



ANNUAL REPORT 2017-2018



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>Executive Director</i> Mr. Arun V Surendra - <i>Non-Executive Director</i>
Chief Executive Officer	: Mr. K.U. Subbaiah
Chief Financial Officer	: Mr. P.M. Keshava
Company Secretary and Compliance Officer	: Mr. Chinmaya Khatua
Statutory Auditors	: M/s. K.S.Rao & Co Chartered Accountants No. 2, 7th Cross, "B" Street, Magadi Road Bengaluru - 560 023
Internal Auditors	: M/s. Brahmayya & Co., Chartered Accountants 10/2, Khivraj Mansion, Kasturba Road, Bengaluru - 560 001
Cost Auditors	: M/s. Rao, Murthy & Associates Sampurna Chambers, No. 13, 1st Floor, FF2, Vasavi Temple Road, V.V. Puram, Bengaluru- 560 004
Secretarial Auditors	: Mr. Thirupal Gorige Practising Company Secretary No. 87, 2nd Floor, 21st Cross, 7th Main, N S. Palya, BTM 2nd Stage, Bengaluru -560 076.
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@vstillers.com website: www.vstillers.com

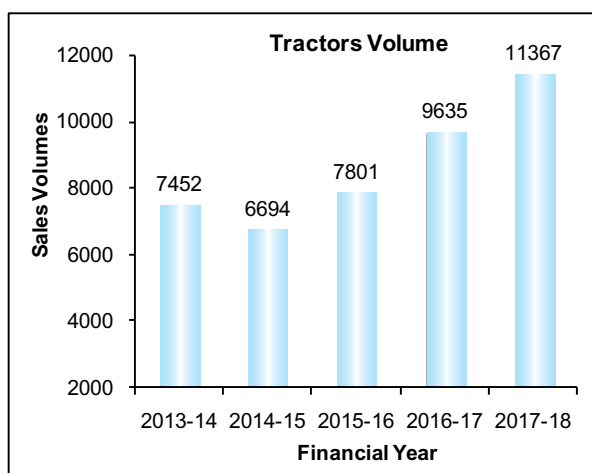
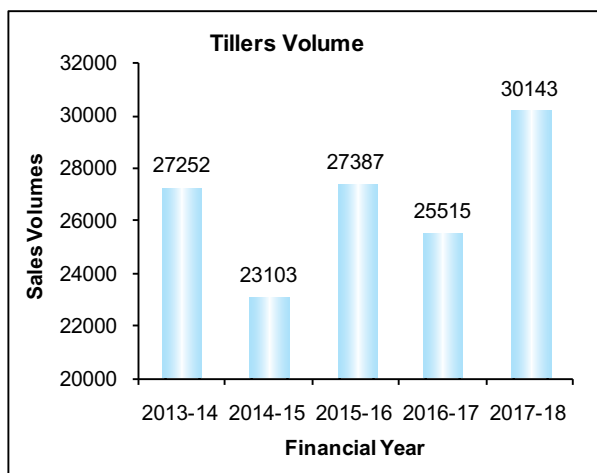
INFORMATION

