

VST Tillers Tractors (VSTIL)

CMP: ₹ 2,850

Target: ₹ 3,000 (5%)

Target Period: 12 months

HOLD

May 15, 2023

Healthy results, FY26 (₹ 3,000 crore) goal unchanged, await more tangible volume prints in tractor space...

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%+) and prominent market share in the compact tractor space.

- FY23 segment mix –Power tiller ~58.6%, Tractors ~27.4%, Others ~14%
- FY23 Sales Volume – Power tiller: 38,247 units, Tractor: 6,875 units

Q4FY23 Results: The company reported a healthy performance in Q4FY23.

- Net sales for the quarter came in at ₹ 323 crore, up 48% YoY amid power tiller sales volume of 12,813 units (up 38% QoQ) and tractor sales volume of 1,963 units (up 25% YoY)
- EBITDA for the quarter came in at ₹ 55 crore with corresponding EBITDA margins at 16.9%, up 600 bps QoQ vs. the normalised range of 13-14%
- PAT in Q4FY23 was at ₹ 40.2 crore, up 82% YoY

What should investors do? VST has not given any meaningful returns over a five-year period i.e. (since May 2018 wherein it traded at ~₹ 2,870 levels)

- We have been positive on this space for quite sometime but with recent gains in stock price, regulated nature of power tiller market and hazy pathway to ₹ 3,000 crore topline by FY26 amid limited volumes in higher hp tractor space as well as exports, we downgrade the stock from BUY to **HOLD**

Target Price and Valuation: Introducing FY25E, we now value the company at a revised target price of ₹ 3,000 i.e. 20x P/E on FY24E-25E average EPS of ₹ 150.

Key triggers for future price performance:

- With increase in dealership count pan India, healthy farm income and import restrictions in place, we expect power tiller sales volume to grow at a CAGR of 10% in FY23-25E to 46,279 units in FY25E vs. 38,247 units in FY23
- With focus on higher hp space, sales volume in tractor segment is expected to grow at 20% CAGR over FY23-25E to 9,900 units in FY25E
- The management reiterated its commitment towards achieving ~₹ 3,000 crore sales by FY26 banking upon its foray in the higher hp tractors, electric tractors, exports and farm mechanisation solutions

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

- With greenfield expansion in place, poised for high double-digit growth
- BUY with target price of ₹ 170

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales (₹ crore)	614.9	543.7	764.2	853.9	1,006.4	14.8%	1,195.6	1,441.9	19.7%
EBITDA (₹ crore)	44.7	17.3	91.7	124.2	127.1	3.1%	158.4	194.7	23.7%
EBITDA Margins (%)	7.3	3.2	12.0	14.5	12.6		13.3	13.5	
Net Profit (₹ crore)	46.1	18.0	90.9	99.3	92.4	-9.2%	116.4	142.8	24.3%
EPS (₹)	53.4	20.9	105.2	114.9	106.9		134.7	165.3	
P/E (x)	53.4	136.6	27.1	24.8	26.7		21.2	17.2	
RoCE (%)	4.5	0.1	10.5	12.5	11.5		13.3	14.9	
RoE (%)	7.8	3.1	13.6	13.2	11.2		12.7	13.9	

Source: Company, ICICI Direct Research



Particulars

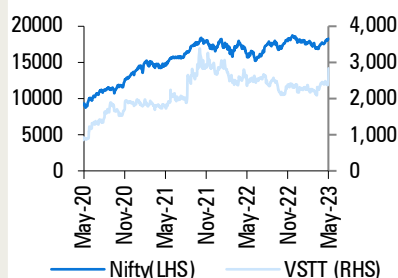
Stock Data

Market Capitalization	₹ 2462 crore
Total Debt (FY23P)	₹ 0 crore
Cash & Investments (FY23P)	₹ 371 crore
EV	₹ 2091 crore
52 week H/L	3,019 / 2,046
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	54.8	55.6	55.6	55.6
FII	5.4	4.0	1.3	1.3
DII	16.4	16.4	19.7	19.7
Other	23.4	24.0	23.4	23.4

Price Chart



Recent event & key risks

- Reports healthy Q4FY23 results
- Key Risk:** (i) Slower than expected success in higher hp tractor space (ii) Operating leverage gain lifting margin trajectory

