

VST Tillers Tractors (VSTIL)

CMP: ₹ 2,565

Target: ₹ 2,820 (10%)

Target Period: 12 months

HOLD

May 10, 2022

Await better execution towards 2025 target...

About the stock: VST Tillers Tractors (VST) is the leading farm mechanisation player domestically with a dominant market share in the power tiller segment (~50%+ as of FY22) and prominent market share in the compact tractor space.

- FY22 segment mix –Power tiller ~54%, Tractors ~34%, Others ~12%
- FY22 Sales Volume – Power tiller: 31,776 units, Tractor: 7,991 units

Q4FY22 Results: The company reported steady Q4FY22 results.

- Power tiller sales volume for the quarter came in at 9,282 units (up 24% YoY) while tractor sales volumes were at 1,575 units (down 16% YoY)
- Sales for the quarter were at ₹ 218 crore, up 12% YoY
- EBITDA for the quarter came in at ₹ 30 crore with corresponding EBITDA margins at 13.8%, down 70 bps QoQ (gross margin decline at 70 bps QoQ)
- Consequent PAT for Q4FY22 was at ₹ 22 crore, up 5% QoQ

What should investors do? VST's share price has grown at ~5.6% CAGR from ~₹ 1,950 levels as of May 2017 to ~₹ 2,565 levels prevailing now.

- With lower than anticipated traction in sales volume, we downgrade the stock from BUY to **HOLD** and await better execution towards its long term targets before turning decisively positive. B/S strength remains unchanged

Target Price and Valuation: We value the company at a revised target price of ₹ 2,820 i.e. 20x P/E on FY24E EPS of ₹ 141 (earlier target price ₹ 3,180).

Key triggers for future price performance:

- With contract manufacturing under way due to import restrictions in the power tiller segment, we expect power tiller sales volume to grow at a CAGR of 11.7% in FY22-24E to 39,671 units in FY24E
- With new product launches in the pipeline, sales volume in tractor segment is expected to grow 10% CAGR over FY22-24E to 9,669 units in FY24E
- Execution and clear roadmap to attain its ambitious target to be a ₹ 3,000 crore global brand by 2025 in the farm mechanisation and solutions

Alternate Stock Idea: In our midcap universe, we also like PCBL.

- Capital efficient business model, sustainable double digit growth prospects
- BUY with target price of ₹ 160



Particulars

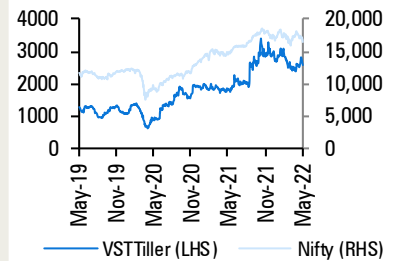
Stock Data

Market Capitalization	₹ 2216 crore
Total Debt (FY22P)	₹ 0 crore
Cash & Investments (FY22P)	₹ 361 crore
EV	₹ 1855 crore
52 week H/L	3458 / 1721
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	54.8	54.8	54.8	54.8
FII	5.3	5.2	5.7	5.5
DII	13.6	15.0	15.2	15.9
Other	26.4	25.1	24.3	23.8

Price Chart



Recent event & key risks

- Posted steady Q4FY22 results
- Key Risk:** (i) Higher than anticipated pick in sales volume in the near term, (ii) further margin pressures due to rise in key commodity prices (steel)

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

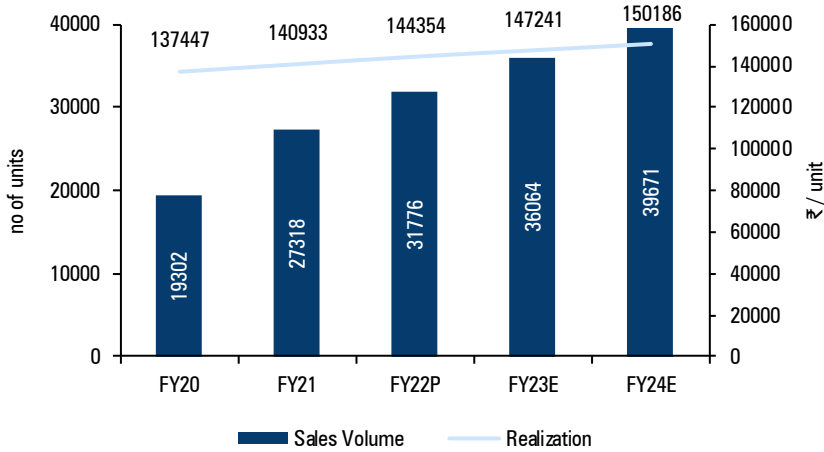
Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY23E	2 year CAGR (FY22-24E)
Net Sales (₹ crore)	614.9	543.7	764.2	853.9	4.2%	1,001.4	1,146.4	15.9%
EBITDA (₹ crore)	44.7	17.3	91.7	124.2	4.8%	140.4	162.9	14.5%
EBITDA Margins (%)	7.3	3.2	12.0	14.5		14.0	14.2	
Net Profit (₹ crore)	46.1	18.0	90.9	99.3	6.7%	105.0	121.8	10.8%
EPS (₹)	53.4	20.9	105.2	114.9		121.6	141.0	
P/E (x)	48.1	123.0	24.4	22.3		21.1	18.2	
RoCE (%)	4.5	0.1	10.5	12.5		12.7	13.3	
RoE (%)	7.8	3.1	13.6	13.2		12.5	13.0	