REQUEST TO MEMBERS

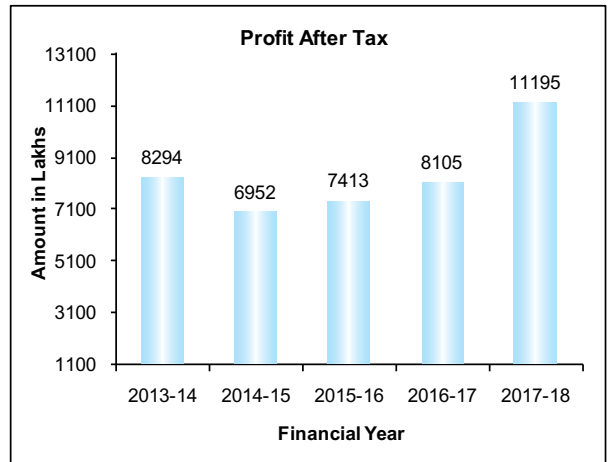
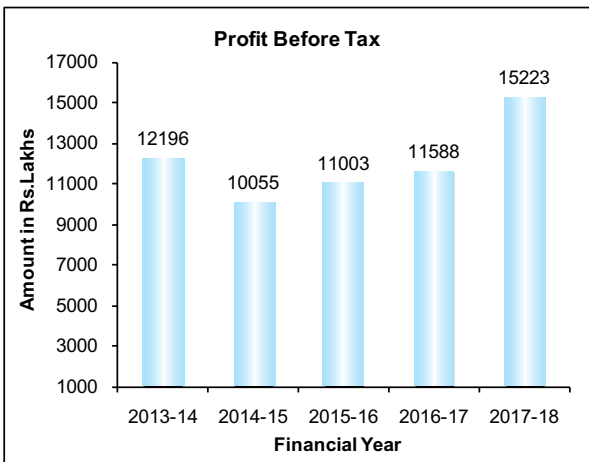
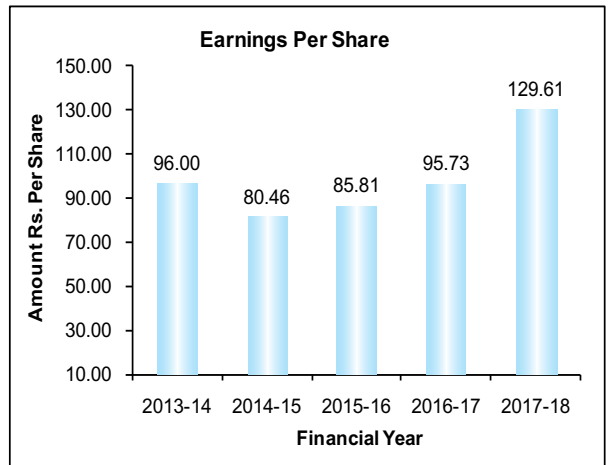
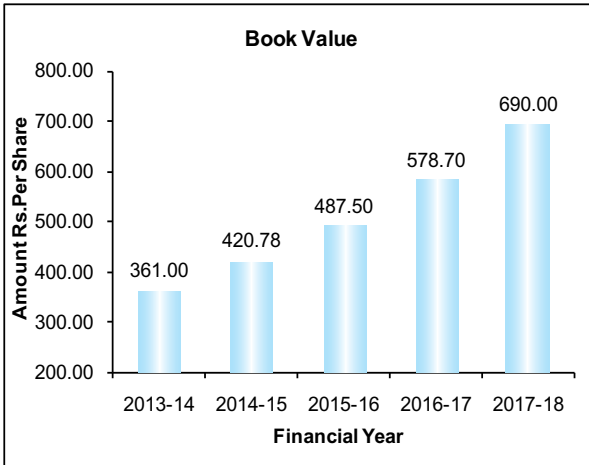
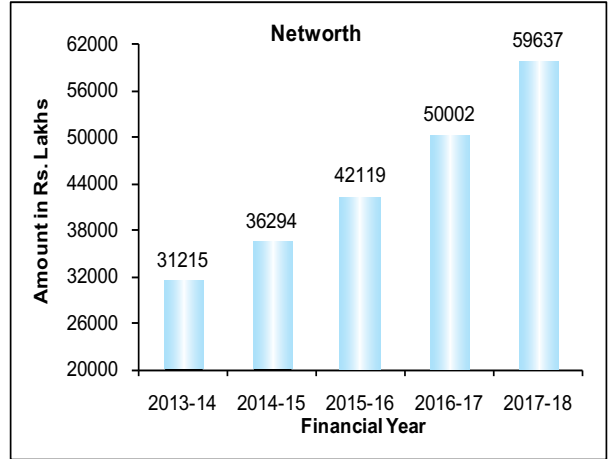
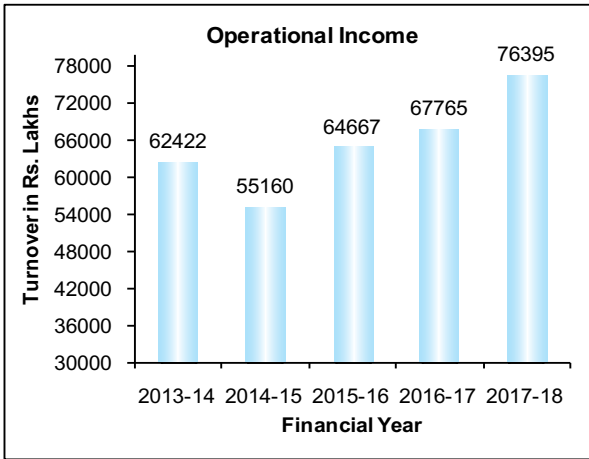
1. Please bring your copy of the Annual Report to the meeting as no extra copies will be distributed owing to limited number of copies printed.
2. Members are requested to send their queries, if any, relating to the annual accounts and reports at least one week prior to the date of meeting to facilitate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

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FINANCIAL INDICATORS



The previous years financial indicators have been re-arranged as per IndAS wherever required.

Dear Shareholder,

Your Directors have pleasure in presenting the 50th Annual Report of the Company and the Audited Statement of accounts for the year ended March 31, 2018.

