VST Tillers Tractors (VSTTIL)

ICICI direct Research

CMP: ₹ 1,800 | Target:₹ 2,275(26%) | Target Period: 12 months | BUY

March 31, 2021

Robust performance, positivity drivers intact…

VST Tillers & Tractors (VST) reported a robust performance in Q3FY21. Net sales for the quarter were at ₹ 203 crore, up 65% YoY. Power tiller sales volume in Q3FY21 was at 6,734 units, up 80% YoY while tractor sales volume was at 2,436 units, up 36% YoY. EBITDA in Q3FY21 came in at ₹ 30 crore with EBITDA margins at 14.7% and ensuing PAT at ₹ 31 crore. Higher PAT in Q3FY21 was also supported by higher than anticipated other income.

Import restriction to boost power tiller volumes over FY21E-23E

Power tiller is essentially a farm mechanisation device used by small and marginal farmers with an average ASP of ~ ₹ 1.25-1.5 lakh/unit. Amid conducive macroeconomic factors like higher share of small and marginal farmers domestically, robust farm cash flows, etc, the demand outlook for the power tiller segment is, however, dependent upon subsidy release by state governments. This has resulted in unpredictable volatility with industry volumes pegged in the range of ~40,000-60,000 units annually over the last few years. However, in the recent past, gauging the positive impact of mechanisation on farm output, more and more farmers (~30-40%) are buying power tiller without waiting for the subsidy. This marks a structural shift and is positive for the domestic industry. Moreover, with power tiller now placed in the import restriction category (since July 2020), demand prospects at domestic manufacturers is even more robust with VST being a key beneficiary by virtue of its >50% market share in the domestic power tiller market. VST has already finalised agreement for supplying power tillers to one of the domestic player (earlier importing) with annual volume contract pegged at ~2,000 units and is in final stages of negotiating a similar contract with another player (contract manufacturing). Hence, coupled with its subsidy neutral product offering, we expect VST to clock power tiller sales volume of ~31,400 units in FY22E & ~33,000 units in FY23E (~27,000 units in FY21E), implying a volume CAGR of 11% over FY21E-23E.

Strategic alliances at play to further leverage VST brand

With a prominent presence in the domestic farm mechanisation market, VST is now focusing upon strategic alliances to further leverage its brand and augment its product offering. To start with, it has entered into an alliance with Pubert India, for the distribution of power weeders. It has also signed an MoU with Zetor Tractors to jointly develop & produce, higher horsepower (hp) tractors for the Indian & overseas market. Recently, it also collaborated with Monarch Tractors in the domain of electric and smart tractors.

Valuation & Outlook

We are enthused by the underlying positive demand factors at VST and its ambitious vision to be a ₹ 3,000 crore global brand by 2025 in diversified farm mechanisation products & solutions. We retain our **BUY** rating on the stock amid healthy B/S, CFO generation and resurgent return ratios matrix. We value VST at ₹ 2,275 i.e. 18x P/E on FY23E (previous TP: ₹ 1,980).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales (₹ crore)	614.9	543.7	742.5	885.1	959.3	13.7%
EBITDA (₹ crore)	44.7	17.3	103.8	115.2	129.9	11.9%
EBITDA Margins (%)	7.3	3.2	14.0	13.0	13.5	
Net Profit (₹ crore)	46.1	18.0	97.6	97.0	109.2	5.8%
EPS (₹)	53.4	20.9	113.0	112.3	126.4	
P/E (x)	33.7	86.3	15.9	16.0	14.2	
RoCE (%)	4.5	0.1	12.4	12.3	12.4	
RoE (%)	7.8	3.1	15.0	13.3	13.5	

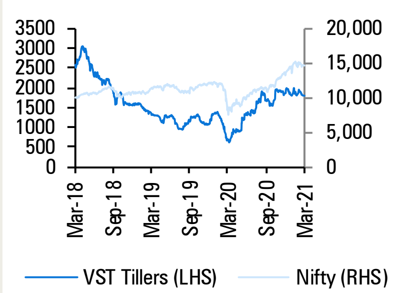
Source: Company, ICICI Direct Research

VST TILLERS TRACTORS LTD.

