

HOLD

TP: Rs 3,858 | ▲ 4%

VST TILLERS TRACTORS | Automobiles

08 November 2023

Healthy performance across segments

- Q2 revenue grew 19% YoY as volumes climbed 16% and realisation moved up 3%
- Raw material cost savings lifted gross/EBITDA margins by 360bps/170bps YoY
- TP raised to Rs 3,858 (Rs 3,464) as we increase FY24/FY25 EPS by 8%/9%; retain HOLD

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Healthy revenue growth: VSTT's Q2FY24 revenue grew 19% YoY (+13% QoQ) to Rs 2.8bn as volumes increased 16% (+15% QoQ) to 12.2k units. Despite the healthy volume push, net realisation per vehicle grew 3% YoY (-2% QoQ) to Rs 0.23mn. Tractor volumes lagged in H1FY24, declining 13% YoY, but VSTT was able to post strong growth on the back of higher sales of power tillers (+10%), power weeders (+27%) and reapers (+49%). Management expects tractor volumes to rebound in the festive third quarter.

Margin expansion continues: Raw material cost improved to 67.3% of sales from 70.9% in Q2FY23 and 68.4% in Q1FY24 owing to softer commodity prices, supporting gross margin expansion of 360bps YoY (+110bps QoQ) to 32.7%. Other expenses were under control (aided by positive leverage), helping EBITDA rise 34% YoY (+36% QoQ) to Rs 431mn with margin gains of 170bps (+260bps QoQ) to 15.5%. Adj. PAT grew 60% YoY (+11% QoQ) to Rs 365mn.

Focus on higher-HP/compact segment: Management has guided for flat tractor growth in FY24 owing to a weak H1. The *Zetor* brand of tractors will be launched in Q3 and is expected to sell 1,000 units in the first 12 months at an indicative price of Rs 0.7mn. Tractor export volumes grew ~50% YoY in H1. Per management, the response to the VST Series-9 tractors has been encouraging while its electric tractors have a ~15% cost advantage in European markets. VSTT has a target of reaching Rs 30bn in revenue with ~40% tractor contribution by FY26.

Valuations rich, maintain HOLD: We expect VSTT's focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification to enhance earnings. Contribution from JV partners and export markets adds comfort. Early response to the Series-9 tractors is encouraging and *Monarch* sales are likely to further boost volumes. We thus raise our FY24/FY25 volume projections, which boosts our EPS estimates by 8%/9% and takes our TP to Rs 3,858 (from Rs 3,464). We continue to value the stock at 20x FY25E EPS at premium to long term average. Valuations look rich following the recent run-up and so we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VSTT IN/Rs 3,723
Market cap	US\$ 394.2mn
Free float	45%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 3,914/Rs 2,100
Promoter/FPI/DII	55%/5%/15%

