VST Tillers Tractors (VSTTIL)

CMP: ₹ 2,650 | Target: ₹ 3,180 (20%) | Target Period: 12 months | BUY

September 29, 2021

Ambitious growth journey lies ahead…

About the stock: VST Tillers Tractors (VST) is the leading farm mechanisation player domestically with a dominant market share in the power tiller segment (~54% as of FY21) and prominent market share in the compact tractor space (~10%).

- FY21 segment mix –Power tiller ~50%, Tractors ~38%, Others ~12%
- FY21 Sales Volume – Power tiller: 27,318 units, Tractor: 8,835 units

Q1FY22 Results: The company reported robust Q1FY22 results.

- Power tiller sales volume for the quarter came in at 6,729 units (up 30% YoY) while tractor sales volumes were at 2,048 units (up 16% YoY)
- Sales for the quarter were at ₹ 194 crore, up 32% YoY, nearly flat QoQ
- EBITDA for the quarter came in at ₹ 25 crore with corresponding EBITDA margins at 13.1%, up 190 bps YoY
- Consequent PAT for Q1FY22 was at ₹ 24 crore, up 40% YoY

What should investors do? VST's share price has grown at ~7% CAGR from ~₹ 1,900 levels as of September 2016 to ~₹ 2,650 levels prevailing now.

- We retain **BUY** rating amid healthy growth prospects over FY21-23E

Target Price and Valuation: We value the company at a revised target price of ₹ 3,180 i.e. 25x P/E on FY23E EPS of ₹ 127.3 (earlier target price ₹ 2,475).

Key triggers for future price performance:

- Import restriction led volume growth in the power tiller segment with VST already on-boarding couple of domestic players for which VST intends to do contract manufacturing. We expect power tiller sales volume to grow at a CAGR of 19.6% in FY21-23E to 39,051 units in FY23E
- With introduction of high HP tractors, sales volume in tractor segment is expected to grow 12.6% CAGR over FY21-23E to 11,195 units in FY23E
- VST also intends to diversify its product basket and grow meaningfully in other segments like power reaper, precision components among others
- VST has set an ambitious target to be a ₹ 3,000 crore global brand by 2025 in the farm mechanisation and solutions. Margin are seen in 12-14% range
- Capital efficient business model (RoIC ~20%) & debt free b/s

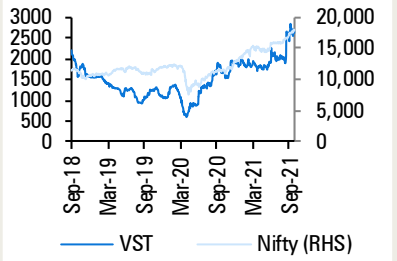
VST TILLERS TRACTORS LTD.

Particulars	
Stock Data	
Market Capitalization	₹ 2290 crore
Total Debt (FY21)	₹ 0 crore
Cash & Investments (FY21)	₹ 289 crore
EV	₹ 2000 crore
52 week H/L	2899 / 1504
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	54.8	54.8	54.8	54.8
FII	4.7	5.2	6.6	5.3
DII	14.6	13.4	12.3	13.6
Other	25.9	26.7	26.4	26.4

Price Chart



Recent event & key risks

- Launched new product in the power tiller space (95 DI Ignito)
- **Key Risk:** (i) Slower than anticipated sales volume growth, (ii) margin pressures imparted by high input costs (commodity led)

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Company Update

ICICI Securities – Retail Equity Research

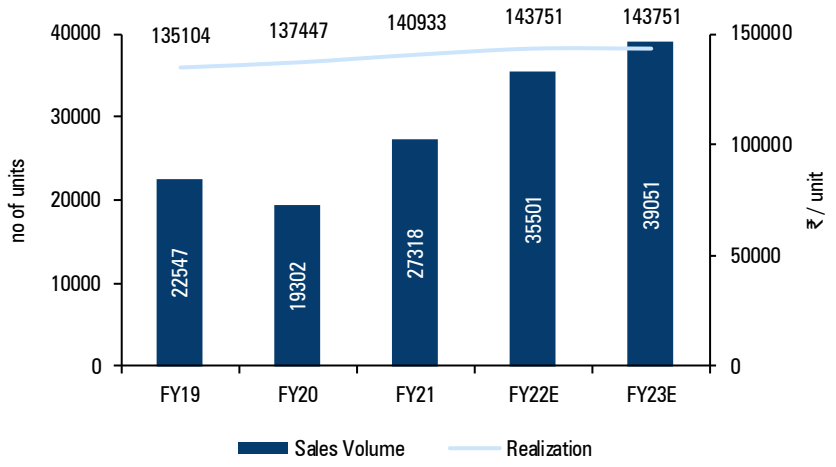
Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales (₹ crore)	614.9	543.7	764.2	3.5%	988.5	1,117.9	20.9%
EBITDA (₹ crore)	44.7	17.3	91.7	-4.1%	126.6	147.1	26.7%
EBITDA Margins (%)	7.3	3.2	12.0		12.8	13.2	
Net Profit (₹ crore)	46.1	18.0	90.9	4.2%	100.3	110.0	10.0%
EPS (₹)	53.4	20.9	105.2		116.1	127.3	
P/E (x)	49.6	127.1	25.2		22.8	20.8	
RoCE (%)	4.5	0.1	10.5		12.9	13.4	
RoE (%)	7.8	3.1	13.6		13.4	13.1	

