

VST Tillers Tractors (VSTIL)

CMP: ₹ 2,240

Target: ₹ 2,705 (21%)

Target Period: 12 months

BUY

November 1, 2022

Healthy performance, accelerated growth on the anvil

About the stock: VST Tillers Tractors (VST) is the leading farm mechanisation player domestically with a dominant market share in the power tiller segment (~58% as of FY22) and prominent market share in the compact tractor space (~7% in FY22).

- FY22 segment mix – power tiller ~54%, tractors ~34%, others ~12%
- FY22 sales volume – power tiller: 31,776 units, tractor: 7,991 units

Q2FY23 Results: The company reported a healthy performance in Q2FY23.

- Net sales for the quarter came in at ₹ 234 crore, flat YoY, QoQ amid power tiller sales volume of 8,819 units (up 2% YoY) and tractor sales volume of 1,688 units (down 27% YoY)
- EBITDA for the quarter came in at ₹ 32 crore with corresponding EBITDA margins at 13.8%, down 240 bps YoY. However, it recovered meaningfully from the 7.2% levels reported in Q1FY23
- PAT in Q2FY23 was at ₹ 22.7 crore, down 29% YoY. On the b/s front, VST did see adverse working capital cycle leading to negative CFO in H1FY23

What should investors do? VST's share price has flattened out over five year.

- With accelerated growth on the anvil amid a series of new product launches in tractor space and technology tie-ups, we upgrade the stock from HOLD to **BUY** at the current price point (stock corrected by 30%+ from highs). We find comfort in cash rich b/s, healthy return ratios & inexpensive valuations

Target Price and Valuation: We value the company at a revised target price of ₹ 2,705 i.e. 20x P/E on FY24E EPS of ₹ 135.2 (earlier target price ₹ 2,820).

Key triggers for future price performance:

- With healthy monsoon in its key states, healthy farm income and import restrictions in place, we expect power tiller sales volume to grow at a CAGR of 11.2% in FY22-24E to 39,312 units in FY24E
- With new product launches in near term, sales volume in tractor segment is expected to grow at 8.7% CAGR in FY22-24E to 9,434 units in FY24E
- Management commitment towards scaling the company to a ₹ 3,000 crore global brand by 2025/26 in 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 a target price of ₹ 170



Particulars

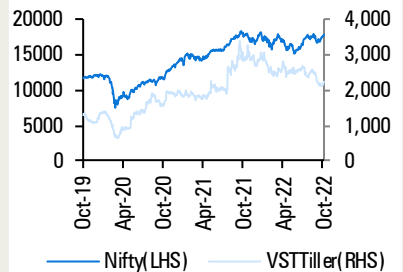
Stock Data

Market Capitalization	₹ 1935 crore
Total Debt (FY22)	₹ 0 crore
Cash & Investments (FY22)	₹ 361 crore
EV	₹ 1574 crore
52 week H/L	3368 / 2068
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	54.8	54.8	54.8	55.6
FII	5.7	5.5	5.4	4.0
DII	15.2	15.9	16.4	16.4
Other	24.3	23.8	23.4	24.0

Price Chart



Recent event & key risks

- Reports healthy Q2FY23 results
- Key Risk:** (i) Slower than anticipated sales volume growth, (ii) Volatile margin trajectory amid endeavour to gain market share in higher hp tractor space

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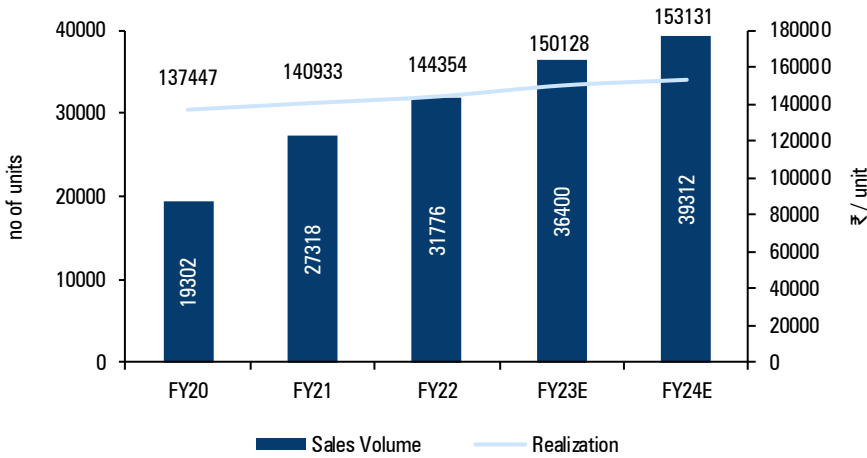
Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales (₹ crore)	614.9	543.7	764.2	853.9	4.2%	1,000.5	1,170.3	17.1%
EBITDA (₹ crore)	44.7	17.3	91.7	124.2	4.8%	120.8	158.0	12.8%
EBITDA Margins (%)	7.3	3.2	12.0	14.5		12.1	13.5	
Net Profit (₹ crore)	46.1	18.0	90.9	99.3	6.7%	86.7	116.8	8.5%
EPS (₹)	53.4	20.9	105.2	114.9		100.3	135.2	
P/E (x)	42.0	107.4	21.3	19.5		22.3	16.6	
RoCE (%)	4.5	0.1	10.5	12.5		10.9	13.3	
RoE (%)	7.8	3.1	13.6	13.2		10.6	12.8	