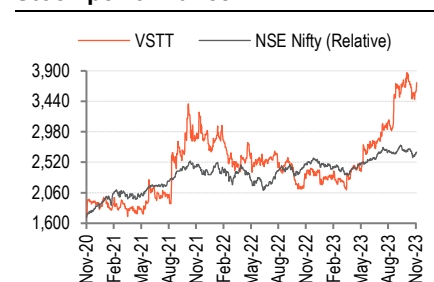
Source: NSE | Price as of 8 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	10,064	11,584	13,475
EBITDA (Rs mn)	1,272	1,566	1,912
Adj. net profit (Rs mn)	924	1,368	1,634
Adj. EPS (Rs)	106.9	158.3	189.1
Consensus EPS (Rs)	106.9	168.0	195.0
Adj. ROAE (%)	11.2	14.5	15.1
Adj. P/E (x)	34.8	23.5	19.7
EV/EBITDA (x)	25.2	20.6	16.7
Adj. EPS growth (%)	(7.0)	48.1	19.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our view
Volumes	Management has maintained FY24 volume growth guidance for power tillers at 15-20% and power weederers at ~6k units; tractor growth is expected to be flattish.	Management has guided for strong volume growth of 100% in power weederers (target of ~6k units), power tiller growth of 15-20% and tractor growth of 10-15% in FY24.	A healthy contribution from the small farm equipment segment is key for VSTT.
Topline guidance	Management maintains revenue guidance of Rs 30bn by FY26 (~40% from tractors, ~40% from SFM, balance from others). Exports are expected to form 10-15%.	VSTT reported its highest Q1 revenue of Rs 2.5bn and maintains its guidance of reaching Rs 30bn by FY26. Management expects the QoQ momentum to improve.	Management is focused on achieving its aggressive guidance of Rs30bn by FY26.
VST Zetor	Production of <i>Zetor</i> tractors began in Q1FY24 and VSTT expects to sell 1k units in 12 months with realisation per tractor at ~Rs 0.7mn. Margins are guided to remain a bit lower initially as compared to compact tractors due to higher development cost.	Management has guided for sales volume of 1.5k units over the first 12 months for <i>Zetor</i> . Sales of the <i>Zetor</i> will begin in Maharashtra and expand to North India where high-HP products are more widely used.	H1 tractor performance was weak, leading to the guidance cut. (from 1.5k units in first 12 months to 1.0k units).
Dealerships	The company has ~370 dealers for tractors (industry dealer network totals 800-900) and ~650 for power tillers.	Management has guided for an increase in tractor dealerships from ~370 to 450-500 by FY24-end and to ~600 by FY25-end. SFM dealerships are guided to increase from ~600 to 700-800 by FY24-end and to 1,000 by FY25-end, with a focus on northern states.	The focus clearly remains on diversifying into the northern region for higher sales.
Margins	Management indicated that it is open to price hikes since VSTT has not been able to fully pass on the previous commodity price impact to customers.	Management indicated that commodity price benefits will continue in Q2FY24, and future margins drivers include its competitive advantage, technology leadership and brand image.	EBITDA margin has room to improve as costs have not been fully passed through.
Launches	VSTT launched <i>Zetor</i> tractors in Sep'23. It also expects the newly launched VST Series-9 tractors to perform well in H2FY24 as compared to H1 due to weather-related issues in specific markets.	VSTT will launch its series of nine compact tractors shortly, ranging from 18HP to 39HP. <i>Zetor</i> 's launch has been delayed by a month to September and will have a range of 42HP to 49HP, followed by future variants and drive options.	The focus on the compact tractor segment continues.
Capex and R&D spend	Management retained FY24/FY25 capex guidance at Rs 500mn each and is evaluating opportunities for inorganic acquisitions. Installed production capacity is 25k-30k units/year for tractors and ~72k units/year for tillers.	VSTT has budgeted for capex of Rs 500mn each in FY24/FY25, which will be allocated toward the construction and establishment of a global R&D centre and product R&D. Installed capacity for tillers is at 60k units/year and 20k units/year for tractors.	The thrust appears to be on growth over profits as the incremental capex is lower. Management has set a right strategy to raise capacity utilization over capacity addition
Other key points	<p>Q2FY24 revenue from the SFM segment stood at Rs 1.7bn, from tractors at Rs 0.7bn, and from distribution & others at Rs 0.4bn.</p> <p>Management indicated that the supply of electric tractors to OEMs is 20-30% cheaper if the sourcing is from India.</p> <p>VSTT has entered into an agreement with Soletrac, USA, for the development of customised power tillers.</p> <p><i>Monarch</i> guidance remains at ~1k units with revenue of Rs 500mn by FY24.</p>	<p>Q1FY24 revenue from the SFM segment was at Rs 1.4bn, from tractors at Rs 0.7bn, and from spare parts at Rs 0.3bn.</p> <p>VSTT expects the government to mandate stage-V norms shortly and has stated that it is fully prepared for the transition.</p> <p><i>Monarch</i> supplies are smooth, with guidance of ~1k units in FY24.</p>	VSTT's EV segment price differential against overseas competitors will help earnings.

