

**HOLD**

TP: Rs 2,300 | ▲ 6%

VST TILLERS TRACTORS | Automobiles

21 June 2021

**Limited upside; cut to HOLD**

- VSTT’s Q4 operating performance was in line. EBITDA margin fell 220bps QoQ on higher RM cost and adj. PAT declined 14% to Rs 264mn
- Given market leadership in power tillers, sufficient capacity, focused growth in tractors and debt-free status, VSTT looks set for strong growth
- We maintain our estimates and Mar’22 TP of Rs 2,300 but cut our rating from BUY to HOLD as the recent stock run-up limits upside

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**In-line Q4:** VSTT’s revenue was in line with our estimates at Rs 1.9bn (-4% QoQ). Tractor volumes declined 27% QoQ while tillers were up 11%. Gross margin contracted 220bps QoQ owing to raw material cost inflation, leading to an EBITDA decline of 29% QoQ to Rs 213mn (vs. Rs 236mn expected). EBITDA margin for Q4 dropped 380bps QoQ to 10.9%. VSTT also reported a one-off expense of Rs 133mn with respect to VRS scheme rollout. Adj. PAT was at Rs 264mn (-14% QoQ)

**Dominant market share in power tillers:** VSTT commands ~50% market share in the power tiller segment. Its current capacity stands at 60,000 units per annum and FY21 utilisation was ~46%. In Jul’20, the government imposed import restrictions on Chinese tillers which command ~30% share. We thus expect VSTT to clock a brisk volume CAGR of 10% in the tiller segment during FY21-FY23.

**Growing strong in tractors:** Recently, the company launched a 27hp tractor. Its overall tractor capacity stands at 36,000 units per annum with sales of ~8,800 units in FY21, translating to capacity utilisation of ~24%. We model for an 8% volume CAGR in tractors for VSTT over FY21-FY23 (ahead of our expected 6% CAGR for the industry), led by strong growth in rural income, the company’s enhanced product portfolio and penetration in newer markets.

**Cut to HOLD as upsides capped:** We expect VSTT to clock a revenue/EBITDA/PAT CAGR of 12%/8%/6% over FY21-FY23 with EBITDA margin contracting 120bps over the same period led by lower gross margins. We maintain our estimates and Mar’22 TP of Rs 2,300, valuing the stock at 20x FY23E EPS – in line with its long-term average. The stock has run up ~20% in the last three months, limiting further upside and prompting us to cut our rating from BUY to HOLD.

**Key changes**



Ticker/Price	VSTT IN/Rs 2,162
Market cap	US\$ 253.9mn
Free float	45%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 2,300/Rs 1,277
Promoter/FPI/DII	55%/5%/15%

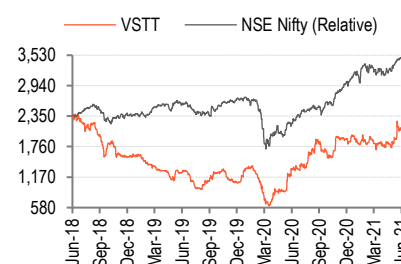
Source: NSE | Price as of 21 Jun 2021

**Key financials**

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	7,642	8,667	9,665
EBITDA (Rs mn)	1,053	1,084	1,221
Adj. net profit (Rs mn)	1,043	941	1,019
Adj. EPS (Rs)	120.7	108.9	118.0
Consensus EPS (Rs)	0.0	127.0	150.0
Adj. ROAE (%)	15.3	12.6	12.5
Adj. P/E (x)	17.9	19.9	18.3
EV/EBITDA (x)	17.7	16.9	15.0
Adj. EPS growth (%)	481.8	(9.8)	8.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	1,947	1,198	62.6	2,029	(4.0)	7,642	5,437	40.6
<b>Total Income (A)</b>	<b>1,947</b>	<b>1,198</b>	<b>62.6</b>	<b>2,029</b>	<b>(4.0)</b>	<b>7,642</b>	<b>5,437</b>	<b>40.6</b>
Operating Expenses:								
Raw materials consumed	1,329	804	65.2	1,339	(0.8)	5,094	3,723	36.8
Employee Expenses	156	127	22.1	187	(16.7)	685	683	0.2
Other Expenses	250	331	(24.5)	204	22.5	811	857	(5.3)
<b>Total Expenditure (B)</b>	<b>1,734</b>	<b>1,263</b>	<b>37.4</b>	<b>1,730</b>	<b>0.2</b>	<b>6,590</b>	<b>5,263</b>	<b>25.2</b>
<b>EBITDA (A-B)</b>	<b>213</b>	<b>(65)</b>	<b>NA</b>	<b>299</b>	<b>(28.6)</b>	<b>1,052</b>	<b>174</b>	<b>506.6</b>
Other Income	143	49	193.2	147	(2.9)	461	236	95.3
Depreciation	43	49	(11.3)	43	0.0	171	164	4.4
EBIT	312	(65)	NA	402	(22.3)	1,342	246	446.2
Finance Costs	3	(9)	NA	4	(30.6)	15	15	4.8
Exceptional Items	135	-	NA		NA	135	-	NA
PBT	175	(56)	NA	398	(56.1)	1,192	231	415.9
Tax expense	46	(22)	NA	90	(49.3)	285	51	457.8
<b>Reported PAT</b>	<b>129</b>	<b>(34)</b>	<b>NA</b>	<b>308</b>	<b>(58.1)</b>	<b>908</b>	<b>180</b>	<b>404.0</b>
<b>Adjusted PAT</b>	<b>264</b>	<b>(34)</b>	<b>NA</b>	<b>308</b>	<b>(14.3)</b>	<b>1,043</b>	<b>180</b>	<b>478.9</b>