Source: Company, ICICI Direct Research

Key financial charts

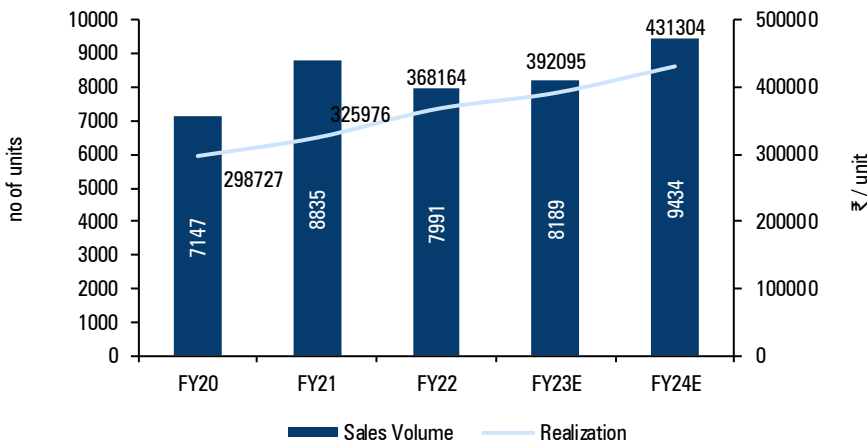
Exhibit 1: Power tiller sales volume and realisation trend



We expect power tiller sales volume to grow at a CAGR of 11.2% over FY22-24E to 39,312 units in FY24E vs. 31,776 units clocked in FY22. The company enjoys 58% market share in the power tiller segment domestically. Installed capacity in the power tiller space at VST is at 60,000 units

Source: Company, ICICI Direct Research

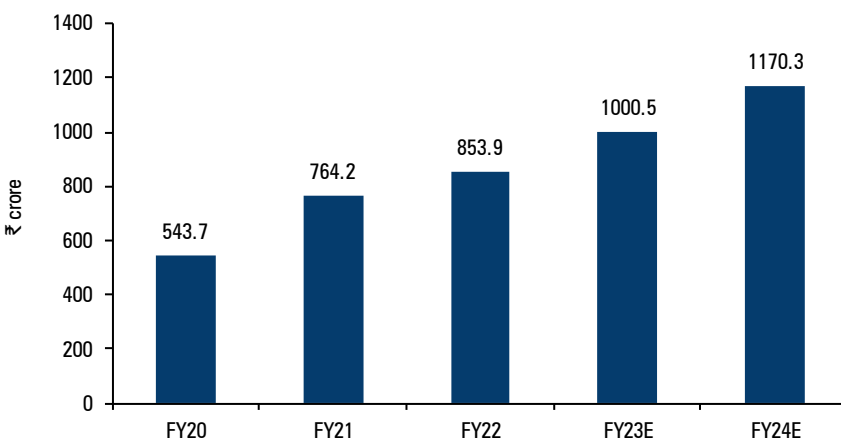
Exhibit 2: Tractor sales volume & realisations trend



We expect tractor sales volume to grow at a CAGR of 8.7% over FY22-24E to 9,434 units in FY24E. The company possesses 7% market share in the compact tractor space. Installed capacity in the tractor space at VST is at 36,000 units