Source: Company, BOBCAPS Research | SFM: Small Farm Mechanisation

Fig 2 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Volume	12,170	10,507	15.8	10,596	14.9	22,766	19,284	18.1
Avg. Realisation per Vehicle	228,850	222,851	2.7	232,295	(1.5)	230,453	243,793	(5.5)
Net Revenues	2,785	2,342	18.9	2,461	13.2	5,247	4,701	11.6
Total Income (A)	2,785	2,342	18.9	2,461	13.2	5,247	4,701	11.6
Operating Expenses:								
Raw materials consumed	1,874	1,660	12.9	1,683	11.3	3,557	3,374	5.4
Employee Expenses	219	199	10.2	226	(3.1)	445	386	15.4
Other Expenses	261	160	63.2	235	11.2	496	449	10.4
Total Expenditure (B)	2,354	2,019	16.6	2,144	9.8	4,498	4,209	6.9
EBITDA (A-B)	431	322	33.7	317	36.0	748	493	51.9
Other Income	139	83	67.2	181	(23.2)	320	106	202.2
Depreciation	69	66	4.2	67	3.0	136	130	4.3
EBIT	501	340	47.6	432	16.2	933	469	99.1
Finance Costs	5	2	118.2	6	(14.3)	10	4	136.4
Exceptional items (less)	-	-	0.0	-	0.0	-	-	0.0
PBT after excep items	497	337	47.2	426	16.6	923	464	98.7
Tax expense	132	110	20.1	96	37.6	228	136	67.4
Reported PAT	365	227	60.3	330	10.5	694	328	111.8
Adjusted PAT	365	227	60.3	330	10.5	694	328	111.8
Adj EPS (Rs)	42.2	26.3	60.3	38.2	10.5	80.4	38.0	111.8
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	32.7	29.1	362	31.6	111	32.2	28.2	396
EBITDA Margin	15.5	13.8	171	12.9	260	14.3	10.5	378
EBIT Margin	18.0	14.5	350	17.5	47	17.8	10.0	781
PBT Margin	17.8	14.4	342	17.3	53	17.6	9.9	771
Tax Rate	26.6	32.6	(600)	22.5	406	24.7	29.4	(464)
Adj PAT Margin	13.1	9.7	338	13.4	(32)	13.2	7.0	626

Source: Company, BOBCAPS Research

Valuation methodology

We expect VSTT's focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification to enhance earnings. Contribution from JV partners and export markets adds comfort. Early response to the Series-9 tractors is encouraging and *Monarch* sales are likely to further boost volumes. We thus raise our FY24/FY25 volume projections, which boosts our EPS estimates by 8%/9% and takes our TP to Rs 3,858 (from Rs 3,464). We continue to value the stock at 20x FY25E EPS at a premium to long term average. Valuations look rich following the recent run-up and so we retain HOLD.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	11,584	13,475	11,515	13,209	0.6	2.0
EBITDA	1,566	1,912	1,524	1,779	2.7	7.5
Adj PAT	1,368	1,634	1,170	1,390	16.9	17.5
Adj EPS (Rs)	158	189	147	173	7.7	9.3

Source: BOBCAPS Research

Fig 4 – Key assumptions

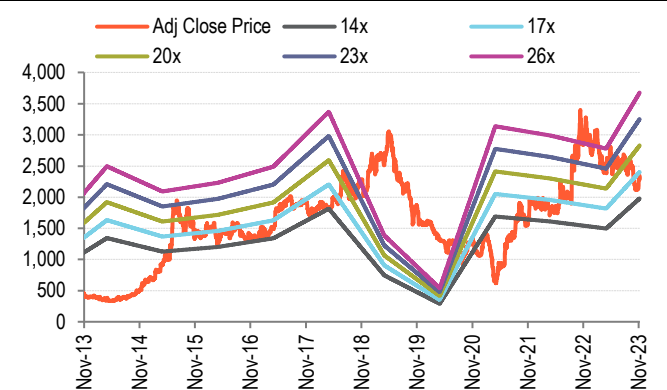
Parameter	FY22	FY23	FY24E	FY25E
Tractor volume	7,991	7,236	7,598	7,978
Tillers volume	31,774	36,291	41,462	47,475
Revenue (Rs mn)	8,539	10,064	11,584	13,475
Avg Realisation	214,727	231,219	236122	243004
EBITDA (Rs mn)	1,242	1,272	1,566	1,912
EBITDA margin (%)	14.5	12.6	13.5	14.2
Adj. PAT (Rs mn)	993	924	1,368	1,634
EPS (Rs)	115	107	158.3	189.1