Particulars

Stock Data	
Market Capitalization	₹ 1555 crore
Total Debt (FY20P)	₹ 0 crore
Cash & Investments (FY20)	₹ 147 crore
EV	₹ 1408 crore
52 week H/L	2045 / 610
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Price Performance



Key Highlights

- Positive demand factors at play
- Ambiitous target to be a ₹ 3,000 crore global brand by 2025

Key risk to our call

- More than anticpated decline in operating margin profile due to rise in commodiy costs
- Slower than anticipated volume offtake for company's product in the domestic market

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Company Update

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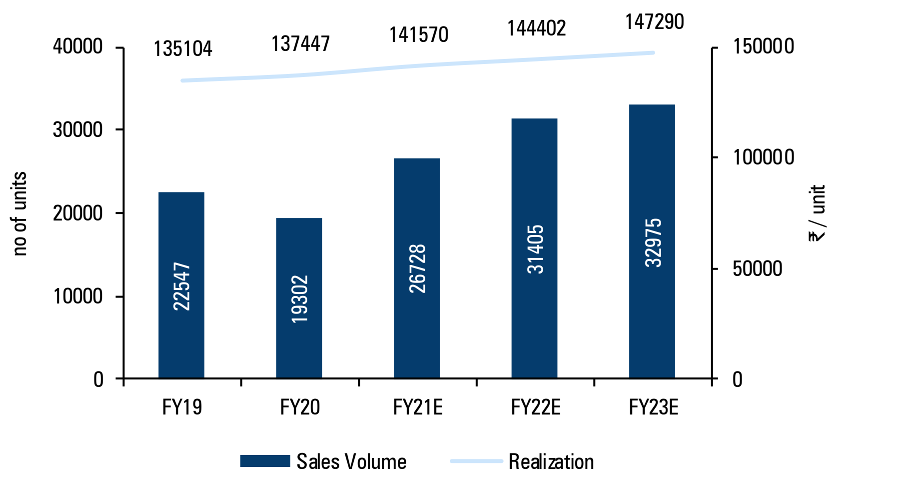
Key financial charts

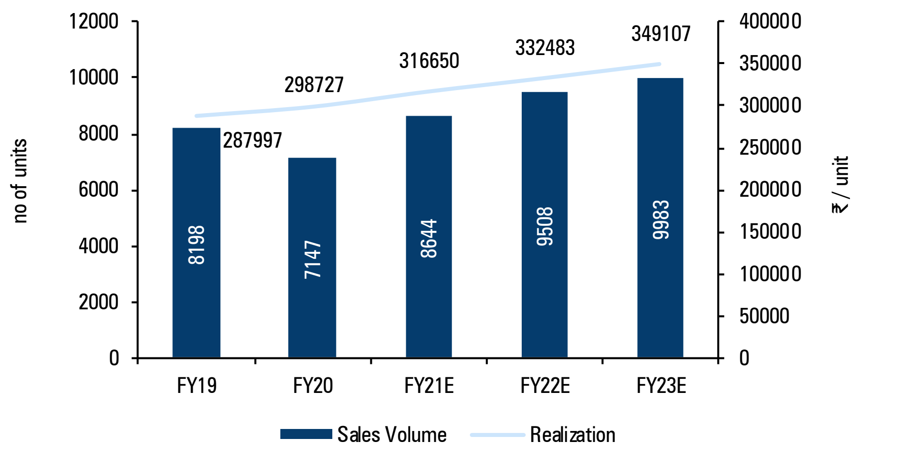
Exhibit 1: Power tiller sales volume & realisation trend



Source: Company, ICICI Direct Research

We expect power tiller sales volume to grow at a CAGR of 11.1% over FY21E-23E to ~33,000 units in FY23E. Realisations are expected to grow at a CAGR of ~2% in the aforesaid period amid rise in commodity prices

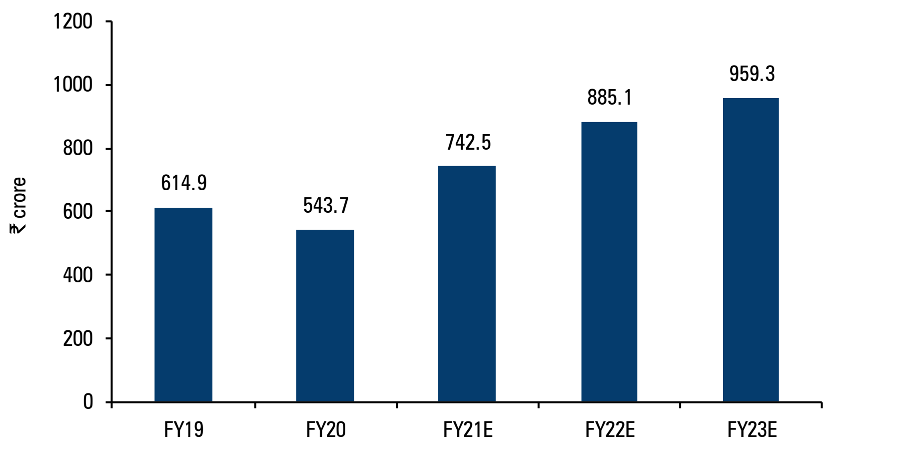
Exhibit 2: Tractor sales volume & realisation trend



Source: Company, ICICI Direct Research

We expect tractor sales volume to grow at a CAGR of 7.5% over FY21E-23E to ~10,000 units in FY23E. Realisations are expected to grow at a CAGR of ~5% in the aforesaid period amid the company's incremental focus on higher hp tractors