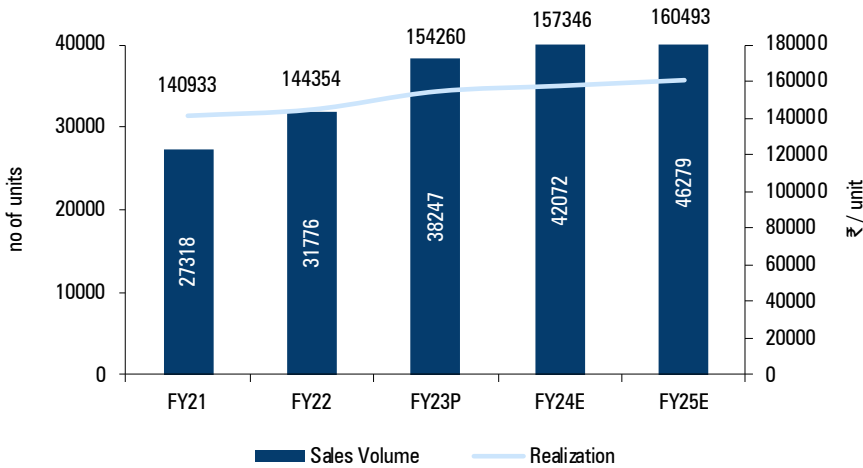
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Key financial charts

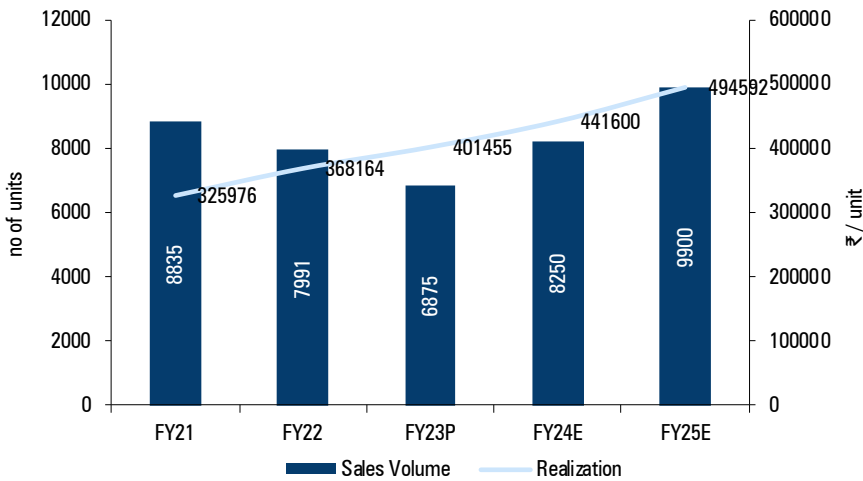
Exhibit 1: Power tiller sales volume and realisation trend



We expect power tiller sales volume to grow at a CAGR of 10% over FY23-25E to 46,729 units in FY25E vs. 38,276 units clocked in FY23. The company enjoys ~55%+ market share in the power tiller segment domestically. Installed capacity in the power tiller space at VST was at 60,000 units

Source: Company, ICICI Direct Research

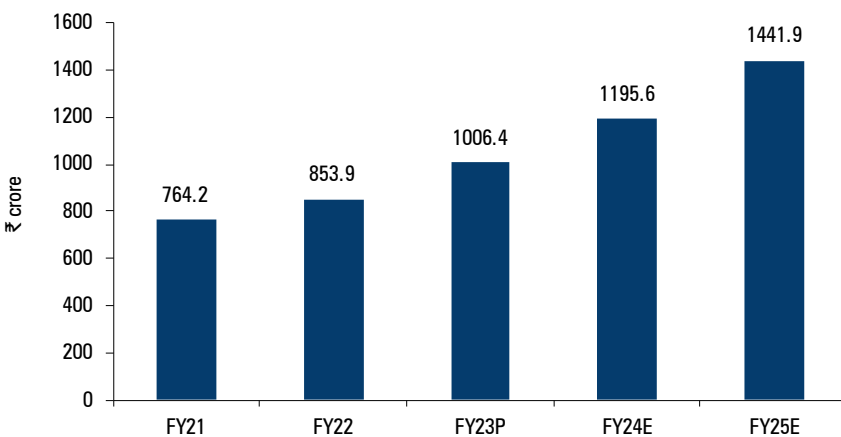
Exhibit 2: Tractor sales volume & realisations trend



We expect tractor sales volume to grow at a CAGR of 20% over FY23-25E to 9,900 units in FY25E. The industry leading growth is on the back of the company's foray into higher hp tractor space. Installed capacity in the tractor space at VST is at 36,000 units. ASPs are likely to witness an uptick tracking increasing share of higher hp tractors

