

SELL

TP: Rs 3,340 | ▼ 11%

VST TILLERS TRACTORS | Automobiles

15 May 2025

Steady show, limited near-term respite; maintain SELL

- Q4 revenue grew 10% YoY to ~Rs 3.0bn, driven by flat volume gains, realisation gains of 9% despite entering new regions like East India
- Double-digit EBITDA gains YoY to Rs 452mn, margin gains YoY, driven by other expenses savings in a traditionally strong quarter
- We lower our FY26/FY27 earnings by 6%/1%, revise TP to Rs3,340 (vs Rs 3,267), valuing VSTT at 20x P/E 1YF earnings Maintain SELL

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Steady revenue growth: VSTT's revenue increased by 10% YoY (QoQ performance is skewed due to seasonality and hence, not compared) to ~Rs3.0bn as volume growth was flat YoY to ~13.2k units (based on our estimates assumed from monthly sales data) in Q4FY25. Realisation per vehicle jumped ~9% YoY driving the growth. Sequentially, volume jumped by 64%, leading to QoQ increase in revenue by 38%. Volumes grew by ~15%/67%/37% YoY for Power Tiller/ Power Weeder & Reaper to 13.2k/2.3k/1.6k respectively. Tractor volumes fell by 13% YoY to 12.9K and came as a surprise.

EBITDA gains driven by cost savings: Raw material (RM) as a percentage of sales jumped by 190bps/flat YoY/QoQ to 69.3% in Q4FY25. RM cost (adjusted for inventory) jumped by 13% YoY to ~Rs 1.7bn. Gross margin fell by 190bps YoY to 30.7%, fully attributed to cost inflation and focus on the low-price eastern markets. To address regional pricing disparities, VSTT implemented pricing corrections in Q1FY26. Staff expenses shot up by 16% YoY (down 3% QoQ) to ~Rs 246mn, while other expenses were down 19% YoY at Rs 228mn. Effectively, EBITDA increased 14% YoY to Rs452mn and EBITDA margin came at ~15% vs 14.6% YoY (at weak 9% YoY).

Focus on the higher HP segment continues: VSTT keeps focus on the 40-50HP segment with expected launches in the near term. Export business to continue growing, particularly in the 30–35 HP tractor segment. VSTT is also expanding footprint in new markets, including the Nordic and Eastern European regions.

Maintain SELL: We lower our FY26/FY27 EPS estimates by 6%/1%, factoring in competitive challenges, growth concerns and cost inflation. We model in revenue/EBITDA/PAT CAGR of 9%/8%/6% over FY24-FY27E. We continue to value VSTT at 20x P/E 1YF earnings and arrive at a new TP of Rs 3,340 (from Rs 3,267) rolling forward. We believe valuations are steep, remain decoupled from earnings and hence, are unjustified. VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. Hence, we maintain SELL.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VSTT IN/Rs 3,744
Market cap	US\$ 382.0mn
Free float	45%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 5,430/Rs 3,082
Promoter/FPI/DII	55%/5%/15%

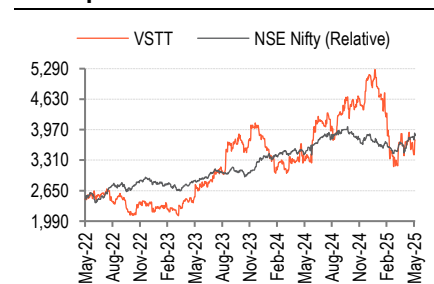
Source: NSE | Price as of 14 May 2025

Key financials

Y/E 31 Mar	FY25P	FY26E	FY27E
Total revenue (Rs mn)	9,946	11,033	12,660
EBITDA (Rs mn)	1,111	1,269	1,564
Adj. net profit (Rs mn)	945	1,177	1,443
Adj. EPS (Rs)	109.3	136.2	167.0
Consensus EPS (Rs)	109.3	141.6	169.1
Adj. ROAE (%)	9.4	10.6	11.7
Adj. P/E (x)	34.2	27.5	22.4
EV/EBITDA (x)	29.0	25.0	20.4
Adj. EPS growth (%)	(22.3)	24.6	22.6