FINANCIAL PERFORMANCE

(Rupees in lakhs)

Period	Year 2017-18	Year 2016-17
OPERATING INCOME	76395	67766
NON-OPERATING INCOME	4521	2616
TOTAL INCOME	80916	70382
FINANCE COST	169	302
DEPRECIATION	1086	1181
TOTAL EXPENSES	65693	59124
EXCEPTIONAL ITEM	-	330
PROFIT BEFORE TAX	15223	11588
TAX	4025	3318
PROFIT AFTER TAX	11198	8271
OTHER COMPREHENSIVE INCOME	-3	-166
TOTAL COMPREHENSIVE INCOME	11195	8105
EARNING PER SHARE (Basic and Diluted)	129.61	95.73

COMPANY'S PERFORMANCE

The year under report was partially impacted in first half of the year with weak monsoon in June in States of Karnataka, Tamil Nadu and Kerala. In other parts of the country the monsoon was normal during the Kharif season. Structural changes in the subsidy schemes in few States, change over to DBT schemes in few states and price fixation delays impacted the sales of Power tillers during the year 2017-18.

The number of Power Tillers sold during the year was 30,143 units as against the previous year sale of 25,515 units registering growth in sales of 25%. The company market share moved to 60%.

Your company registered growth of 18% in Tractor numbers. 11,367 tractors were sold as against 9,635 tractors in 2016-17. The company market share is around 15.5% in the compact segment category.

Your company will be investing over 240 crores from the year 2016-17 until 2020-21 in infrastructure, upgradation and new product development. The company has launched new Tractor models, Tractor variants and Tiller models. During the year 2016-17 your company launched the 27 HP Viraat model to the market, and the upgraded version 'VST SHAKTI VIRAAT PLUS' in April 2017. Both these models are with 8+2 constant mesh gear box. The Viraat Plus has gained market share while the Samrat model is lagging

as we need to change the mindset of the farmers to adapt engine with Electronic governor. The new model's introduction, penetration in new areas, industry growth and our marketing communication has enabled growth in sales during the year 2017-18.

The Custom Hiring & Service Centers that are under the VST umbrella which was allocated under the scheme launched by the Government of Karnataka are running successfully.

The new plant for Power Tiller at Malur became operational in March 2018. This new plant is capable of higher productivity. The entire production of Power Tiller will be done in this plant effective August 2018.

The existing plant at Bengaluru will be used for manufacture of higher HP range of Tractors and the Self-propelled Power reapers.

DIVIDEND:

The Board has recommended 500% Dividend (150% Normal dividend and 350% special dividend on account of Golden Jubilee year) i.e. Rs.50/- per equity share of Rs.10 each, for the financial year 2017-18 and the same will be disbursed on or after 13th August 2018, if approved by the shareholder at the 50th AGM. The total outflow will be Rs.51,84,52,993 including the dividend distribution tax of Rs.8,64,76,593 lakhs,

Transfer to reserves

There was no proposal for transfer to general reserve for the year 2017-18.

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

Need to mechanize agriculture will continue to be a necessity due to limited availability of labour and high cost of labour. The trend in any segment is towards mechanization/automation to reduce the manual effort. Your company is in the business to 'Create Sustainable Crop Solutions To Enhance Farm Productivity'. The company products mainly target the small and marginal farmers who account for more than 70% of the land holding. Shortage of rural labour force continues to be the key driver for business growth. The income of our farmers need to increase and this is possible with increase in productivity in the land size that they own. Your company is offering total crop solutions to the farmers at competitive pricing which will assist in their business. The company has developed packages for various crops like Paddy, Cotton, Sugarcane, Horticulture, Grapes etc. for Compact tractors and Power tillers.

Delays in announcing subsidy schemes by the State Governments, bureaucracy associated with the administration of schemes, weak Monsoon etc. will continue 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.

The commodity prices have increased over 20% in 2017-18. Many suppliers are seeking price increases. Due to price increase of components the contribution margin will get eroded and hence can have adverse impact on the company operating margins.

RISK & CONCERN

The inability of the Central Government to come out with strict guideline/policy to curb imports of poor quality Power Tillers without adequate service and spares is a cause for concern. State Governments are encouraging more and more Custom Hiring Centres to support the marginal and small farmers. This initiative may marginally impact the sales of Tillers to the farmers. More than 95% 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. In some States even the compact tractors are given attractive subsidy. This will have an impact on Direct sales of Tractors. While the subsidy was most prevalent in Karnataka, Tamil Nadu and Andhra very recently Maharashtra government has announced a subsidy scheme for tractor. This is

not necessarily a good trend for the tractor industry. Most State Governments have switched over to DBT scheme for subsidy which will have a positive impact on working capital.

