms. K P Anuradha (DIN : 07214890) has resigned from Independent Director of the Company with effect from 01/08/2016.

Mr. R.Thiyagarajan (DIN: 06906198) has been appointed as Whole-time Director of the company w.e.f 19/10/2016 and has resigned from the directorship of the Company with effect from 31st March 2017.

During the year, no non-executive director had

any pecuniary relationship or transactions with the Company other than the sitting fees and reimbursement of expenses incurred by them for attending meetings of the Company.

KEY MANAGERIAL PERSONNEL (KMP)

The following persons are Key Managerial Personnel (KMP) of the Company under section 203 of the Companies Act, 2013. There is no change in KMP during the year 2016-17.

1. Mr. V.P. Mahendra - Vice Chairman & Managing Director
2. Mr. R. Thiagarajan – Chief Financial Officer
3. Mr. Chinmaya Khatua - Company Secretary

CORPORATE GOVERNANCE:

The Company strives to ensure good in Corporate Governance and levels of transparency with all the provisions of SEBI (Listing Obligation and Disclosure Requirement) Regulation, 2015. A certificate from the Auditors to this effect forms part of Corporate Governance Report.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to subsection 5 of Section 134 of the Companies Act 2013, the Directors confirm that:

- (a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- (c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the annual accounts on a going concern basis;

- (e) they, have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
- (f) they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively

Based on the internal financial controls and compliance system established and maintained by the Company, the Board is of the opinion that the Company's internal financial controls were adequate during financial year 2016-17.

AUDITORS:

M/s. K.S. Rao & Co, Chartered Accountants (Firm Regn No. 003109S) were appointed as Auditors of the Company for five financial years w.e.f FY 2016-17, at the 48th Annual General Meeting of the Company.

COST AUDITORS:

Pursuant to Section 148 of the Companies Act, 2013 read with The Companies (Cost Records and Audit) Amendment Rules, 2014, the cost audit records maintained by the Company is required to be audited. Your Directors had, on the recommendation of the Audit Committee, appointed M/s. Rao, Murthy & Associates, Cost Accountants to audit the cost records of the Company for the financial year 2017-18 on a remuneration of Rs.2 lakhs (Exclusive of applicable taxes) plus out of pocket expenses. As required under the Companies Act, 2013, the remuneration payable to the cost auditor is required to be placed before the Members in a general meeting for their approval. Accordingly, a Resolution seeking Member's approval for the remuneration payable to M/s. Rao, Murthy & Associates., Cost Auditors is included in the Notice of the Annual General Meeting.

INTERNAL AUDITORS

M/s.Brahmayya & Co, Chartered Accountant were appointed as Internal Auditors under section 138 of the Companies Act, 2013 for the financial year 2016-17.

SECRETARIAL AUDITORS

Pursuant to the provisions of Section 204 of the

Companies Act, 2013 and read with Rules made thereunder, the Company had appointed M/s. K Narayana Swamy & Co., Company Secretaries in Practice to undertake the Secretarial Audit of the Company for the financial year 2016-17. The Secretarial Audit Report is enclosed herewith as Annexure-4.

PARTICULARS OF EMPLOYEES:

As required by provisions of section 197 of the Companies Act, 2013 read with Rule 5(2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, except Mr. V.P. Mahendra, Vice Chairman & Managing Director and Mr. K.U. Subbaiah, Chief Executive Officer, the details of which are given in Annexure-1, there are no employees who draw remuneration as set out in the aforesaid provision of the Companies Act, 2013.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

Information under Section 134 Companies Act, 2013 read with rule 8 (3) of the Companies (Accounts) Rules, 2014 is enclosed as Annexure-2.

DEPOSITS:

Your Company has not accepted any deposits within the meaning of Chapter- V of the Companies Act, 2013 and rules made thereunder.

Internal Control System and their Adequacy

The Company has put in place adequate internal financial controls over financial reporting Systems commensurate to the nature of its business and complexity of its operations. These are regularly tested for their effectiveness by Statutory as well as Internal Auditors with focused attention on validation of I T. Security.

The Company periodically conducts physical verification of inventory, fixed assets and cash on hand and matches them with the books of account. Explanations are sought for any variance noticed from the respective functional heads.

The Significant observations made by the Auditors and follow up actions there on reported to the Audit Committee. The Audit Committee reviews the adequacy and effectiveness of the Company's Internal Control Environment and monitors the implementation of the Audit recommendations.

Industrial Relation

Industrial relations have been cordial at the Bengaluru, Mysore and Hosur plants during the year.

Your company has taken appropriate steps to build organizational capability which will enable the long term growth plans.

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 and vendor channel disruption.

All information in this release is as of May 25, 2017, 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.

Board Meeting

Six meetings of the Board of Directors were held during the year. For further details, please refer report on Corporate Governance of this Annual Report.