Source: Company, ICICI Direct Research

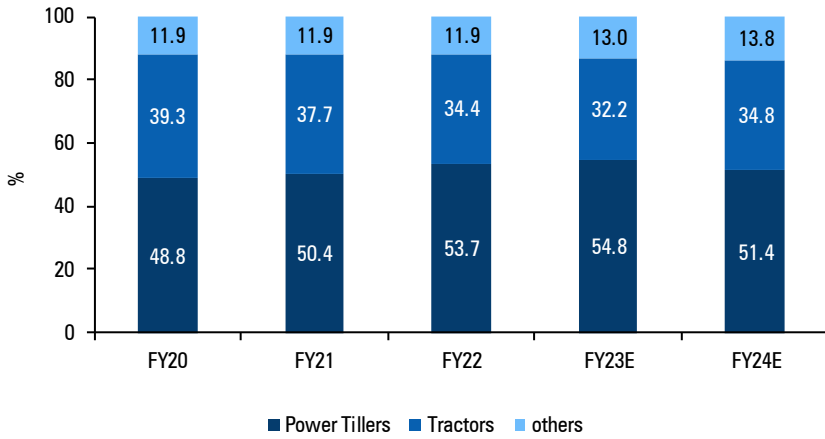
Exhibit 3: Topline trend



We expect sales to grow at a CAGR of 17.1% over FY22-24E to ₹ 1170 crore in FY24E

Source: Company, ICICI Direct Research

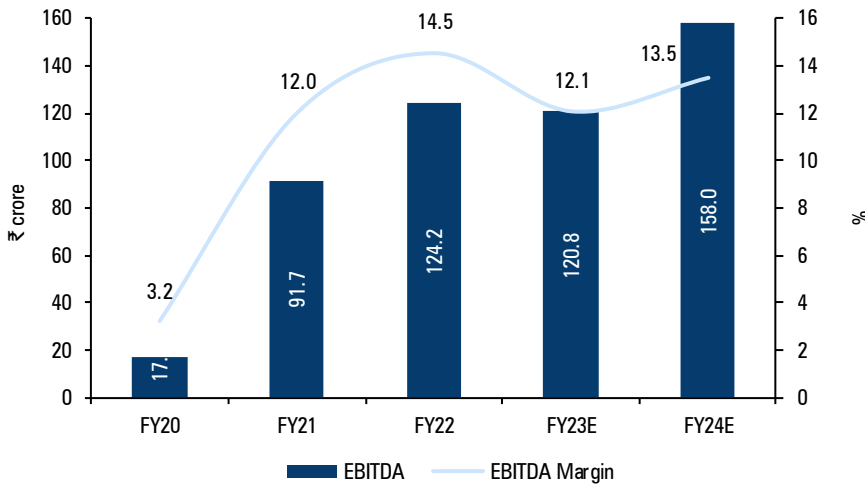
Exhibit 4: Sales contribution (power tiller, tractors, others) trend



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

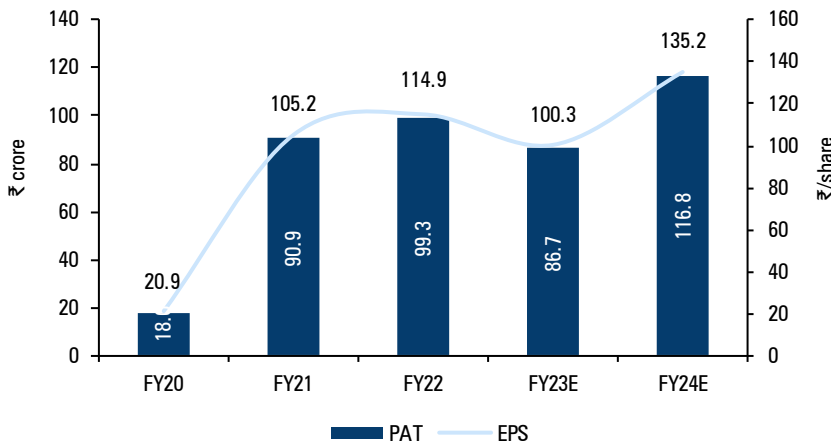
Exhibit 5: EBITDA and EBITDA margin trend



We expect EBITDA margins to improve to 13.5% by FY22 vs. ~12% levels in FY23E given the muted Q1FY23

