

Meaningful deterioration in return ratio profile...

VST Tiller & Tractors (VST) is a leading power tiller & lower hp tractor manufacturer domestically based out of South India. The company has been struggling in the recent past amid its ambitious spend on new product development and its quest to enter the higher hp tractor segment. The EBITDA margin profile has deteriorated quite significantly from being steady 15%+ till FY18 to 7.5% in FY19. With management guidance of muted margin profile to remain for a while, they are further expected to drop to 5.7% in FY20E. Building in positives, we expect EBITDA margins at 7.0%, 10.0% in FY21E, FY22E, respectively. VST has shut all its operations since March 26, 2020 till further notice from government authorities. We build in 40% volume decline for Q1FY21 assuming full lockdown in April 2020, partial lockdown in May 2020 and normalcy of operations resuming in June 2020. For full year, we build in total volume (power tiller + tractor) decline of 5% for FY21E and a rebound of volumes of 10% YoY growth in FY22E.

Sales volume to decline sharply, FY18 peak insurmountable

VST clocked power tiller sales volume of 30,143 units in FY18 post which it declined 25% YoY to 22,541 units in FY19. This is further expected to decline to 20,202 units in FY20E with FY22E volumes expected at 21,577 units. Thus, FY18 peak volumes look insurmountable with sales of power tiller highly dependent on state government subsidy regime. Even on the tractor front, VST clocked tractor sales volume of 11,367 units in FY18, post which it declined 28% YoY to 8,200 units in FY19 and further to 7,269 units in FY20E. We expect tractor sales volume at 7,627 units in FY22E.

Valuation & Outlook

The VST Tillers & Tractors stock witnessed a sharp re-rating tracking the weak P&L performance and consequent deterioration of return ratios in the recent past. Return ratios for VST have corrected from consistent 20%+ RoCE levels seen till FY18 to 11.5% in FY19. With limited margin improvement guidance, we foresee return ratios remaining below 10%, which is below our comfortable range. VST is a net cash positive company (cash & investments on books at ~ ₹ 150 crore) but its incremental spend on new product development catering to the >15 hp crowded tractor space erodes our margin of safety on the stock. We assign a **HOLD** rating to VST, valuing the company at ₹ 660 i.e. 12.5x P/E on FY22E numbers. We will wait for an improvement in financials before any meaningful change in our stance.

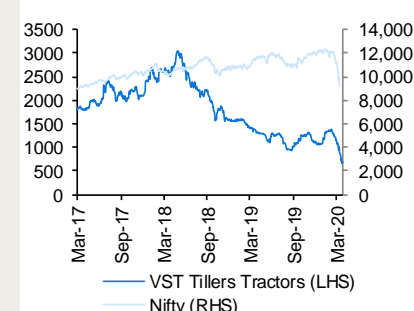


Particulars

Stock Data

Market Capitalization	₹ 593 crore
Total Debt (FY19)	₹ 0 crore
Cash & Investments (FY19)	₹ 140 crore
EV	₹ 453 crore
52 week H/L	1414 / 601
Equity capital	₹ 8.6 crore
Face value	10.0

Price Chart



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales (₹ crore)	764.0	614.9	566.4	560.4	643.2	1.5%
EBITDA (₹ crore)	119.5	46.0	32.3	39.3	64.3	11.7%
EBITDA Margins (%)	15.6	7.5	5.7	7.0	10.0	
Net Profit (₹ crore)	112.0	46.1	25.8	28.6	45.7	-0.3%
EPS (₹)	129.6	53.3	29.8	33.1	52.8	
P/E (x)	5.3	12.9	23.0	20.7	13.0	
RoCE (%)	24.0	11.5	5.8	6.5	9.6	
RoE (%)	18.8	7.8	4.3	4.6	7.1	