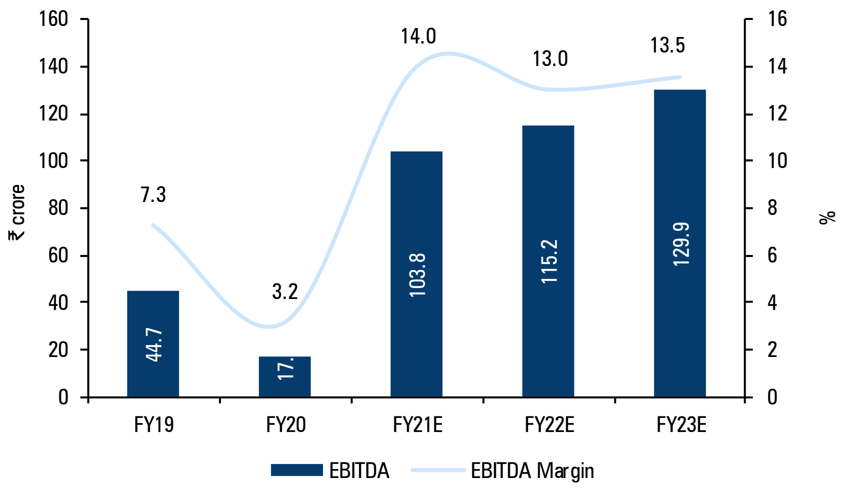
Exhibit 3: Topline trend



Source: Company, ICICI Direct Research

We expect sales to grow at a CAGR of 13.7% over FY21E-23E to ₹ 959 crore in FY23E

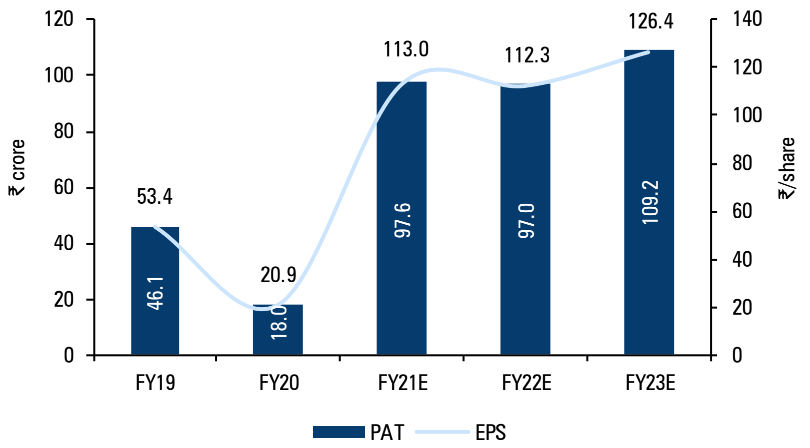
Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

We expect EBITDA margins to normalise in the 13-14% bracket over FY21E-23E

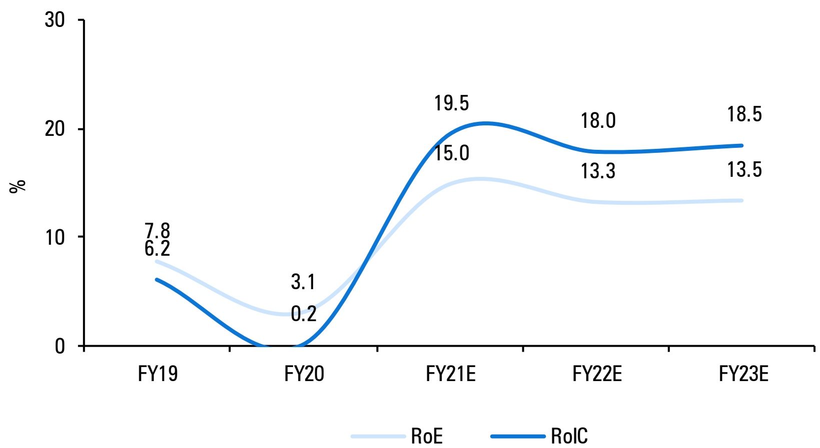
Exhibit 5: PAT and EPS trend



Source: Company, ICICI Direct Research

Post re-basing of PAT in FY21E, PAT growth is seen at ~6% CAGR over FY21E-23E. EPS is expected at ₹112/share in FY22E and ₹126/share in FY23E

Exhibit 6: Return ratios trend



Source: Company, ICICI Direct Research

Return ratios are seen returning to high teens starting FY21E amid return of profitable growth and double digit margin profile at the company