Source: Company, ICICI Direct Research

Key financial charts

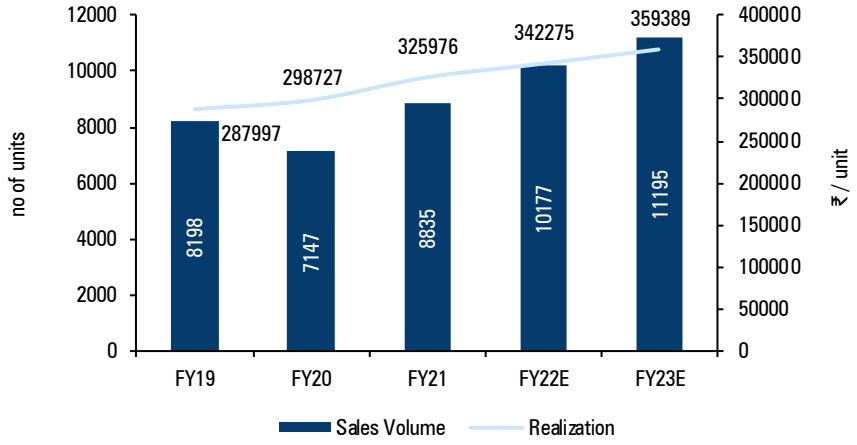
Exhibit 1: Power tiller sales volume and realisation trend



We expect power tiller sales volume to grow at a CAGR of 19.6% over FY21-23E to 39,051 units in FY23E

Source: Company, ICICI Direct Research

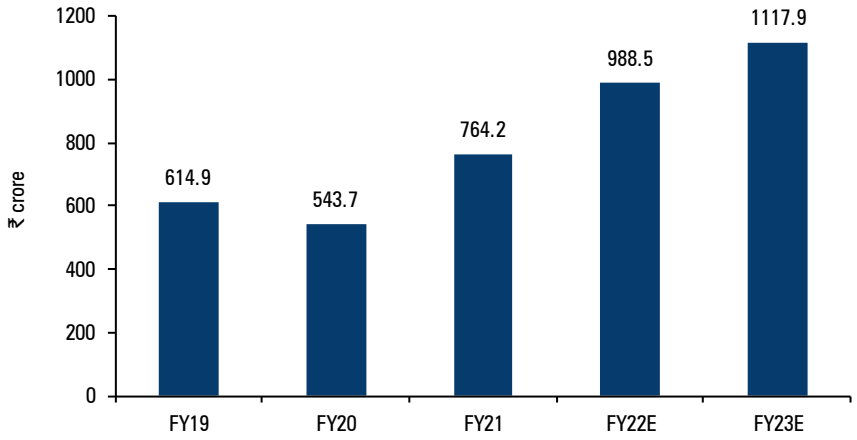
Exhibit 2: Tractor sales volume & realisations trend



We expect tractor sales volume to grow at a CAGR of 12.6% over FY21-23E to 11,195 units in FY23E