Declaration of Independent directors.

The Company has received declarations from Independent directors as mentioned in sub-section (6) of section 149 of the Companies Act, 2013.

Committees

The Company has constituted Audit Committee, CSR Committee, Nomination & Remuneration Committee, Stakeholders Relationship Committee and Risk Management Committee. The details of the Committees are mentioned in Corporate Governance Report.

Vigil Mechanism

The purpose of this policy is to provide a framework to promote responsible and secure whistle blowing. It is to protect employees wishing to raise a concern about serious irregularities within the Company.

The Company has vigil mechanism to deal with instance of fraud and mismanagement, if any. The details of the vigil mechanism are explained in the Corporate Governance Report and also posted on the website (www.vstillers.com) of the Company.

Auditors qualification, reservation or adverse remark or disclaimer.

The Statutory Auditors have given a “clean report” without any qualification, reservation or adverse remark or disclaimer except as mentioned in Clause 2 (g)(iv) of the Auditors Report. The Secretarial Auditors have made the following observation.

“There was an imbalance regarding constitution of the Board which was duly communicated to the Stock Exchanges and the same was restored during the year under review.”

No fraud has been reported by the Auditors under section 143 (12) of the Companies Act, 2013.

Loans, Guarantee & Investment

The Company has given loan and made investment during the year 2016-17. However, the investments and Loan formed part of the notes to the financial statements provided in this Annual Report. The company has not given any Guarantee during the year 2016-17.

Related Party Transactions

All related party transactions that are entered into during the financial year were on an arm's length basis. There are no materially significant related party transactions made by the company with Promoters, Directors, Key Managerial Personnel or other designated persons which may have a potential conflict with the interest of the Company at large.

All Related Party Transactions are placed before the Audit Committee and also before the Board for approval. Prior omnibus approval of the Audit

Committee was obtained for the transactions which are of a foreseen and repetitive nature. The transactions entered into pursuant to the omnibus approval so granted are audited and a statement giving details of all related party transactions is placed before the Audit Committee and the Board of Directors for their information and approval. The policy on dealing with Related Party Transactions as approved by the Board can be accessed at http://www.vstillers.com/sites/default/files/policies/policy_on_related_party_transc.pdf

Material changes and commitments affecting the Financial Position

There are no material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report;

Risk Management Policy

The Company is having a risk management policy. The risk pertaining to business of the Company is discussed at the Audit Committee and at the Board Meetings on regular basis.

There are no risks which in the opinion of the Board threaten the existence of the Company. However, some of the risks which may pose challenges are set out in the Management Discussion and Analysis which forms a part of this report.

The Committee composition :

Mr. M.K. Bannerjee, Chairman, Mr. V. K. Surendra, Member, Mr. K.M. Pai, Member, Mr. V.P. Mahendra, Member

The details of the policy are given below:

Risk Category	Risk Description	Mitigation
Industry Risk	<p>Concentration on Agri Business</p> <p><u>Specific Risks are:</u></p> <ul style="list-style-type: none"> - Industry Downturn in Agri Industry will adversely affect business - Strong competition and ability to market models faster. <p>High focus on specific Segment</p> <p><u>Specific Risks are:</u></p> <ul style="list-style-type: none"> - Business will be adversely affected when Agri segment experiences sluggish growth - Highly dependent on subsidy and Govt. policy on Agriculture development. 	<ul style="list-style-type: none"> □ Tapping of wider segments in products and geographies including its aftermarket foot print in the core business □ Explore to releasing new models ahead of competition in the future. 5 year strategic business plan to be formulated. □ Explore & grow businesses in the Engines, Attachments and other Agricultural Machinery, while remaining focused on core business □ Diversification in non-agri segment
Raw Material Risk a. Volatility in Raw material, commodity and fuel prices. b. Single source	<p>a. Volatility in prices of raw materials and commodities may impact our profit.</p> <p>b. Single source purchasing increases the bargaining power of the supplier</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> - Business disruption - Continuous price escalation by the supplier 	<ul style="list-style-type: none"> □ Vendor rationalization & Commodity based approach in sourcing, leading to focused negotiation to manage prices of raw materials etc. □ Sourcing options to develop alternate sources for all critical single source purchases. □ VA/VE efforts by Engineering resulting in material cost reduction through better designs
Quality & Integrity of the Product	<p>Poor quality or integrity of our products may result in reputation and brand damage, resulting in lower volumes and financial claims</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> - Poor quality of the products - Increase in Cost of Quality leads to bottom-line erosion - Loss of customers & Lost opportunities in new programs 	<ul style="list-style-type: none"> □ Effective process control □ Supplier cluster programs to improve quality of incoming parts □ Warranty procedure & performance sign off with Suppliers.