

Stock Update VST Tillers Tractors Ltd.

July 17, 2023





VST Tillers Tractors Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Automobile	Rs 2919	Buy in Rs 2900-2960 band & add more on dips in Rs 2590-2640 band	Rs 3245	Rs 3560	3-4 quarters

HDFC Scrip Code	VSTTILEQNR
BSE Code	531266
NSE Code	VSTTILLERS
Bloomberg	VSTT IN
CMP Jul 14, 2023	2918.8
Equity Capital (Rs cr)	8.6
Face Value (Rs)	10
Equity Share O/S (cr)	0.9
Market Cap (Rs cr)	2498
Book Value (Rs)	954.3
Avg. 52 Wk Volumes	12,400
52 Week High (Rs)	3026.8
52 Week Low (Rs)	2028.0

Share holding Pattern % (Mar 2023)	
Promoters	55.6
Institutions	21.1
Non Institutions	23.3
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Atul Karwa

atul.karwa@hdfcsec.com

Our Take:

VST Tillers Tractors (VTTL) is one of the fastest growing brands in the agriculture segment and commands a leadership position in power tillers and 4WD compact tractors. With a slew of product launches in the coming quarters, it intends to fill the gaps in the tractor segment and expand its product range. Exports have started improving and the company plans to enter new geographies. Revenues from its partnership with Zetor and Monarch Tractors would start flowing in FY24. Management has given a positive outlook across its business and has set an ambitious target of being a Rs 3,000cr company by 2026, implying a revenue CAGR of ~44%.

VTTL is debt-free company with healthy cash flows and low capex requirement in the near term. Over the medium term the company aims to cater to diversified farm mechanization products and solutions.

Valuation & Recommendation:

Despite a fall in the sales volumes for the June 2023 quarter (after a good Q4FY23 number), we think VTTL is on a strong wicket catering to the farm mechanisation needs. It could show improved performance in the balance portion of FY24. The VST Zetor joint venture will come into revenue mode this year (by early Q2), the Monarch supplies that VTTL has started is already onto the ramp up mode, the strategic directions that VTTL has taken in terms of becoming a small farm mechanization company, and its movement into the international market, all these should enable VTTL to get to its Rs 3,000cr revenue mark by FY26. Its power weeder business could also grow fast from 3400 units in FY23 (the second year) to 12000 units in 2-3 years. VTTL has vacant land at Bangalore (20 acres) which can be sold to unlock value, though its timeline is uncertain at this point.

We expect revenue/EBITDA/PAT of the company to grow at CAGR of 17/19/22% over FY23 to FY25E on the back of new product launches, ramp up in JV and increasing exports which could drive higher volumes. We believe investors can buy the stock in the band of Rs 2900-2960 and add on dips in Rs 2590-2640 band (16.5x FY25E EPS) for a base case fair value of Rs 3245 (20.5x FY25E EPS) and bull case fair value of Rs 3560 (22.5x FY25E EPS) over the next 3-4 quarters.



Financial Summary

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Operating Income	323	218	47.7	214	51.0	854	1,006	1,150	1,387
EBITDA	55	30	80.9	23	133.9	124	127	146	182
APAT	40	22	81.7	19	106.6	99	92	109	137
Diluted EPS (Rs)	46.5	25.6	81.7	22.5	106.6	114.9	106.9	126.3	158.2
RoE (%)						14.0	11.7	12.6	14.2
P/E (x)						25.4	27.3	23.1	18.4
EV/EBITDA (x)						17.4	16.9	14.4	11.3

(Source: Company, HDFC sec)

Q4FY23 Result Review

VTTL reported its highest ever quarterly revenue with 48% YoY growth in Q4FY23 as volumes for both tillers and tractors picked up. Net sales came in at Rs 323cr as power tiller volumes were up by 38% to 12811 units and tractors witnessed 25% growth to 1963 units. Average realization was up by 8%/10% YoY for tillers/tractors on account of change in mix and increase in prices to pass on the material inflation impact. EBITDA surged by 81% YoY to Rs 55cr on higher capacity utilisation and operating leverage. EBITDA margins expanded over 300bps to 16.9%. Adj. PAT increased 82% YoY to Rs 40cr on account of higher EBITDA.