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

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY25	Q3FY25	Our view
Volumes	<p>Domestic volume growth was fuelled by the launch of new products in the Power Series tractors, as well as a fully India-made weeder. VSTT's "One VST" strategy has been effective in northern India, where power tillers are gaining acceptance among small and marginal farmers.</p> <p>VSTT expanded into several new export markets including Cyprus, Czech Republic, Russia, Angola, Turkey, and Mali. However, demand in Europe softened during Q4, due to ongoing geopolitical tensions and logistical challenges, which impacted the overall export performance.</p>	<p>Volumes for Power Tiller/Tractors/Power Weeder/Reaper grew by 32%/43%/69%/35% YoY to 6.6k/1.4k/1.65k/1.6k respectively.</p> <p>Subsidy has been continuously coming down and differs from state to state.</p> <p>VSTT has guided for 20-25% growth to continue in FY26 as well.</p>	<p>Above-normal monsoon, better crop yields and better reservoir levels could change in favour of demand. However, a challenging business environment will mean revival for VSTT volume will be steady.</p>
Topline guidance	<p>Management anticipates a strong start to FY26, projecting a 20–30% growth in the Q1Y26; driven by strong sales momentum observed in April and May, along with a favourable monsoon forecast likely to further boost rural demand and the overall market sentiment.</p> <p>VSTT expects export business to continue growing, supported by new product offerings, particularly in the 30–35 HP tractor segment.</p> <p>While uncertainties around U.S. tariffs remain a concern, the overall export outlook remains positive due to product diversification and strategic market entry initiatives.</p>	<p>Management expects strong growth in Tractor and Tiller segments in Feb and Mar'25. Volumes to be carried forward from Q3FY25 to Q4FY25 on cash flow and billing delay.</p> <p>VSTT expects to end FY25 with higher single-digit growth for Tillers; and Tractors to grow at 10-15% in FY25.</p>	<p>We believe the targets set by management are aggressive and its track record suggests achieve targets is unlikely unless VSTT initiates radical changes in its strategy. An unfavourable regional mix in the domestic market is addressed, but will yield results gradually.</p>
Margins	<p>Gross margin declined in Q4FY25, due to a shift in product mix and higher sales in lower-priced eastern states (e.g., Northeast, Assam, Odisha).</p> <p>To address regional pricing disparities, the company implemented pricing corrections in Q1FY26. Despite these challenges, VSTT has maintained its operational EBITDA guidance for FY26 at 11–13%, with only a limited impact expected from commodity inflation.</p>	<p>VSTT had an operational EBITDA margin of 8.92% and PAT of 0.77%.</p> <p>PAT impacted due to mark-to-market loss of Rs 0.11bn, against YoY market gain of Rs 0.15bn.</p>	<p>No major respite in the operating performance. Targeting new regions will be with challenges and marking footprint in these markets will be impacting margins in the transitional phase.</p>
Launches	<p>Key launches in the tractor segment included the Classic Refresh, Narrow Track, Power Series, EU Stage V-compliant models, Zetor tractors with Reverse PTO (RPTO), and cabin-equipped variants.</p> <p>For FY26, the product pipeline includes upgrades to the Classic and Series 9 tractor ranges, new variants of power weeders in the 5HP and 8HP segments. VSTT also plans to launch electric tillers and weeders, aligning with its sustainability goals.</p> <p>For FY27, VSTT is developing a global platform comprising 3 base platforms, 8 models, and 16 variants (including gear and hydrostatic transmission options), tailored for markets in India, Europe, and the United States.</p>	<p>VSTT has set a target of sale of 1,500 Zetor in FY26. Another range of tractors to be launched in Q1/Q2FY26.</p> <p>VSTT exports products to European, Asian, and African markets, while the US market remains untapped. VSTT continues to strengthen presence in the European markets.</p>	<p>Focus on the 41-50 HP segment continues to yield limited success, as reflected in the performance. Meaningful global presence is awaited. The new launch programme is aggressive and will yield results gradually.</p>