Source: Company, ICICI Direct Research

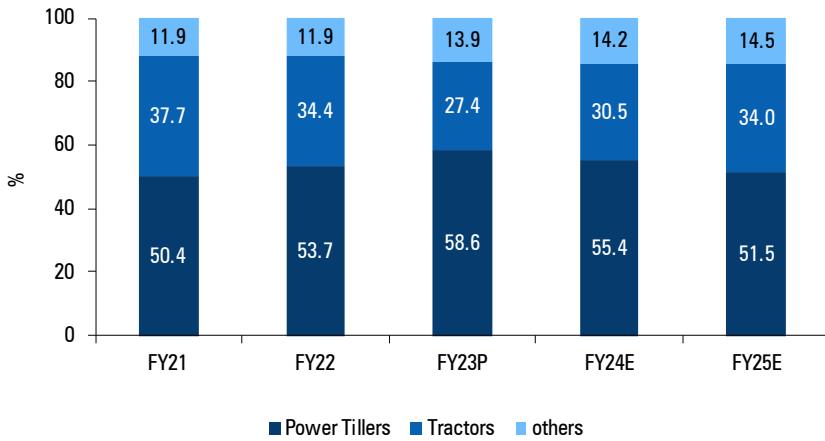
Exhibit 3: Topline trend



We expect sales to grow at a CAGR of 19.7% over FY23-25E to ₹ 1,442 crore in FY25E

Source: Company, ICICI Direct Research

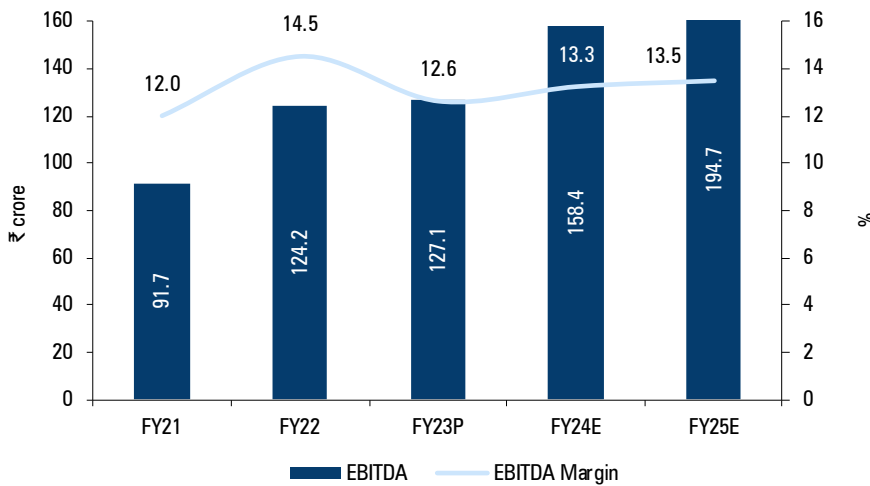
Exhibit 4: Sales contribution (power tiller, tractors, others) trend



Power tiller contributes ~54% of total sales, followed by tractor segment with share of revenues pegged at ~33% (over FY21-25E). However, given the new launch pipeline in the tractor space, its share of revenues is set to increase, going forward

Source: Company, ICICI Direct Research

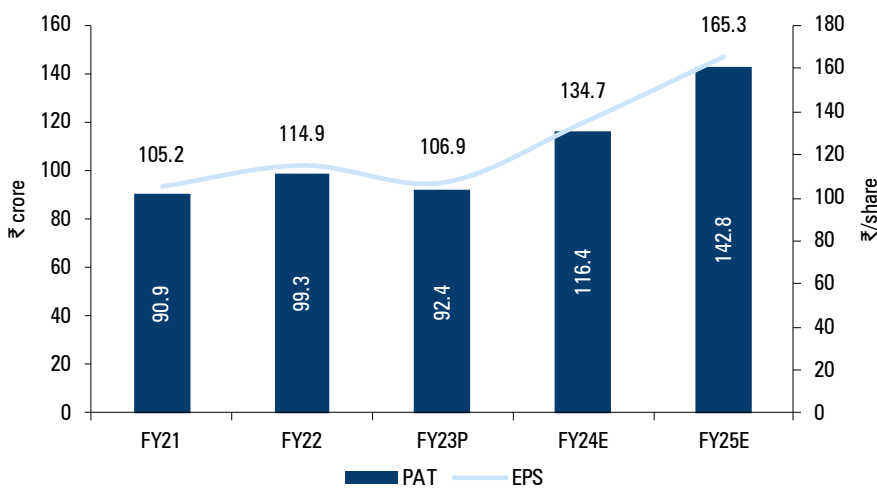
Exhibit 5: EBITDA and EBITDA margin trend



We expect EBITDA margins to improve to 13.5% by FY25E vs. 12.6% levels in FY23. The company has guided for near term margin profile of ~11-13%