Source: Company, BOBCAPS Research

**Fig 2 – Key parameters**

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	31.8	32.9	(110)	34	(221)	33.3	31.5	183
EBITDA margin	10.9	(5.4)	1,634	15	(377)	13.8	3.2	1,058
EBIT margin	16.0	(5.4)	2,145	20	(377)	17.6	4.5	1,305
PBT margin	15.9	(4.7)	2,058	20	(372)	17.4	4.3	1,311
Tax rate	26.1	39.5	(1,342)	23	350	23.9	22.1	180
Adj PAT margin	13.6	(2.8)	1,639	15	(163)	13.6	3.3	1,033

Source: Company, BOBCAPS Research

## Valuation methodology

We expect VSTT to clock a revenue/EBITDA/ PAT CAGR of 12%/8%/6% over FY21-FY23 with EBITDA margin contracting 120bps over the same period led by lower gross margins. We maintain our estimates and Mar'22 TP of Rs 2,300, valuing the stock at 20x FY23E EPS – in line with its long-term average. The stock has run up ~20% in the last three months, limiting further upside and prompting us to cut our rating from BUY to HOLD.

**Fig 3 – Key assumptions**

Parameters	FY21	FY22E	FY23E
Power Tiller sales (nos)	27,317	30,049	33,054
YoY (%)		10.0	10.0
Tractors sales (nos)	8,838	9,545	10,309
YoY (%)		8.0	8.0
Total Volumes	36,155	39,594	43,362
YoY (%)		9.5	9.5
Revenues (Rs mn)	7,642	8,667	9,665
YoY (%)		13.4	11.5
EBITDA margins (%)	13.8	12.5	12.6

Source: Company, BOBCAPS Research

**Fig 4 – Peer comparison**

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
ESCORTS	BUY	1,350	7	77.8	89.2	15.0	14.8	15

Source: BOBCAPS

## Key risks

Key downside risks to our estimates are:

- below-expected volume growth, and
- above-expected input costs.

## Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5	117	60	SELL
Bajaj Auto	BJAUT IN	16	4,183	3,200	SELL
Hero MotoCorp	HMCL IN	8	2,895	2,900	REDUCE
Mahindra & Mahindra	MM IN	13	777	630	SELL
Maruti Suzuki	MSIL IN	28	6,900	8,000	BUY
TVS Motor	TVSL IN	4	617	480	SELL
VST Tillers Tractors	VSTT IN	0	2,162	2,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 21 Jun 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>6,148</b>	<b>5,437</b>	<b>7,642</b>	<b>8,667</b>	<b>9,665</b>
EBITDA	461	174	1,053	1,084	1,221
Depreciation	158	164	171	203	225
EBIT	740	246	1,343	1,277	1,385
Net interest inc./(exp.)	(25)	(15)	(15)	(20)	(22)
Other inc./(exp.)	437	236	461	396	389
Exceptional items	22	0	(135)	0	0
EBT	737	231	1,192	1,257	1,363
Income taxes	255	52	285	317	343
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>482</b>	<b>179</b>	<b>908</b>	<b>941</b>	<b>1,019</b>
Adjustments	(22)	0	135	0	0
<b>Adjusted net profit</b>	<b>461</b>	<b>179</b>	<b>1,043</b>	<b>941</b>	<b>1,019</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	343	578	831	754	856
Other current liabilities	695	494	864	867	879
Provisions	15	17	47	0	0
Debt funds	0	0	0	0	0
Other liabilities	461	418	434	434	434
Equity capital	86	86	86	86	86
Reserves & surplus	5,813	5,680	6,724	7,383	8,096
Shareholders' fund	5,899	5,766	6,811	7,469	8,183
<b>Total liab. and equities</b>	<b>7,413</b>	<b>7,272</b>	<b>8,988</b>	<b>9,524</b>	<b>10,352</b>
Cash and cash eq.	188	258	448	389	344
Accounts receivables	964	962	818	1,306	1,324
Inventories	1,237	1,023	1,069	1,306	1,377
Other current assets	943	734	723	950	1,059
Investments	1,653	1,788	3,343	2,743	3,243
Net fixed assets	2,057	1,839	2,260	2,458	2,633
CWIP	348	477	254	300	300
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(70)	(14)	6	6	6
Other assets	93	206	67	67	67
<b>Total assets</b>	<b>7,412</b>	<b>7,272</b>	<b>8,988</b>	<b>9,524</b>	<b>10,352</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Cash flow from operations</b>	<b>92</b>	<b>398</b>	<b>1,808</b>	<b>(347)</b>	<b>750</b>
Capital expenditures	(413)	(75)	(369)	(446)	(400)
Change in investments	389	(135)	(1,555)	600	(500)
Other investing cash flows	437	236	461	396	389
<b>Cash flow from investing</b>	<b>412</b>	<b>25</b>	<b>(1,463)</b>	<b>549</b>	<b>(511)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(25)	(15)	(15)	(20)	(22)
Dividends paid	(520)	(312)	(173)	(282)	(306)
Other financing cash flows	7	(56)	3	0	0
<b>Cash flow from financing</b>	<b>(538)</b>	<b>(384)</b>	<b>(185)</b>	<b>(302)</b>	<b>(328)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(34)</b>	<b>40</b>	<b>160</b>	<b>(99)</b>	<b>(89)</b>
<b>Closing cash &amp; cash eq.</b>	<b>188</b>	<b>258</b>	<b>448</b>	<b>389</b>	<b>344</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	53.3	20.7	120.7	108.9	118.0
Adjusted EPS	53.3	20.7	120.7	108.9	118.0
Dividend per share	50.0	30.0	20.0	32.7	35.4
Book value per share	682.8	667.4	788.3	864.5	947.1