Parameter	Q4FY25	Q3FY25	Our view
Capex and R&D spend	VSTT is actively ramping up its in-house manufacturing capabilities for weeders, with a strategic goal of achieving 100% India-made production within the next two years.	No new capex announcement. VSTT continues to expand its R&D team and spending to enable new launches. VSTT continues to evaluate M&A opportunities on a regular basis.	No aggressive capex augurs well for VSTT as the focus has to be on capacity utilisation ramp-up.
Other key points	<p>VSTT has paused investment plans in the US on increased tariff volatility, with import duties rising to a minimum of 10% from the earlier 2%.</p> <p>JV with Kobashi has been dropped due to the venture's inability to achieve the scale required to align with VSTT's long-term strategic ambitions.</p> <p>Demand for smaller hp tractors (under 30 hp) is currently stagnating, with a noticeable shift in customer preference towards the 40–50 hp segment. Management expects the introduction of stage 5 norms could revive demand in the lower hp segment.</p> <p>Additionally, VSTT's planned entry into the Bangladesh market has been delayed, owing to ongoing political instability. Despite the market's sizeable potential estimated at around 70k units, it remains heavily dominated by Chinese manufacturers.</p>	<p>In Q3FY25, revenue from the Specialised Farm Machinery (SFM) segment was Rs 1.24bn, from Tractors Rs 0.64bn and Rs 0.26bn from Distribution and others.</p> <p>VSTT had plans to invest in the US in FY26. However, keeping in mind the new government in the US and volatility in tariffs, VSTT reserves being flexible on the timing of expansion.</p> <p>Employee expenses increased on account of additional employees hired for R&D. Further, ESOPs were issued in Q3FY25.</p> <p>Retail financing has moved up to 8% vs 4% YoY and VSTT expects it to be 15% in FY26.</p> <p>Management has no plans to sell land as of now and shall dispose of it when the need for fund utilisation arises.</p> <p>In the SFM segment competitive headwinds are low whereas regulatory headwinds higher (subsidy based).</p>	<p>Other initiatives are on the right track, but with improving macroeconomic conditions the lead time to a positive market response should narrow.</p> <p>Regulatory headwinds pose serious challenges for the company's margin profile, which is already weak.</p> <p>Changing dynamics of the export markets, particularly the USA, only add to concerns.</p>

Source: Company, BOBCAPS Research | HP: Horse power

Fig 2 – Quarterly performance (standalone)

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Q4FY25E	Deviation (%)
Volume (nos)	13,278	13,139	1.1	8,086	64.2	13,278	0.0
Avg. Realisation per Vehicle (Rs)	2,27,015	2,08,113	9.1	2,70,962	(16.2)	2,68,253	(15.4)
Net Revenues	3,014	2,734	10.2	2,191	37.6	3,562	(15.4)
Total Income (A)	3,014	2,734	10.2	2,191	37.6	3,562	(15.4)
Operating Expenses							
Raw materials consumed	2,089	1,843	13.4	1,518	37.6	2,504	(16.6)
Employee Expenses	246	212	15.8	254	(3.3)	266	(7.6)
Other Expenses	228	281	(19.0)	223	2.0	338	(32.8)
Total Expenditure (B)	2,562	2,336	9.7	1,996	28.4	3,109	(17.6)
EBITDA (A-B)	452	398	13.5	196	131.2	453	(0.3)
Other Income	68	104	(34.7)	132	(48.8)	111	(38.9)
Depreciation	64	67	(4.2)	64	0.2	74	(13.6)
EBIT	456	436	4.7	264	72.7	490	(7.0)
Finance Costs	4	5	(21.2)	5	(14.6)	6	(31.7)
PBT after excep items	413	430	(4.0)	149	177.7	484	(14.6)
Tax expense	77	79	(3.0)	21	258.4	114	(32.6)
Reported PAT	337	351	(4.2)	127	164.1	370	(9.1)
Adjusted PAT	375	351	6.8	238	57.7	370	1.3
EPS (Rs)	43.4	40.6	6.8	27.5	57.7	42.9	1.3
Key Ratios (%)			(bps)		(bps)		(bps)
Gross Margin	30.7	32.6	(191)	31	(1)	29.7	(340)
EBITDA Margin	15.0	14.6	43	9	607	12.7	(255)
EBIT Margin	15.1	15.9	(81)	12	307	13.8	(488)
PBT Margin	15.0	15.7	(75)	12	316	13.6	(484)
Tax Rate	18.6	18.4	18	14	418	23.5	226
Adj PAT Margin	12.4	12.8	(40)	11%	159	10.4%	(392)