Financial Summary

Exhibit 7: Profit and loss statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	543.7	742.5	885.1	959.3
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	**543.7**	**742.5**	**885.1**	**959.3**
Growth (%)	-11.6	36.6	19.2	8.4
Raw Material Expenses	372.4	493.3	593.0	642.8
Employee Expenses	68.3	71.9	73.9	80.1
Other Operating Expense	85.7	73.4	103.0	106.6
Total Operating Expenditure	526.4	638.7	769.8	829.4
EBITDA	**17.3**	**103.8**	**115.2**	**129.9**
Growth (%)	-61.4	500.9	11.0	12.8
Depreciation	16.4	17.2	20.3	23.3
Interest	1.5	2.0	1.5	1.5
Other Income	23.6	43.5	36.4	40.9
PBT	**23.0**	**128.1**	**129.7**	**146.0**
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	5.0	30.5	32.7	36.8
PAT	**18.0**	**97.6**	**97.0**	**109.2**
Growth (%)	-60.9	441.7	-0.6	12.5
EPS (₹)	**20.9**	**113.0**	**112.3**	**126.4**

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	18.0	97.6	97.0	109.2
Add: Depreciation	16.4	17.2	20.3	23.3
(Inc)/dec in Current Assets	30.1	-3.9	-58.9	-21.8
Inc/(dec) in CL and Provisions	4.6	34.7	15.5	13.4
Others	1.5	2.0	1.5	1.5
CF from operating activities	**70.6**	**147.6**	**75.4**	**125.7**
(Inc)/dec in Investments	9.1	-52.0	-4.0	-27.0
(Inc)/dec in Fixed Assets	-29.9	-70.0	-50.0	-50.0
Others	-11.3	2.0	2.0	2.0
CF from investing activities	**-32.1**	**-120.0**	**-52.0**	**-75.0**
Issue/(Buy back) of 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	-17.1	-23.6	-23.1	-27.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-14.6	0.0	0.0	0.0
CF from financing activities	**-31.7**	**-23.6**	**-23.1**	**-27.4**
Net Cash flow	**6.8**	**4.0**	**0.3**	**23.2**
Opening Cash	18.8	25.7	29.7	30.0
Closing Cash	**25.7**	**29.7**	**30.0**	**53.2**

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	8.6	8.6	8.6	8.6
Reserve and Surplus	568.3	644.3	719.7	803.0
Total Shareholders funds	**576.9**	**652.9**	**728.4**	**811.7**
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.4	1.4	1.4	1.4
Minority Interest / Others	40.5	42.5	44.5	46.5
Total Liabilities	**618.7**	**696.7**	**774.2**	**859.5**
Assets				
Gross Block	311.5	376.5	436.5	496.5
Less: Acc Depreciation	105.2	122.4	142.7	166.0
Net Block	206.3	254.1	293.8	330.4
Capital WIP	47.7	52.7	42.7	32.7
Total Fixed Assets	**254.0**	**306.8**	**336.5**	**363.1**
Investments	159.4	211.4	215.4	242.4
Inventory	102.3	101.7	133.4	157.7
Debtors	96.2	111.9	145.5	157.7
Loans and Advances	65.9	52.9	45.3	29.9
Other Current Assets	4.7	6.4	7.7	8.3
Cash	**25.7**	**29.7**	**30.0**	**53.2**
Total Current Assets	294.7	302.6	361.8	406.9
Current Liabilities	108.3	142.4	157.6	170.8
Provisions	1.7	2.2	2.4	2.7
Current Liabilities & Prov	109.9	144.6	160.1	173.5
Net Current Assets	**184.8**	**158.0**	**201.8**	**233.4**
Others Assets	20.5	20.5	20.5	20.5
Application of Funds	**618.7**	**696.7**	**774.2**	**859.5**

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	20.9	113.0	112.3	126.4
Cash EPS	39.8	132.9	135.8	153.4
BV	667.7	755.7	843.0	939.4
DPS	15.0	25.0	25.0	30.0
Cash Per Share (Incl Invst)	214.3	279.1	284.1	342.2
Operating Ratios (%)				
EBITDA Margin	3.2	14.0	13.0	13.5
PAT Margin	3.3	13.1	11.0	11.4
Inventory days	68.7	50.0	55.0	60.0
Debtor days	64.6	55.0	60.0	60.0
Creditor days	72.7	70.0	65.0	65.0
Return Ratios (%)				
RoE	3.1	15.0	13.3	13.5
RoCE	0.1	12.4	12.3	12.4
RoIC	0.2	19.5	18.0	18.5
Valuation Ratios (x)				
P/E	86.3	15.9	16.0	14.2
EV / EBITDA	81.5	13.0	11.7	10.0
EV / Net Sales	2.6	1.8	1.5	1.4
Market Cap / Sales	2.9	2.1	1.8	1.6
Price to Book Value	2.7	2.4	2.1	1.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	1.9	2.1	2.0
Quick Ratio	**1.5**	**1.2**	**1.2**	**1.1**

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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