Source: Company, ICICI Direct Research

Exhibit 6: PAT and EPS trend



PAT is seen growing at a CAGR of 24.3% over FY23-25E to ~₹ 143 crore in FY25E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Net Sales	853.9	1006.4	1195.6	1441.9	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	853.9	1,006.4	1,195.6	1,441.9	
Growth (%)	11.7	17.9	18.8	20.6	
Raw Material Expenses	578.1	704.7	836.9	1,009.3	
Employee Expenses	70.6	79.1	86.7	100.9	
Other Operating Expense	80.9	95.5	113.6	137.0	
Total Operating Expenditure	729.7	879.3	1,037.2	1,247.2	
EBITDA	124.2	127.1	158.4	194.7	
Growth (%)	35.4	2.4	24.6	22.9	
Depreciation	25.0	26.9	30.1	33.6	
Interest	1.1	1.2	1.1	1.0	
Other Income	34.1	25.0	28.4	30.9	
PBT	132.2	123.9	155.6	190.9	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	32.9	31.6	39.2	48.1	
PAT	99.3	92.4	116.4	142.8	
Growth (%)	9.3	-7.0	26.0	22.7	
EPS (₹)	114.9	106.9	134.7	165.3	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax	99.3	92.4	116.4	142.8	
Add: Depreciation	25.0	26.9	30.1	33.6	
(Inc)/dec in Current Assets	29.1	-114.5	-19.5	-72.9	
Inc/(dec) in CL and Provisions	-0.6	47.0	17.0	49.0	
Others	-33.0	-23.8	-27.3	-29.9	
CF from operating activities	119.8	28.1	116.7	122.6	
(Inc)/dec in Investments	-101.4	-16.3	-62.0	-62.0	
(Inc)/dec in Fixed Assets	-29.5	-24.5	-50.0	-50.0	
Others	33.5	27.8	30.4	32.9	
CF from investing activities	-97.4	-13.1	-81.6	-79.1	
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	-18.4	-22.8	-27.0	-31.2	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-4.6	4.6	0.0	0.0	
CF from financing activities	-23.0	-18.2	-27.0	-31.2	
Net Cash flow	-0.6	-3.2	8.1	12.3	
Opening Cash	31.9	31.3	28.1	36.2	
Closing Cash	31.3	28.1	36.2	48.4	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	8.6	8.6	8.6	8.6	
Reserve and Surplus	740.9	815.8	906.3	1,018.9	
Total Shareholders funds	749.6	824.4	914.9	1,027.5	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Minority Interest / Others	42.8	45.6	47.6	49.6	
Total Liabilities	792.4	870.0	962.5	1,077.1	
Assets					
Gross Block	412.7	435.1	490.1	545.1	
Less: Acc Depreciation	146.8	173.8	203.8	237.5	
Net Block	265.9	261.4	286.3	307.7	
Capital WIP	12.0	14.1	9.1	4.1	
Total Fixed Assets	277.9	275.5	295.4	311.8	
Investments	416.7	433.1	495.1	557.1	
Inventory	100.6	107.9	147.4	177.8	
Debtors	67.6	149.2	114.7	138.3	
Loans and Advances	51.5	76.4	90.8	109.5	
Other Current Assets	0.4	1.0	1.2	1.5	
Cash	31.3	28.1	36.2	48.4	
Total Current Assets	251.4	362.7	390.2	475.4	
Current Liabilities	168.5	212.9	229.3	276.5	
Provisions	5.2	7.8	8.4	10.1	
Current Liabilities & Prov	173.7	220.7	237.7	286.6	
Net Current Assets	77.7	142.0	152.5	188.8	
Others Assets	20.0	19.5	19.5	19.5	
Application of Funds	792.4	870.0	962.5	1,077.1	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Per share data (₹)					
EPS	114.9	106.9	134.7	165.3	
Cash EPS	143.9	138.1	169.6	204.3	
BV	867.6	954.2	1,058.9	1,189.2	
DPS	20.0	25.0	30.0	35.0	
Cash Per Share (Incl Invst)	518.6	533.8	614.9	700.8	
Operating Ratios (%)					
EBITDA Margin	14.5	12.6	13.3	13.5	
PAT Margin	11.6	9.2	9.7	9.9	
Inventory days	43.0	39.1	45.0	45.0	
Debtor days	28.9	54.1	35.0	35.0	
Creditor days	72.0	77.2	70.0	70.0	
Return Ratios (%)					
RoE	13.2	11.2	12.7	13.9	
RoCE	12.5	11.5	13.3	14.9	
RoIC	23.6	20.7	25.0	28.7	
Valuation Ratios (x)					
P/E	24.8	26.7	21.2	17.2	
EV / EBITDA	16.9	16.5	12.8	10.0	
EV / Net Sales	2.5	2.1	1.7	1.4	
Market Cap / Sales	2.9	2.4	2.1	1.7	
Price to Book Value	3.3	3.0	2.7	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	1.3	1.5	1.5	1.5	
Quick Ratio	0.7	1.0	0.9	0.9	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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