Source: Company, ICICI Direct Research

Key financial charts

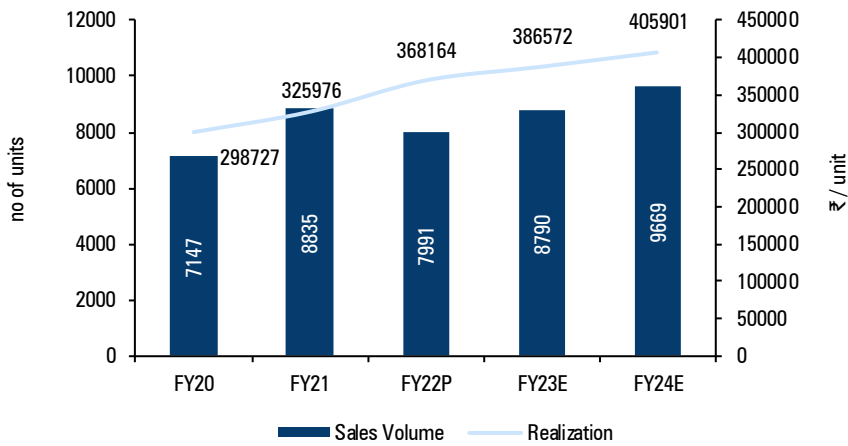
Exhibit 1: Power tiller sales volume and realisation trend



We expect power tiller sales volume to grow at a CAGR of 11.7% over FY22-24E to 39,671 units in FY24E vs. 31,776 units clocked in FY22

Source: Company, ICICI Direct Research

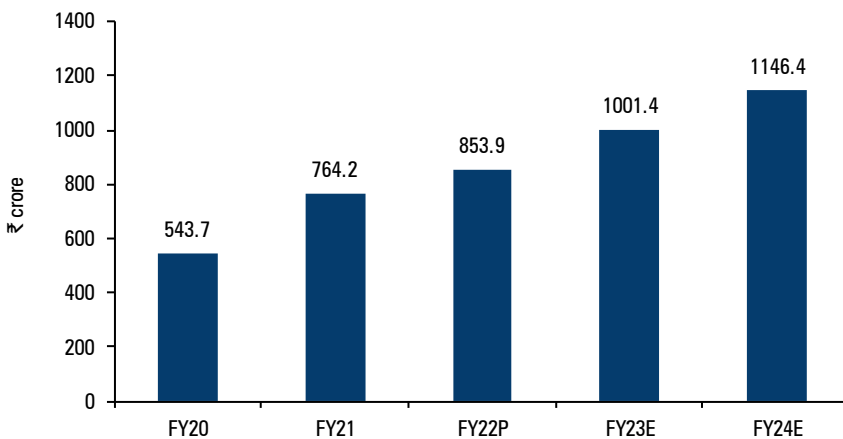
Exhibit 2: Tractor sales volume & realisations trend



We expect tractor sales volume to grow at a CAGR of 10% over FY22-24E to 9,669 units in FY24E