Source: Company, BOBCAPS Research

Valuation Methodology

We lower our FY26/FY27 EPS estimates by 6%/1%, factoring in competitive challenges, growth concerns and cost inflation. We model in revenue/EBITDA/PAT CAGR of 9%/8%/6% over FY24-FY27E.

We believe the valuations are steep, remain decoupled from earnings and hence, are unjustified. VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification.

We continue to value VSTT at 20x P/E 1YF earnings and arrive at a new TP of Rs 3,340 (from Rs 3,267) rolling forward. We maintain SELL.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	11,033	12,660	10,924	12,135	1.0	4.3
EBITDA	1,269	1,564	1,309	1,525	(3.1)	2.5
Adj PAT	1,177	1,443	1,252	1,455	(6.0)	(0.8)
Adj EPS (Rs)	136.2	167.0	145	168	(6.0)	(0.8)

Source: Company, BOBCAPS Research

Fig 4 – Key assumptions

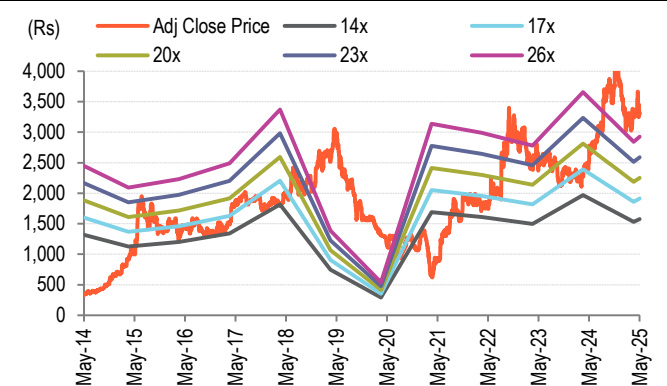
	FY24	FY25P	FY26E	FY27E
Tractor volume (nos)	5,913	5,618	5,983	6,342
Tillers volume (nos)	34,204	30,784	34,786	40,004
Revenue (Rs mn)	9,681	9,946	11,033	12,660
Avg realisation (Rs)	235,338	265,584	270,614	273,174
EBITDA (Rs mn)	1,242	1,111	1,269	1,564
EBITDA margin (%)	12.8	11.2	11.5	12.4
Adj. PAT (Rs mn)	1,215	945	1,177	1,443
EPS (Rs)	140.6	109.3	136.2	167.0