Source: Company, ICICI Direct Research

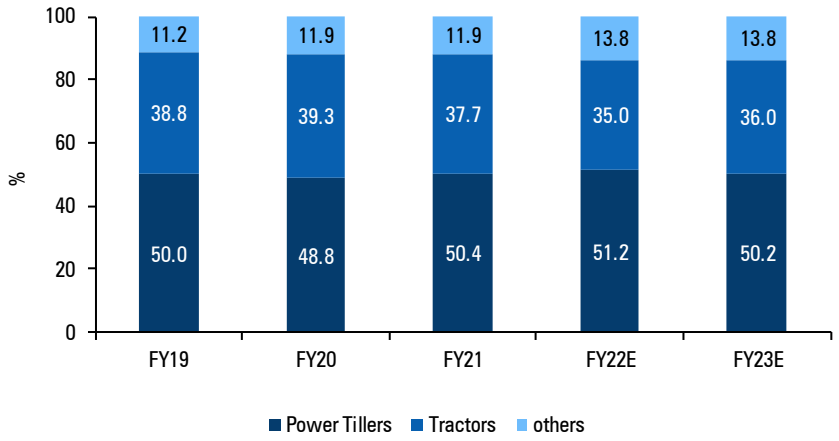
Exhibit 3: Topline trend



We expect sales to grow at a CAGR of 20.9% over FY21-23E to ₹ 1118 crore in FY23E

Source: Company, ICICI Direct Research

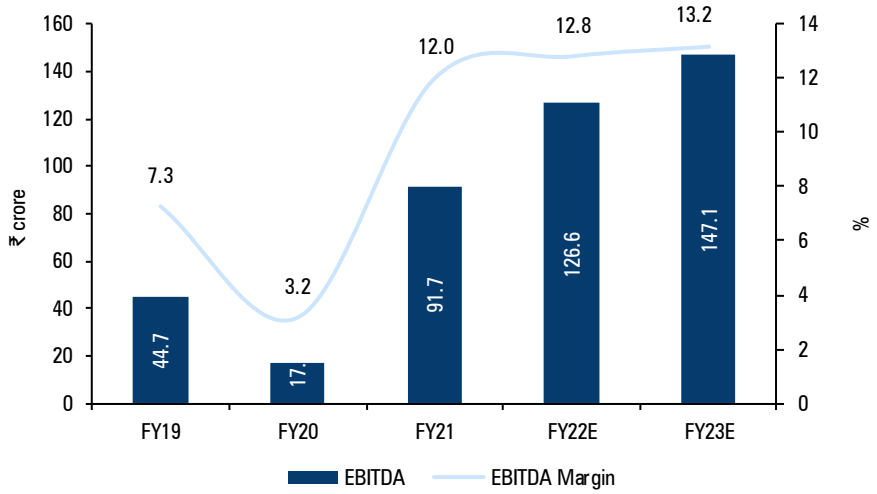
Exhibit 4: Sales contribution (power tiller, tractors, others) trend



Power tiller contributes ~50% of total sales, followed by tractor segment with share of revenues pegged at ~35-40%

Source: Company, ICICI Direct Research

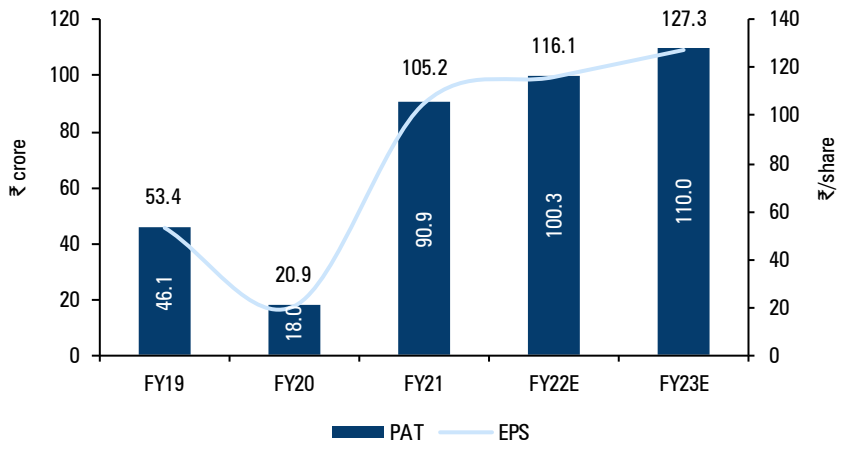
Exhibit 5: EBITDA and EBITDA margin trend



We expect EBITDA margins to improve from 12% levels in FY21 to 12.8% in FY22E & 13.2% in FY23E.