Source: Company, ICICI Direct Research

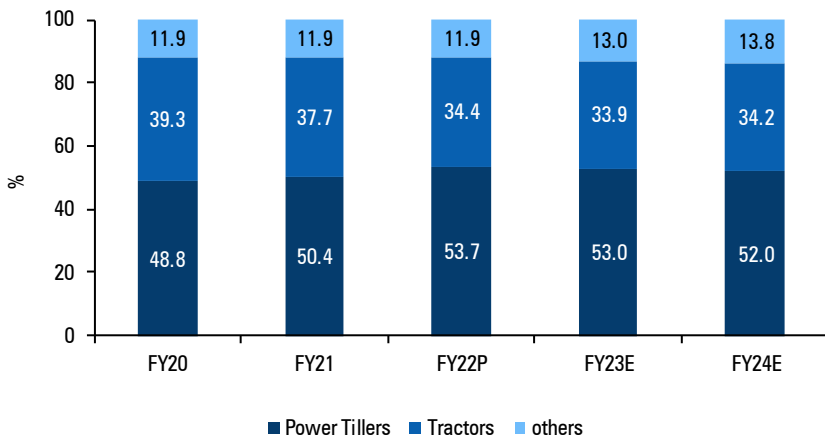
Exhibit 3: Topline trend



We expect sales to grow at a CAGR of 15.9% over FY22-24E to ₹ 1146 crore in FY24E

Source: Company, ICICI Direct Research

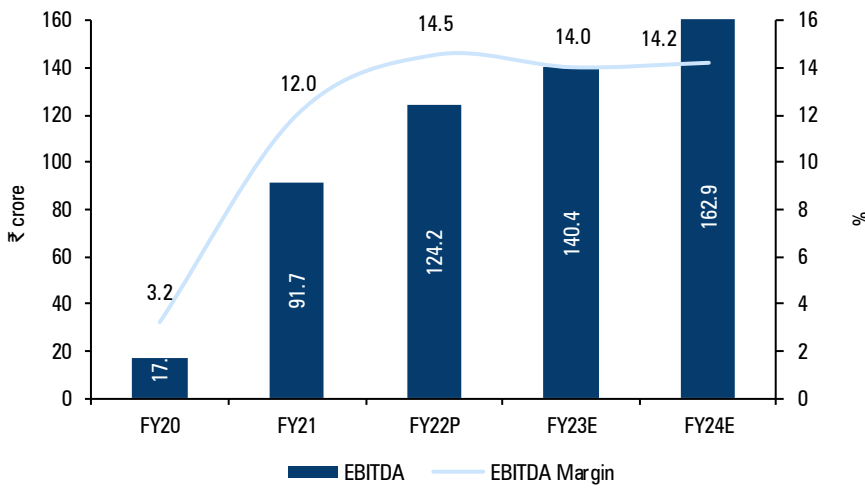
Exhibit 4: Sales contribution (power tiller, tractors, others) trend



Power tiller contributes ~54% of total sales, followed by tractor segment with share of revenues pegged at ~34% (as of FY22)

Source: Company, ICICI Direct Research

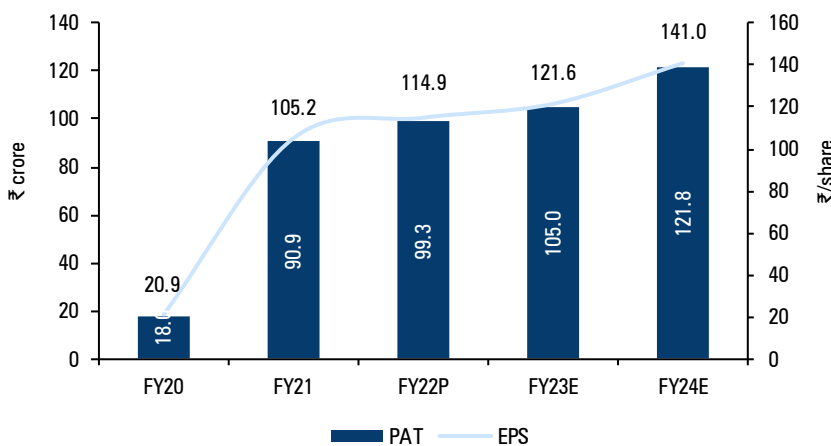
Exhibit 5: EBITDA and EBITDA margin trend