Source: Company, BOBCAPS Research

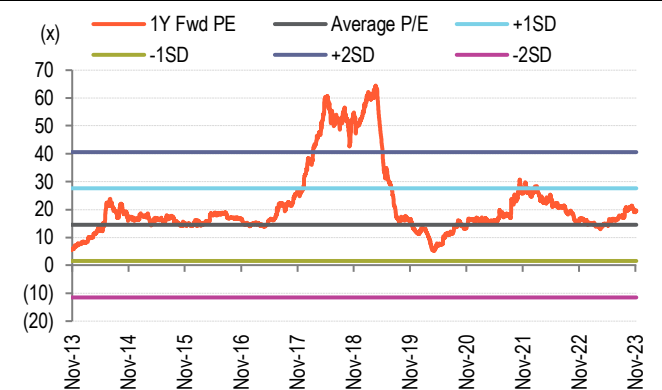
Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
VST Tillers Tractors	VSTT IN	HOLD	3,858	158.3	189.1	15.5	16.1
Escorts Kubota	ESCORTS IN	SELL	2,343	95.2	113.0	12.1	12.8
Mahindra & Mahindra	MM IN	BUY	1,824	78.0	90.7	19.4	18.7

Source: BOBCAPS Research

Fig 6 – The recent run up in valuations leaves limited upside headroom


Source: Bloomberg, BOBCAPS Research

Fig 7 – The valuations are likely to revert back to long-term average


Source: Bloomberg, BOBCAPS Research

Key risks

- Volume growth higher than estimated represents a key upside risk to our estimates.
- Delayed product launches and above-expected input cost inflation are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.2	174	210	BUY
Bajaj Auto	BJAUT IN	19.0	5,398	5,139	HOLD
Eicher Motors	EIM IN	11.8	3,550	3,601	HOLD
Escorts	ESCORTS IN	5.1	3,146	2,343	SELL
Hero MotoCorp	HMCL IN	7.6	3,132	3,009	HOLD
Mahindra & Mahindra	MM IN	22.6	1,487	1,824	BUY
Maruti Suzuki	MSIL IN	37.9	10,322	11,562	HOLD
TVS Motor	TVSL IN	9.5	1,647	1,531	HOLD
VST Tillers Tractors	VSTT IN	0.4	3,723	3,858	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	7,642	8,539	10,064	11,584	13,475
EBITDA	1,053	1,242	1,272	1,566	1,912
Depreciation	171	216	232	249	271
EBIT	1,343	1,332	1,252	1,817	2,196
Net interest inc./(exp.)	(15)	(10)	(13)	(18)	(18)
Other inc./(exp.)	461	341	249	500	555
Exceptional items	(135)	0	0	0	0
EBT	1,192	1,322	1,239	1,799	2,178
Income taxes	285	329	316	432	545
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	1	1
Reported net profit	908	993	924	1,368	1,634
Adjustments	135	0	0	0	0
Adjusted net profit	1,043	993	924	1,368	1,634

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	831	1,273	1,767	1,304	1,523
Other current liabilities	864	824	801	1,148	1,320
Provisions	47	52	70	77	85
Debt funds	0	0	0	0	0
Other liabilities	434	0	0	0	0
Equity capital	86	86	86	86	86
Reserves & surplus	6,724	7,409	8,158	9,320	10,746
Shareholders' fund	6,811	7,495	8,244	9,407	10,832
Total liab. and equities	8,988	9,644	10,883	11,936	13,761
Cash and cash eq.	448	313	281	608	1,190
Accounts receivables	818	676	1,492	1,016	1,181
Inventories	1,069	1,006	1,079	1,460	1,661
Other current assets	723	750	1,001	1,016	1,163
Investments	3,343	4,136	4,299	4,799	5,299
Net fixed assets	2,260	2,304	2,614	2,765	2,894
CWIP	254	120	141	300	400
Intangible assets	0	355	0	0	0
Deferred tax assets, net	6	(16)	(25)	(26)	(28)
Other assets	67	0	0	0	0
Total assets	8,988	9,645	10,883	11,936	13,761