Source: Company, BOBCAPS Research

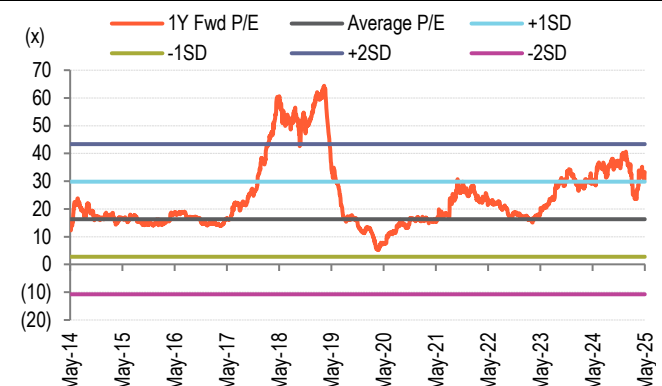
Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
VST Tillers Tractors	VSTT IN	SELL	3,267	136.2	167.0	11.2	12.3
Escorts Kubota	ESCORTS IN	SELL	2,658	109.6	130.0	11.2	11.9
Mahindra & Mahindra	MM IN	BUY	3,689	127.3	142.1	22.5	20.9

Source: BOBCAPS Research

Fig 6 – P/E band: Valuations decoupled from weak performance


Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – P/E 1Y fwd: We expect stock to revert to mean valuations


Source: Company, Bloomberg, BOBCAPS Research

Key Risks

Key upside risks to our estimates:

- above-expected volume growth
- faster-than-expected product launches
- below-expected input cost inflation

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25P	FY26E	FY27E
Total revenue	10,064	9,681	9,946	11,033	12,660
EBITDA	1,272	1,242	1,111	1,269	1,564
Depreciation	232	270	255	296	324
EBIT	1,252	1,578	1,239	1,596	1,951
Net interest inc./(exp.)	(13)	(22)	(20)	(27)	(27)
Other inc./(exp.)	249	606	383	624	711
Exceptional items	0	0	0	0	0
EBT	1,239	1,556	1,220	1,569	1,924
Income taxes	316	341	275	392	481
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	1	1	1	1
Reported net profit	924	1,215	945	1,177	1,443
Adjustments	0	0	0	0	0
Adjusted net profit	924	1,215	945	1,177	1,443

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25P	FY26E	FY27E
Accounts payables	1,767	1,419	1,570	1,267	1,432
Other current liabilities	801	850	854	1,109	1,287
Provisions	70	94	124	93	103
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	86	86	86	86	86
Reserves & surplus	8,158	9,155	9,952	10,973	12,232
Shareholders' fund	8,244	9,241	10,038	11,060	12,319
Total liab. and equities	10,883	11,604	12,586	13,530	15,141
Cash and cash eq.	281	467	747	568	661
Accounts receivables	1,492	1,552	2,056	997	1,145
Inventories	1,079	1,178	1,007	1,390	1,596
Other current assets	1,001	1,080	1,106	967	1,110
Investments	4,299	4,844	5,252	6,091	6,842
Net fixed assets	2,614	2,744	2,889	3,093	3,269
CWIP	141	300	400	500	600
Intangible assets	0	(492)	(787)	0	0
Deferred tax assets, net	(25)	(70)	(85)	(76)	(80)
Other assets	0	0	0	0	0
Total assets	10,883	11,604	12,586	13,530	15,141

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25P	FY26E	FY27E
Cash flow from operations	219	346	622	1,559	886
Capital expenditures	(245)	(67)	(205)	(1,387)	(600)
Change in investments	(163)	(546)	(408)	(838)	(751)
Other investing cash flows	249	606	383	624	711
Cash flow from investing	(158)	(7)	(230)	(1,601)	(640)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(13)	(22)	(20)	(27)	(27)
Dividends paid	(173)	(182)	(189)	(150)	(184)
Other financing cash flows	31	8	57	(14)	4
Cash flow from financing	(155)	(196)	(151)	(191)	(207)
Chg in cash & cash eq.	(94)	143	240	(233)	39
Closing cash & cash eq.	281	467	747	568	661