Recent Developments

Good response to higher HP tractors

VTTL has witnessed a good response to its higher HP tractors. In 9MFY23 it had sold ~424 units which is ~9% of its tractor sales. It has introduced new tractors for the local market in partnership with Zetor, Czech Republic. The new 45 and 50 HP models will be sold on the Indian market under the VST ZETOR brand. These reliable and durable machines were designed specifically for the needs of local farmers and are equipped with a powerful in-house made engine. The management expects sale of 1500-2000 units in FY24.

Apart from Zetor tractors which would be in the premium range, VSTT is also launching 28, 36, 45 and 49 HP tractor. It has redesigned its offering to take advantage of positioning benefits in terms of pricing. These would fill the gaps in the company's portfolio.

Compact tractor sales expected to improve

The management expects sales of compact tractors, which account for 90% of the tractor sales, to increase further in FY24. The IMD has predicted a normal monsoon for 2024 while Skymet has said India is likely to face deficient monsoon. However, the management has indicated that it may not have a negative impact on its sales.



Strong growth in distribution business

The distribution business of the company achieved milestone of Rs 100cr sales in FY23. VTTL has also added distribution of electric pumps. It has strong potential in states like Bihar and UP and the company has added 6 more states for distribution.

Expansion of dealer network

VTTL is expanding its dealer network rapidly. It added 71 tractor dealers and 171 small farm mechanization dealers in FY23 taking the network to 355/660 dealers respectively. It expects to add ~175-200 dealers combined in FY24.

Partnership with Zimeno for electric tractors

VTTL has entered into a master service agreement with Zimeno (Monarch Tractors), to develop an integrated tractor powertrain for the electric tractor of Zimeno. It has invested ~Rs 21cr in the company for 2% stake. VTTL would be supplying gear train, the front axle and the rear axle and is also in talks for some other components as well. VTTL has partnered with Zimeno to help accelerate the introduction of smart electric tractors in the Indian market.

Exports gaining strength

Tractor export volumes have started to increase after a de-growth witnessed in 9MFY23. Tractor exports stood at 622 units in Q4FY23 against 410 units in Q4FY22. For the full year it increased by 7.5% to 1458 units. The management also plans to export the Zetor branded tractors to African markets. In the long term, it is looking to enter larger markets with its compact tractors. With interest rate cycle and inflation peeking out in European, we expect strong export growth for the company.

Sufficient capacity for next 2-3 years

VTTL has a capacity to produce 36,000 tractors. It has sufficient spare capacity to meet the incremental demand for Zetor branded tractors as it is currently producing ~8,000 tractors per annum. The management does not see any capacity related capex for the next 2-3 years. However, it has earmarked Rs 100cr capex over 2-3 years towards product development and establishing a global tech centre which would be equipped with EV tractor lab.



Risks & Concerns

High correlation with monsoons

The tractor industry volume growth has a high correlation with the deviation of monsoons from their long-term average. Any significant deviation (especially back-to-back in two years) resulting in weak monsoons could lead to a sharp decline in the industry's growth. The feared El Nino pattern, if it actually happens, could impact the rural incomes and hence demand for agri equipments including tillers and tractors.

Dependence on government subsidy for power tillers

The farmers are dependent on government subsidy for power tillers and any delay in implementing schemes by various states could impact the company's business. Most tiller sales are subsidy-driven with the subsidy at 40-50% of the cost of tillers.

Huge competition in higher HP tractors

The tractor industry consists of many small and big players, thereby the company faces high competition in tractor industry. This may result in pressure on margin and profitability.

Removal of import license

The government has imposed curbs on tiller imports by moving it to restricted items (requiring a license to import) from free. Reversal of this policy could impact market share of VTTL as Chinese imports are relatively cheaper.

High input prices

Hike in price of key raw materials like steel and components due to demand and supply gap may lead to rise in input cost, putting pressure on the company's margin and profitability.