Your company is diversifying to manufacture and sell higher HP tractors to the domestic market. Having been in compact segment tractor manufacturing and sales it may take more than anticipated time for us to penetrate and establish the presence in higher HP segment.

CURRENT YEAR OUTLOOK

With prediction of normal monsoon, launch of new products models/ variants along with continued focus on farm mechanization to double the farmer income by the Central Government it is expected that the company growth will be on par with the overall industry growth.

DETAILS OF DIRECTORS APPOINTMENT/ REAPPOINTMENT:

In accordance with the provisions of the Companies Act, 2013 Mr. V T Ravindra (DIN-00396156) will retire at the ensuing AGM and is eligible for reappointment.

Mr. Arun V. Surendra (DIN-01617103) appointed as Additional Director of the Company effective from 11/05/2018. His appointment as Non-Executive Director forms part of Notice of 50th Annual General Meeting.

Mr. V.T. Ravindra appointed as whole-time Director of the Company effective from 11/05/2018. His appointment as whole-time Director forms part of Notice of 50th Annual General Meeting.

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. During the year 2017-18, Mr.R.Thiyagarajan resigned as CFO of the Company w.e.f. 01/06/2017 and Mr. P.M. Keshava appointed as CFO w.e.f. 01/06/2017.

1. Mr. V.P. Mahendra - Vice Chairman & Managing Director
2. Mr. P.M.Keshava - 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.

Compliance reports in respect of all laws applicable to the Company have been reviewed by the Board of Directors.

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.

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 2018-19 on a remuneration of Rs.2,50,000/- 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 2017-18.

SECRETARIAL AUDITORS

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and read with Rules made thereunder, the Company had appointed Mr. Thirupal Gorige Company Secretaries in Practice to undertake the Secretarial Audit of the Company for the financial year 2017-18. 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. The salary details of designated employees are given in Annexure-1.

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.

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 Company is planning to implement new ERP system during the year 2019-20 to further strengthen the internal control system of the Company.

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. There were 713 No. of permanent employees on roll as on 31st March 2018.

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 11, 2018, 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.

Information Technology

Your Company's operations are supported by a full-

fledged Data Centre. Your company has a well planned Business Continuity Plan and Disaster Recovery Set-up for all critical applications with near real-time data replication.

The delivery centers meet the Information Security Management System and CIA (Confidentiality, Integrity and Availability) Standards. To cater to the ever-changing customer needs, the IT infrastructure is being constantly upgraded with new / enhanced features to facilitate smooth functioning of operations and deliver customer satisfaction. We are using industry best standard mailing solutions with compliance and availability of mails which controls various spam mails.

The Company is planning to implement new ERP system during the year 2019-20 to further strengthen the internal control system of the Company along with 24*7 availability of critical applications and standard business analytical tools.

Board Meeting

Five 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.

Technology Transfer Agreement with M/s. Kukje Machinery Co. Ltd.

During the year 2017-18 the Company has entered into a Technology Transfer Agreement with

M/s. Kukje Machinery Co. Ltd., Korea to manufacture 47 HP tractors.

Auditors qualification, reservation or adverse remark or disclaimer.

Auditors Qualification on Internal financial control:

“The Company has designed and established internal financial controls over accounting of expenditure and payment processing. However, adequate “maker and checker controls” were not effective with respect to review of expenditure entries, generation of EDI (Electronic Data Interchange) file for payments, modifications to EDI file and uploading the EDI file onto the Bank’s website for payments, as detailed in note no. 45 to financial statements as at March 31, 2018 which resulted in creation of fictitious accounting entries in the system and payments to unauthorized parties.”

Management Response:

Looking into the unblemished track records, management believed that the internal control systems which includes design and financial controls were working effectively and in totality. However, it was realized that the operation of the internal controls and procedures were not effective and needed further improvement. The management has taken necessary steps to go into the depth of the fraud, the extent of possible damage done, legal proceeding, recovery of the amount embezzled and correcting the lapses in the internal financial controls. With this in mind, the management had already embarked on introducing a new ERP system (SAP) to overcome the shortfall in the present system.

There was no qualification, reservation or adverse remark or disclaimer from Secretarial Auditors.

There was no fraud reported by the auditors under section 143 (12) of the Companies Act, 2013 other than those which are reportable to the Central Government.

Loans, Guarantee & Investment

The Company has made investment during the year 2017-18. 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 Loan or Guarantee during the year 2017-18.

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 Risk Management Committee, 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