We expect EBITDA margins to remain in the current range of ~14-15% over FY22-24E

Source: Company, ICICI Direct Research

Exhibit 6: PAT and EPS trend



PAT is seen growing at a CAGR of 10.8% over FY22-24E to ~₹ 122 crore in FY24E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Net Sales	764.2	853.9	1001.4	1146.4	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	764.2	853.9	1,001.4	1,146.4	
Growth (%)	40.6	11.7	17.3	14.5	
Raw Material Expenses	509.4	578.1	691.0	791.0	
Employee Expenses	82.0	70.6	77.4	85.8	
Other Operating Expense	81.1	80.9	92.6	106.6	
Total Operating Expenditure	672.5	729.7	861.0	983.5	
EBITDA	91.7	124.2	140.4	162.9	
Growth (%)	430.8	35.4	13.1	16.0	
Depreciation	17.1	25.0	28.6	32.2	
Interest	1.5	1.1	1.0	0.9	
Other Income	46.1	34.1	29.6	33.0	
PBT	119.3	132.2	140.4	162.8	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	28.4	32.9	35.4	41.0	
PAT	90.9	99.3	105.0	121.8	
Growth (%)	404.2	9.3	5.8	16.0	
EPS (₹)	105.2	114.9	121.6	141.0	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Profit after Tax	90.9	99.3	105.0	121.8	
Add: Depreciation	17.1	25.0	28.6	32.2	
(Inc)/dec in Current Assets	19.8	29.1	-73.9	-42.6	
Inc/(dec) in CL and Provisions	64.4	-0.6	24.3	28.7	
Others	1.5	1.1	1.0	0.9	
CF from operating activities	193.7	153.9	85.0	141.0	
(Inc)/dec in Investments	-155.9	-101.4	-12.0	-62.0	
(Inc)/dec in Fixed Assets	-36.6	-29.5	-50.0	-50.0	
Others	1.6	-0.6	2.0	2.0	
CF from investing activities	-190.9	-131.5	-60.0	-110.0	
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	-18.8	-18.4	-18.2	-22.5	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	22.2	-4.6	0.0	0.0	
CF from financing activities	3.4	-23.0	-18.2	-22.5	
Net Cash flow	6.1	-0.6	6.7	8.5	
Opening Cash	25.8	31.9	31.3	38.0	
Closing Cash	31.9	31.3	38.0	46.5	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Liabilities					
Equity Capital	8.6	8.6	8.6	8.6	
Reserve and Surplus	658.9	740.9	828.7	928.9	
Total Shareholders funds	667.6	749.6	837.3	937.5	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Minority Interest / Others	43.4	42.8	44.8	46.8	
Total Liabilities	711.0	792.4	882.1	984.3	
Assets					
Gross Block	369.9	412.7	467.7	522.7	
Less: Acc Depreciation	121.8	146.8	175.4	207.6	
Net Block	248.1	265.9	292.3	315.1	
Capital WIP	25.4	12.0	7.0	2.0	
Total Fixed Assets	273.5	277.9	299.3	317.1	
Investments	315.4	416.7	428.7	490.7	
Inventory	106.9	100.6	137.2	157.0	
Debtors	81.8	67.6	96.0	109.9	
Loans and Advances	58.7	51.5	60.4	69.2	
Other Current Assets	1.8	0.4	0.4	0.5	
Cash	31.9	31.3	38.0	46.5	
Total Current Assets	281.1	251.4	332.1	383.1	
Current Liabilities	169.6	168.5	192.1	219.9	
Provisions	4.7	5.2	6.0	6.8	
Current Liabilities & Prov	174.3	173.7	198.0	226.7	
Net Current Assets	106.8	77.7	134.1	156.5	
Others Assets	15.4	20.0	20.0	20.0	
Application of Funds	711.0	792.4	882.1	984.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Per share data (₹)					
EPS	105.2	114.9	121.6	141.0	
Cash EPS	124.9	143.9	154.7	178.2	
BV	772.6	867.6	969.1	1,085.1	
DPS	20.0	20.0	20.0	25.0	
Cash Per Share (Incl Invst)	401.9	518.6	540.2	621.8	
Operating Ratios (%)					
EBITDA Margin	12.0	14.5	14.0	14.2	
PAT Margin	11.9	11.6	10.5	10.6	
Inventory days	51.1	43.0	50.0	50.0	
Debtor days	39.1	28.9	35.0	35.0	
Creditor days	81.0	72.0	70.0	70.0	
Return Ratios (%)					
RoE	13.6	13.2	12.5	13.0	
RoCE	10.5	12.5	12.7	13.3	
RoIC	18.8	23.6	22.5	24.4	
Valuation Ratios (x)					
P/E	24.4	22.3	21.1	18.2	
EV / EBITDA	21.0	14.9	13.1	10.9	
EV / Net Sales	2.5	2.2	1.8	1.5	
Market Cap / Sales	2.9	2.6	2.2	1.9	
Price to Book Value	3.3	3.0	2.6	2.4	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.4	1.3	1.5	1.5	
Quick Ratio	0.8	0.7	0.8	0.8	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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