Company Background:

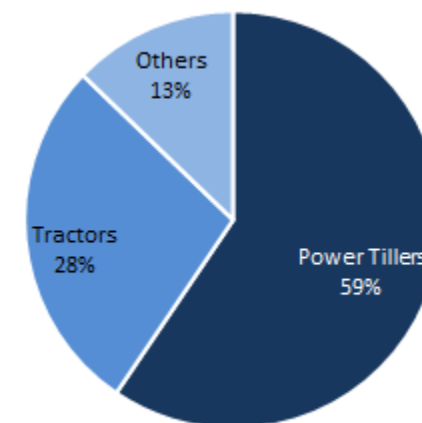
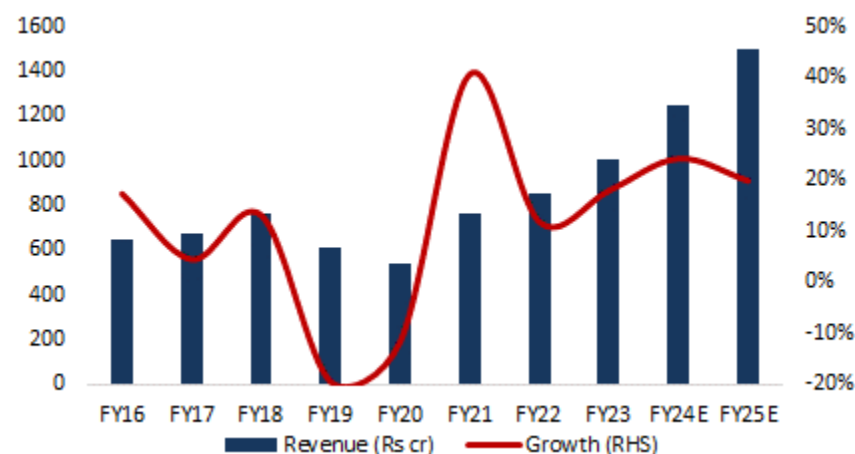
Established in 1967, VTTL is one of the leading power tiller and compact tractor manufacturer in India. It was established by the VST Group of companies, a well-known century old business house in South India, as a JV with Mitsubishi Heavy Industries, Japan and Mysore State Industrial Investment Corporation. VTTL manufactures farm equipment, namely power tillers, tractors, power weeders, diesel engines and other precision agricultural and automotive components. It also trades in certain other farm equipment (mainly rice transplanters), which are sourced from China.

Headquartered in Bangalore, VTTL is now the largest manufacturer of Power Tillers in India with its 'VST Shakti' being the leader in power tillers. Its tractors are marketed under 'FIELDTRAC' brand in various markets of European Union meeting the latest EU standards. The company has expanded its presence in more than 20 countries over a decade and established itself as a most preferred brand for the compact tractors.

VTTL derives over ~95% of its revenues from the domestic market and has a nationwide network of more than 660 active dealers to support sales and provide after-sales services. VTTL's current capacity stands at 36,000 units p.a. of tractors and it had sold 6875 tractors in FY23 which implies a capacity utilisation of ~19%. Tiller capacity stands at 60,000 units p.a. and FY23 utilisation was ~64%.

VST Tillers Tractors is the leading farm mechanisation player domestically with a dominant market share in the power tiller segment (53% as of FY22) and prominent market share in the compact tractor space (~10%).

Revenue trend and breakup (FY23)



(Source: Company, HDFC sec)



Financials

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	764	854	1006	1150	1387
Growth (%)	40.6	11.7	17.9	14.2	20.6
Operating Expenses	672	730	879	1004	1205
EBITDA	92	124	127	146	182
Growth (%)	429.2	35.3	2.4	14.8	24.4
EBITDA Margin (%)	12.0	14.5	12.6	12.7	13.1
Depreciation	17	25	27	29	33
Other Income	46	34	25	31	36
EBIT	121	133	125	148	185
Interest expenses	2	1	1	2	2
PBT	119	132	124	146	183
Tax	28	33	32	37	46
Adj. PAT	91	99	92	109	137
Growth (%)	404.3	9.4	-7.0	18.1	25.3
EPS	105.1	114.9	106.9	126.3	158.2