Source: Company, ICICI Direct Research

Exhibit 6: PAT and EPS trend



PAT is seen growing at a CAGR of 8.5% over FY22-24E to ~₹ 117 crore in FY24E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Net Sales	764.2	853.9	1000.5	1170.3	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	764.2	853.9	1,000.5	1,170.3	
Growth (%)	40.6	11.7	17.2	17.0	
Raw Material Expenses	509.4	578.1	708.6	819.2	
Employee Expenses	82.0	70.6	78.4	87.8	
Other Operating Expense	81.1	80.9	92.6	105.3	
Total Operating Expenditure	672.5	729.7	879.7	1,012.3	
EBITDA	91.7	124.2	120.8	158.0	
Growth (%)	430.8	35.4	-2.7	30.7	
Depreciation	17.1	25.0	26.7	30.3	
Interest	1.5	1.1	1.0	0.9	
Other Income	46.1	34.1	25.3	29.4	
PBT	119.3	132.2	118.5	156.2	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	28.4	32.9	31.8	39.4	
PAT	90.9	99.3	86.7	116.8	
Growth (%)	404.2	9.3	-12.7	34.7	
EPS (₹)	105.2	114.9	100.3	135.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	90.9	99.3	86.7	116.8	
Add: Depreciation	17.1	25.0	26.7	30.3	
(Inc)/dec in Current Assets	19.8	29.1	-60.0	-47.5	
Inc/(dec) in CL and Provisions	64.4	-0.6	24.1	33.6	
Others	-44.6	-33.0	-24.3	-28.5	
CF from operating activities	147.5	119.8	53.2	104.7	
(Inc)/dec in Investments	-155.9	-101.4	-2.0	-62.0	
(Inc)/dec in Fixed Assets	-36.6	-29.5	-60.0	-50.0	
Others	47.8	33.5	27.3	31.4	
CF from investing activities	-144.8	-97.4	-34.7	-80.6	
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	-24.2	
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	-24.2	
Net Cash flow	6.1	-0.6	0.3	-0.2	
Opening Cash	25.8	31.9	31.3	31.6	
Closing Cash	31.9	31.3	31.6	31.4	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	8.6	8.6	8.6	8.6	
Reserve and Surplus	658.9	740.9	810.4	903.8	
Total Shareholders funds	667.6	749.6	819.0	912.5	
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	863.8	959.3	
Assets					
Gross Block	369.9	412.7	477.7	532.7	
Less: Acc Depreciation	121.8	146.8	173.5	203.8	
Net Block	248.1	265.9	304.2	328.9	
Capital WIP	25.4	12.0	7.0	2.0	
Total Fixed Assets	273.5	277.9	311.2	330.9	
Investments	315.4	416.7	418.7	480.7	
Inventory	106.9	100.6	137.1	160.3	
Debtors	81.8	67.6	82.2	96.2	
Loans and Advances	58.7	51.5	60.4	70.6	
Other Current Assets	1.8	0.4	0.4	0.5	
Cash	31.9	31.3	31.6	31.4	
Total Current Assets	281.1	251.4	311.7	359.0	
Current Liabilities	169.6	168.5	191.9	224.4	
Provisions	4.7	5.2	5.9	7.0	
Current Liabilities & Prov	174.3	173.7	197.8	231.4	
Net Current Assets	106.8	77.7	113.8	127.6	
Others Assets	15.4	20.0	20.0	20.0	
Application of Funds	711.0	792.4	863.8	959.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	105.2	114.9	100.3	135.2	
Cash EPS	124.9	143.9	131.3	170.3	
BV	772.6	867.6	947.9	1,056.1	
DPS	20.0	20.0	20.0	27.0	
Cash Per Share (Incl Invst)	401.9	518.6	521.2	592.8	
Operating Ratios (%)					
EBITDA Margin	12.0	14.5	12.1	13.5	
PAT Margin	11.9	11.6	8.7	10.0	
Inventory days	51.1	43.0	50.0	50.0	
Debtor days	39.1	28.9	30.0	30.0	
Creditor days	81.0	72.0	70.0	70.0	
Return Ratios (%)					
RoE	13.6	13.2	10.6	12.8	
RoCE	10.5	12.5	10.9	13.3	
RoIC	18.8	23.6	19.0	23.8	
Valuation Ratios (x)					
P/E	21.3	19.5	22.3	16.6	
EV / EBITDA	17.9	12.7	13.0	9.6	
EV / Net Sales	2.2	1.8	1.6	1.3	
Market Cap / Sales	2.5	2.3	1.9	1.7	
Price to Book Value	2.9	2.6	2.4	2.1	
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	1.4	1.4	
Quick Ratio	0.8	0.7	0.7	0.7	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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