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25P	FY26E	FY27E
Reported EPS	106.9	140.6	109.3	136.2	167.0
Adjusted EPS	106.9	140.6	109.3	136.2	167.0
Dividend per share	20.0	21.1	21.9	17.4	21.3
Book value per share	954.3	1,069.6	1,161.9	1,280.1	1,425.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25P	FY26E	FY27E
EV/Sales	3.2	3.3	3.2	2.9	2.5
EV/EBITDA	25.3	26.1	29.0	25.0	20.4
Adjusted P/E	35.0	26.6	34.2	27.5	22.4
P/BV	3.9	3.5	3.2	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25P	FY26E	FY27E
Tax burden (Net profit/PBT)	74.5	78.1	77.4	75.0	75.0
Interest burden (PBT/EBIT)	99.0	98.6	98.4	98.3	98.6
EBIT margin (EBIT/Revenue)	12.4	16.3	12.5	14.5	15.4
Asset turnover (Rev./Avg TA)	127.9	110.7	103.2	104.6	108.3
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	11.7	13.9	9.8	11.2	12.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25P	FY26E	FY27E
YoY growth (%)					
Revenue	17.9	(3.8)	2.7	10.9	14.8
EBITDA	2.4	(2.4)	(10.6)	14.2	23.3
Adjusted EPS	(7.0)	31.6	(22.3)	24.6	22.6

Profitability & Return ratios (%)

EBITDA margin	12.6	12.8	11.2	11.5	12.4
EBIT margin	12.4	16.3	12.5	14.5	15.4
Adjusted profit margin	9.2	12.6	9.5	10.7	11.4
Adjusted ROAE	11.2	13.1	9.4	10.6	11.7
ROCE	11.9	14.1	10.0	11.3	12.5

Working capital days (days)

Receivables	39	57	66	51	31
Inventory	38	43	40	40	43
Payables	79	88	80	68	57

Ratios (x)

Gross asset turnover	0.4	0.5	0.5	0.5	0.5
Current ratio	1.5	1.8	1.9	1.6	1.6
Net interest coverage ratio	98.4	73.4	63.2	59.1	72.3
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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BUY – Expected return >+15%

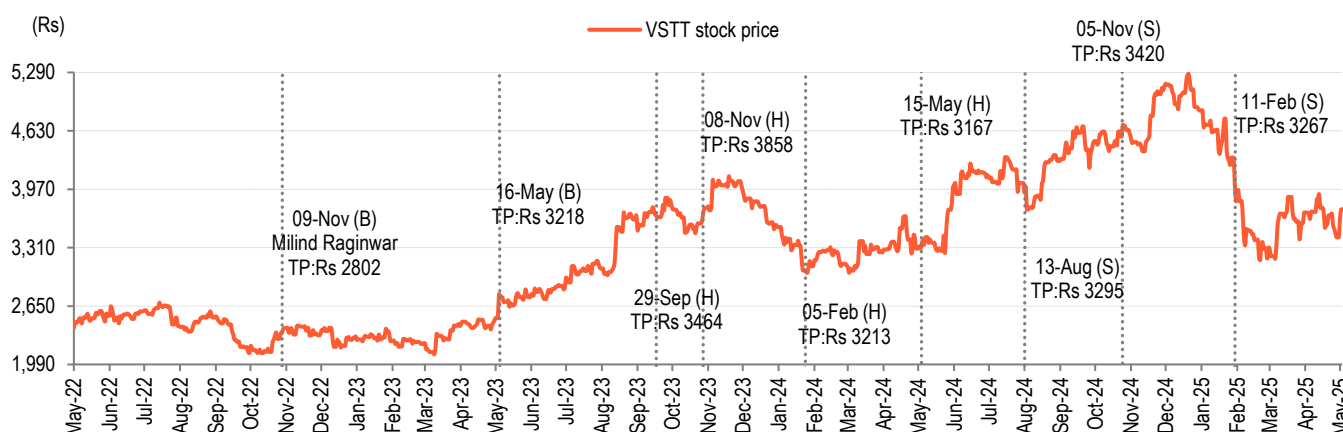
HOLD – Expected return from -6% to +15%

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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