Balance Sheet

As at March (Rs cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	9	9	9	9	9
Reserves	659	741	816	899	1005
Shareholders' Funds	668	750	824	908	1014
Total Debt	0	0	0	0	0
Net Deferred Taxes	-1	2	3	3	3
Total Sources of Funds	667	751	827	910	1017
APPLICATION OF FUNDS					
Net Block & Goodwill	248	266	261	287	302
CWIP	25	12	14	18	11
Investments	318	420	434	494	546
Other Non-Curr. Assets	6	6	4	14	17
Total Non Current Assets	592	698	709	799	860
Inventories	107	101	108	154	182
Debtors	82	68	149	123	156
Cash & Equivalents	32	31	28	30	33
Other Current Assets	72	69	96	94	114
Total Current Assets	293	268	381	401	485
Creditors	83	82	131	139	152
Other Current Liab & Provisions	135	133	133	152	176
Total Current Liabilities	218	215	264	291	328
Net Current Assets	75	53	118	110	157
Total Application of Funds	667	751	827	910	1017



VST Tillers Tractors Ltd.

Cash Flow Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	119	132	124	146	183
Non-operating & EO items	-30	-27	-16	-2	8
Interest Expenses	-3	1	1	2	2
Depreciation	17	25	27	29	33
Working Capital Change	77	29	-69	1	-54
Tax Paid	-25	-35	-30	-37	-46
OPERATING CASH FLOW (a)	155	124	36	139	126
Capex	-28	-29	-24	-60	-40
Free Cash Flow	127	96	12	79	86
Investments	-127	-83	-2	-50	-50
Non-operating income	8	2	-5	0	0
INVESTING CASH FLOW (b)	-148	-110	-32	-110	-90
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-2	-1	-1	-2	-2
FCFE	6	14	4	28	34
Share Capital Issuance	0	0	0	0	0
Dividend	0	-17	-17	-26	-30
Others	0	0	-1	0	0
FINANCING CASH FLOW (c)	-2	-18	-19	-28	-32
NET CASH FLOW (a+b+c)	6	-4	-14	2	3

Key Ratios

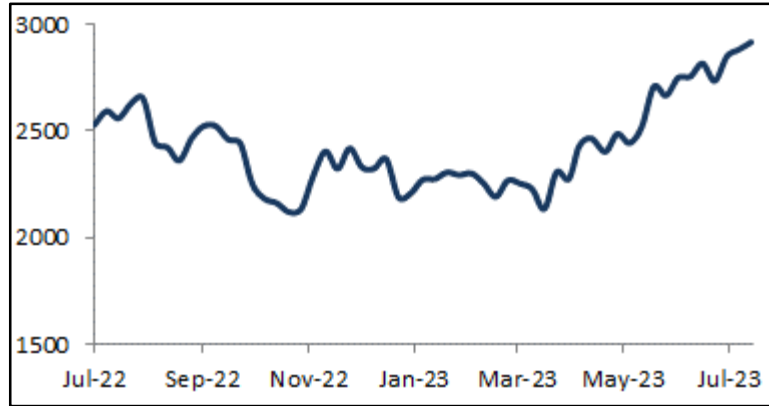
	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	12.0	14.5	12.6	12.7	13.1
EBIT Margin	15.8	15.6	12.4	12.8	13.3
APAT Margin	11.9	11.6	9.2	9.5	9.9
RoE	14.6	14.0	11.7	12.6	14.2
RoCE	19.4	18.8	15.9	17.0	19.2
Solvency Ratio (x)					
Net Debt/EBITDA	-0.3	-0.3	-0.2	-0.2	-0.2
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	105.1	114.9	106.9	126.3	158.2
CEPS	124.8	143.9	138.1	160.3	196.1
BV	772.7	867.5	954.3	1050.6	1173.8
Dividend	35.0	20.0	25.0	30.0	35.0
Turnover Ratios (days)					
Debtor days	42	32	39	43	37
Inventory days	50	44	38	42	44
Creditors days	34	35	39	43	38
VALUATION (x)					
P/E	27.8	25.4	27.3	23.1	18.4
P/BV	3.8	3.4	3.1	2.8	2.5
EV/EBITDA	24.3	17.4	16.9	14.4	11.3
EV / Revenues	2.9	2.5	2.1	1.8	1.5
Dividend Yield (%)	1.2	0.7	0.9	1.0	1.2
Dividend Payout (%)	33.3	17.4	23.4	23.8	22.1

(Source: Company, HDFC sec)



VST Tillers Tractors Ltd.

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

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