Source: Company, ICICI Direct Research

Exhibit 6: PAT and EPS trend



PAT is seen growing at a CAGR of 10% over FY21-23E to ~₹ 110 crore in FY23E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	543.7	764.2	988.5	1117.9
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	**543.7**	**764.2**	**988.5**	**1,117.9**
Growth (%)	-11.6	40.6	29.3	13.1
Raw Material Expenses	372.4	509.4	690.4	766.9
Employee Expenses	68.3	82.0	81.4	92.1
Other Operating Expense	85.7	81.1	90.0	111.8
Total Operating Expenditure	526.4	672.5	861.9	970.7
EBITDA	**17.3**	**91.7**	**126.6**	**147.1**
Growth (%)	-61.4	430.8	38.0	16.2
Depreciation	16.4	17.1	24.3	28.2
Interest	1.5	1.5	1.4	1.2
Other Income	23.6	46.1	32.3	29.4
PBT	**23.0**	**119.3**	**133.2**	**147.1**
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	5.0	28.4	32.9	37.1
PAT	**18.0**	**90.9**	**100.3**	**110.0**
Growth (%)	-60.9	404.2	10.4	9.7
EPS (₹)	**20.9**	**105.2**	**116.1**	**127.3**

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	18.0	90.9	100.3	110.0
Add: Depreciation	16.4	17.1	24.3	28.2
(Inc)/dec in Current Assets	30.1	19.8	-107.1	-54.9
Inc/(dec) in CL and Provisions	4.6	64.4	20.5	25.5
Others	1.5	1.5	1.4	1.2
CF from operating activities	**70.6**	**193.7**	**39.3**	**110.0**
(Inc)/dec in Investments	9.1	-155.9	48.0	-37.0
(Inc)/dec in Fixed Assets	-29.8	-36.6	-60.0	-50.0
Others	-11.3	1.6	2.0	2.0
CF from investing activities	**-32.0**	**-190.9**	**-10.0**	**-85.0**
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	-17.1	-18.8	-20.4	-22.8
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-14.6	22.2	0.0	0.0
CF from financing activities	**-31.7**	**3.4**	**-20.4**	**-22.8**
Net Cash flow	**6.9**	**6.1**	**8.9**	**2.2**
Opening Cash	18.8	25.8	31.9	40.8
Closing Cash	**25.8**	**31.9**	**40.8**	**43.0**

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	8.6	8.6	8.6	8.6
Reserve and Surplus	568.3	658.9	740.2	828.6
Total Shareholders funds	**576.9**	**667.6**	**748.8**	**837.2**
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.4	0.0	0.0	0.0
Minority Interest / Others	40.5	43.4	45.4	47.4
Total Liabilities	**618.7**	**711.0**	**794.3**	**884.7**
Assets				
Gross Block	311.5	369.9	439.9	499.9
Less: Acc Depreciation	105.3	121.8	146.1	174.3
Net Block	206.2	248.1	293.8	325.6
Capital WIP	47.7	25.4	15.4	5.4
Total Fixed Assets	**253.9**	**273.5**	**309.2**	**331.0**
Investments	159.4	315.4	267.4	304.4
Inventory	102.3	106.9	162.5	183.8
Debtors	96.2	81.8	135.4	183.8
Loans and Advances	65.9	58.7	56.2	41.2
Other Current Assets	4.7	1.8	2.3	2.6
Cash	**25.8**	**31.9**	**40.8**	**43.0**
Total Current Assets	294.8	281.1	397.2	454.3
Current Liabilities	108.3	169.6	189.6	214.4
Provisions	1.7	4.7	5.3	6.0
Current Liabilities & Prov	109.9	174.3	194.8	220.4
Net Current Assets	**184.9**	**106.8**	**202.3**	**233.9**
Others Assets	20.5	15.4	15.4	15.4
Application of Funds	**618.7**	**711.0**	**794.3**	**884.7**

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	20.9	105.2	116.1	127.3
Cash EPS	39.8	124.9	144.2	159.9
BV	667.7	772.6	866.7	969.0
DPS	15.0	20.0	22.0	25.0
Cash Per Share (Incl Invst)	214.4	401.9	356.7	402.0
Operating Ratios (%)				
EBITDA Margin	3.2	12.0	12.8	13.2
PAT Margin	3.3	11.9	10.1	9.8
Inventory days	68.7	51.1	60.0	60.0
Debtor days	64.6	39.1	50.0	60.0
Creditor days	72.7	81.0	70.0	70.0
Return Ratios (%)				
RoE	3.1	13.6	13.4	13.1
RoCE	0.1	10.5	12.9	13.4
RoIC	0.2	18.8	19.3	20.0
Valuation Ratios (x)				
P/E	127.1	25.2	22.8	20.8
EV / EBITDA	124.0	21.8	16.1	13.6
EV / Net Sales	3.9	2.6	2.1	1.8
Market Cap / Sales	4.2	3.0	2.3	2.0
Price to Book Value	4.0	3.4	3.1	2.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	1.4	1.8	1.9
Quick Ratio	**1.5**	**0.8**	**1.0**	**1.0**

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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