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	1,808	960	219	1,071	1,216
Capital expenditures	(369)	(516)	(245)	(559)	(500)
Change in investments	(1,555)	(793)	(163)	(500)	(500)
Other investing cash flows	461	341	249	500	555
Cash flow from investing	(1,463)	(968)	(158)	(559)	(445)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(15)	(10)	(13)	(18)	(18)
Dividends paid	(173)	(173)	(173)	(205)	(208)
Other financing cash flows	3	0	31	1	1
Cash flow from financing	(185)	(183)	(155)	(222)	(225)
Chg in cash & cash eq.	160	(191)	(94)	290	546
Closing cash & cash eq.	448	313	281	608	1,190

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	120.7	114.9	106.9	158.3	189.1
Adjusted EPS	120.7	114.9	106.9	158.3	189.1
Dividend per share	20.0	20.0	20.0	23.7	24.1
Book value per share	788.3	867.6	954.3	1,088.8	1,253.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.2	3.7	3.2	2.8	2.4
EV/EBITDA	30.6	25.7	25.2	20.6	16.7
Adjusted P/E	30.8	32.4	34.8	23.5	19.7
P/BV	4.7	4.3	3.9	3.4	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	87.5	75.1	74.5	76.0	75.0
Interest burden (PBT/EBIT)	88.8	99.2	99.0	99.0	99.2
EBIT margin (EBIT/Revenue)	17.6	15.6	12.4	15.7	16.3
Asset turnover (Rev./Avg TA)	113.8	115.9	127.9	131.3	133.2
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	16.6	13.9	11.7	15.5	16.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	40.6	11.7	17.9	15.1	16.3
EBITDA	506.4	18.0	2.4	23.1	22.1
Adjusted EPS	481.8	(4.8)	(7.0)	48.1	19.5

Profitability & Return ratios (%)

EBITDA margin	13.8	14.5	12.6	13.5	14.2
EBIT margin	17.6	15.6	12.4	15.7	16.3
Adjusted profit margin	13.6	11.6	9.2	11.8	12.1
Adjusted ROAE	15.3	13.2	11.2	14.5	15.1
ROCE	15.2	13.6	11.9	15.6	16.3

Working capital days (days)

Receivables	42	32	39	40	30
Inventory	50	44	38	40	42
Payables	50	66	79	70	55

Ratios (x)

Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.8	1.3	1.5	1.6	1.8
Net interest coverage ratio	87.2	127.5	98.4	101.0	122.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

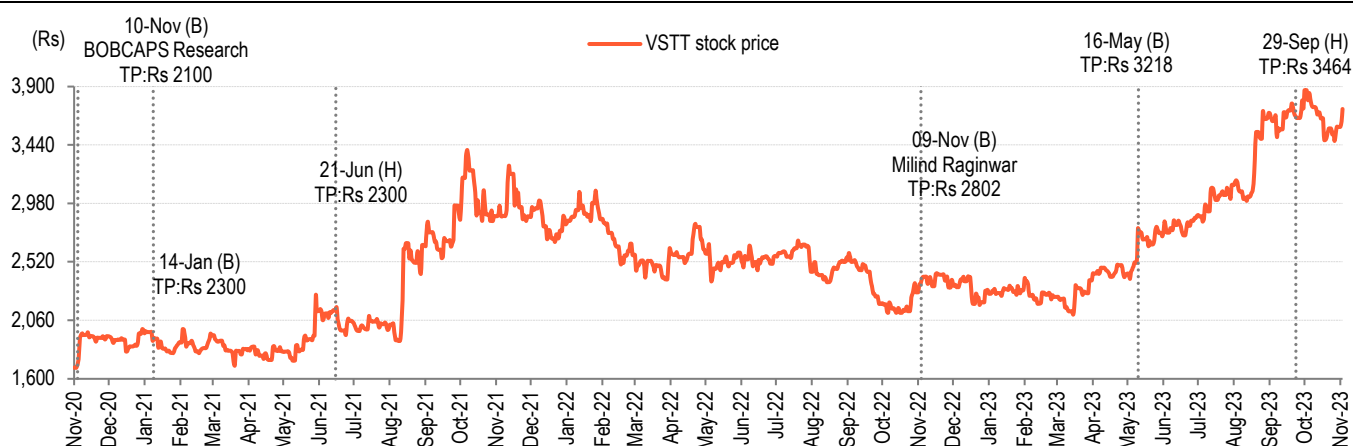
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): VST TILLERS TRACTORS (VSTT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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