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Net Sales	614.9	566.4	560.4	643.2	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	614.9	566.4	560.4	643.2	
Growth (%)	-19.5	-7.9	-1.1	14.8	
Raw Material Expenses	406.2	391.7	386.7	437.4	
Employee Expenses	66.1	72.7	72.0	77.8	
Other Operating Expense	96.6	69.7	62.5	63.7	
Total Operating Expenditure	568.9	534.1	521.1	578.9	
EBITDA	46.0	32.3	39.3	64.3	
Growth (%)	-61.5	-29.7	21.5	63.7	
Depreciation	15.8	15.4	17.9	19.6	
Interest	2.3	3.2	2.9	2.6	
Other Income	43.7	21.2	22.4	23.1	
PBT	71.6	35.0	40.9	65.2	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	25.5	9.2	12.3	19.6	
PAT	46.1	25.8	28.6	45.7	
Growth (%)	-58.8	-44.0	11.0	59.5	
EPS (₹)	53.3	29.8	33.1	52.8	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	46.1	25.8	28.6	45.7	
Add: Depreciation	15.8	15.4	17.9	19.6	
(Inc)/dec in Current Assets	29.0	4.4	18.5	-40.8	
Inc/(dec) in CL and Provision	-39.1	5.5	-9.0	15.0	
Others	2.3	3.2	2.9	2.6	
CF from operating activitie	54.0	54.3	58.8	42.1	
(Inc)/dec in Investments	38.7	-7.0	-14.0	2.0	
(Inc)/dec in Fixed Assets	-41.4	-30.0	-30.0	-25.0	
Others	8.0	2.0	2.0	2.0	
CF from investing activitie:	5.3	-35.0	-42.0	-21.0	
Issue/(Buy back) of E equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-17.8	-18.8	-15.8	-19.9	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-47.3	0.0	0.0	0.0	
CF from financing activitie	-65.1	-18.8	-15.8	-19.9	
Net Cash flow	-5.8	0.5	1.0	1.2	
Opening Cash	24.5	18.7	19.3	20.3	
Closing Cash	18.7	19.3	20.3	21.5	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Liabilities					
Equity Capital	8.6	8.6	8.6	8.6	
Reserve and Surplus	581.3	591.5	607.2	635.5	
Total Shareholders funds	589.9	600.1	615.8	644.2	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	7.0	7.0	7.0	7.0	
Minority Interest / Others	46.1	48.1	50.1	52.1	
Total Liabilities	643.0	655.2	672.9	703.2	
Assets					
Gross Block	300.0	339.8	374.8	409.8	
Less: Acc Depreciation	94.3	109.6	127.5	147.1	
Net Block	205.7	230.2	247.3	262.7	
Capital WIP	34.8	25.0	20.0	10.0	
Total Fixed Assets	240.5	255.2	267.3	272.7	
Investments	168.5	175.5	189.5	187.5	
Inventory	123.7	124.1	115.2	132.2	
Debtors	96.4	100.9	92.1	105.7	
Loans and Advances	74.7	65.1	64.4	74.0	
Other Current Assets	4.4	4.5	4.5	5.1	
Cash	18.7	19.3	20.3	21.5	
Total Current Assets	317.8	313.9	296.5	338.5	
Current Liabilities	103.7	108.6	99.8	114.5	
Provisions	1.6	2.2	2.0	2.3	
Current Liabilities & Prov	105.3	110.8	101.8	116.8	
Net Current Assets	212.5	203.1	194.7	221.7	
Others Assets	21.4	21.4	21.4	21.4	
Application of Funds	643.0	655.2	672.9	703.2	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
EPS	53.3	29.8	33.1	52.8	
Cash EPS	71.6	47.6	53.8	75.6	
BV	682.8	694.6	712.7	745.6	
DPS	15.0	15.0	15.0	20.0	
Cash Per Share (Incl Invst)	216.7	225.4	242.8	241.9	
Operating Ratios (%)					
EBITDA Margin	7.5	5.7	7.0	10.0	
PAT Margin	7.5	4.6	5.1	7.1	
Inventory days	73.4	80.0	75.0	75.0	
Debtor days	57.2	65.0	60.0	60.0	
Creditor days	61.6	70.0	65.0	65.0	
Return Ratios (%)					
RoE	7.8	4.3	4.6	7.1	
RoCE	11.5	5.8	6.5	9.6	
RoIC	6.8	3.6	4.5	8.6	
Valuation Ratios (x)					
P/E	12.9	23.0	20.7	13.0	
EV / EBITDA	9.8	13.9	11.1	6.8	
EV / Net Sales	0.7	0.8	0.8	0.7	
Market Cap / Sales	1.0	1.0	1.1	0.9	
Price to Book Value	1.0	1.0	1.0	0.9	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / E equity	0.0	0.0	0.0	0.0	
Current Ratio	2.8	2.7	2.7	2.7	
Quick Ratio	1.7	1.5	1.6	1.6	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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