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	3.0	3.5	2.4	2.1	1.9
EV/EBITDA	40.4	108.1	17.7	16.9	15.0
Adjusted P/E	40.6	104.2	17.9	19.9	18.3
P/BV	3.2	3.2	2.7	2.5	2.3

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	62.5	77.5	87.5	74.8	74.8
Interest burden (PBT/EBIT)	99.6	94.0	88.8	98.4	98.4
EBIT margin (EBIT/Revenue)	12.0	4.5	17.6	14.7	14.3
Asset turnover (Rev./Avg TA)	96.6	86.7	113.8	114.4	117.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
<b>Adjusted ROAE</b>	<b>7.8</b>	<b>3.1</b>	<b>16.6</b>	<b>13.2</b>	<b>13.0</b>

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	(19.5)	(11.6)	40.6	13.4	11.5
EBITDA	(61.5)	(62.4)	506.4	3.0	12.6
Adjusted EPS	(58.9)	(61.1)	481.8	(9.8)	8.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.5	3.2	13.8	12.5	12.6
EBIT margin	12.0	4.5	17.6	14.7	14.3
Adjusted profit margin	7.5	3.3	13.6	10.9	10.5
Adjusted ROAE	7.8	3.1	15.3	12.6	12.5
ROCE	7.6	3.0	15.2	12.6	12.5
<b>Working capital days (days)</b>					
Receivables	84	65	42	45	50
Inventory	60	76	50	50	51
Payables	43	45	50	49	45
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.4	0.4	0.4
Current ratio	3.2	2.7	1.8	2.4	2.4
Net interest coverage ratio	29.7	16.7	87.2	63.9	62.9
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

## Disclaimer

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

**BUY** – Expected return >+15%

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

**SELL** – Expected return <-6%

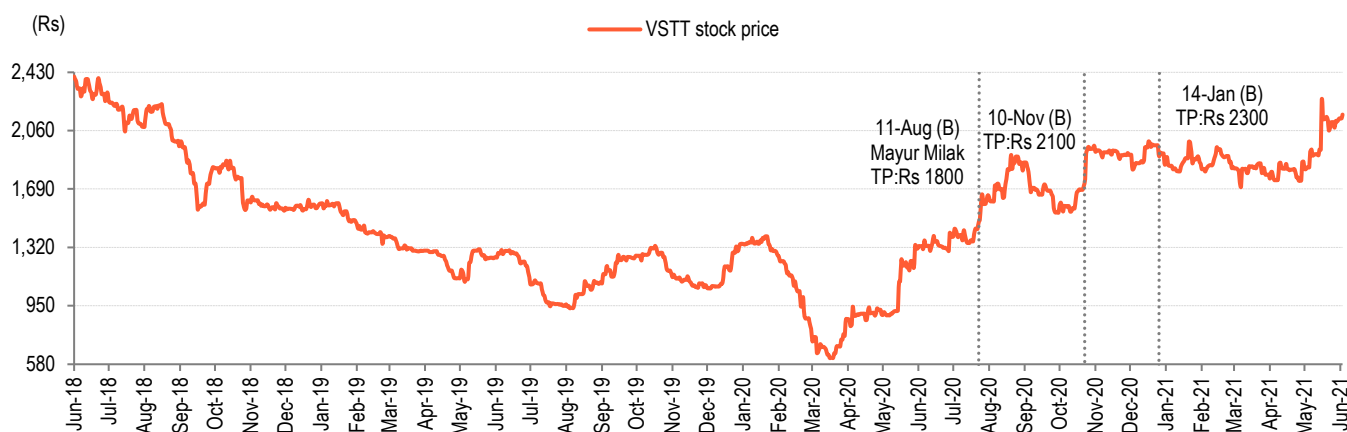
**Note:** Recommendation structure changed with effect from 21 June 2021

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

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