

Stock Update VST Tillers Tractors Ltd.

April 29, 2022





VST Tillers Tractors Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Automobile	Rs 2800	Buy in Rs 2790-2830 band & add more on dips to Rs 2510-2540 band	Rs 3045	Rs 3345	2 quarters

HDFC Scrip Code	VSTTILEQNR
BSE Code	531266
NSE Code	VSTTILLERS
Bloomberg	VSTT IN
CMP Apr 28, 2022	2800.1
Equity Capital (Rs cr)	8.6
Face Value (Rs)	10
Equity Share O/S (cr)	0.9
Market Cap (Rs cr)	2419
Book Value (Rs)	817.5
Avg. 52 Wk Volumes	30,000
52 Week High (Rs)	3453.6
52 Week Low (Rs)	1720.0

Share holding Pattern % (Mar 2022)	
Promoters	54.8
Institutions	21.4
Non Institutions	23.8
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

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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. Power tillers are affordable farm mechanisation equipment (with an average selling price of ~Rs 1.45 lakhs), highly preferred by small and marginal farmers. A major mass of the population is still dependent and practicing agriculture as its primary source of income. Besides tillers, the company also manufactures and sells compact tractors. It is now shifting its focus on selling higher (36-50) HP tractors and also on exports. It has entered into pact with Zimeno and looking to launch an electric tractor in US market. Exports to African countries through its agreement with ETG (Export Trading Group) has also begun and should scale up in the coming years.

VTTL is debt-free company with healthy cash flows and low capex requirement in the near term. Over the medium term the company has set an ambitious target of being a Rs 3,000cr company by 2025 in diversified farm mechanization products and solutions.

On September 22, 2021, we had released a stock update ([Link](#)) with a recommendation to 'Buy in Rs 2550-2580 band & add more on dips to Rs 2250-2280 band' for base case fair value of Rs 2859 and bull case fair value of Rs 3059. The stock had achieved our base case target on October 1 and bull case target on October 4, 2021.

Valuation & Recommendation:

Rising farm income due to better output and higher MSP bodes well for demand for agricultural implements at a time when availability of labour is becoming scarcer. Better reservoir levels across the country and prediction for normal rains for the current year means better times for kharif and later rabi harvest. Apart from growth in tillers and tractors segments, it is also banking on expanding the volume and range of precision implements business over time. ICRA projects the tiller market to grow from Rs.1350 cr in FY21 to Rs.3150 cr in FY25.

We expect revenue/EBITDA/PAT of the company to grow at CAGR of 16/27/18% over FY21 to FY24E on the back of new product launches, increasing exports and continuing import curbs which could drive higher volumes. We believe investors can buy the stock in the band of Rs 2790-2830 and add on dips to Rs 2510-2540 band (14.5x FY24E EPS) for a base case fair value of Rs 3045 (17.5x FY24E EPS) and bull case fair value of Rs 3345 (19x FY24E EPS) over the next 2 quarters.



Financial Summary

Particulars (Rs cr)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Operating Income	208	203	2.7	233	-10.7	764	854	998	1,179
EBITDA	30	30	1.3	38	-21.2	92	126	153	190
APAT	21	31	-31.7	32	-34.5	91	103	123	150
Diluted EPS (Rs)	24.4	35.7	-31.7	37.2	-34.5	105.1	119.0	142.9	174.0
RoE (%)						14.6	14.7	15.9	17.4
P/E (x)						26.7	23.5	19.6	16.1
EV/EBITDA (x)						23.2	16.9	13.9	11.1

(Source: Company, HDFC sec)

Q3FY22 Result Review

VTTL reported subdued numbers for Q3FY22. Net sales increased by 3% YoY to Rs 208cr driven by 6% growth in power tiller volumes to 7139 units while tractors witnessed 16% de-growth to 2,043 units. Average realization of tractors increased by ~16% on account of change in mix and increase in prices to pass on the material inflation impact. EBITDA came in at Rs 30cr, up marginally from Q3FY21 with EBITDA margins at 14.5% (-20bps yoy). Adj. PAT de-grew by 32% YoY to Rs 21cr as other income fell 64% to Rs 5cr.

In Q4FY22, power tillers sales witnessed a growth of 24/30% YoY/QoQ to 9,283 units while tractor sales decreased by 16/23% YoY/QoQ to 1,575 units.

Key Triggers

Focus on selling higher HP tractors

There has been a gradual shift towards higher HP tractors. VSTT has already built capacity for the bigger tractors and plans to expand its presence in a rapid way in northern markets. Its overall tractor capacity is about 36,000 units a year. It seeks to achieve its revenue target of Rs 1,000cr in tractor business by 2025 by way of aggressive expansion into northern markets and slew of new product launches in the higher HP segment. Even in its compact segment, VTTL has seen higher sale of 30HP tractors as compared to 18HP tractors.

Pact with US-based firm Zimeno

VTTL has entered into a master service agreement with Zimeno, to develop an integrated tractor powertrain for the electric tractor of Zimeno. Earlier in Mar'21 the company had invested ~Rs 11cr in Zimeno for ~2% stake. In Nov'21 it has invested further ~Rs 10cr in Series B preferred stock of Zimeno to retain the same shareholding percentage in the company. The investment is intended for development and access to electric tractor technology. Zimeno Inc is an unlisted company incorporated in the USA involved in the development of electric autonomous



tractor. The investment by VTTL will help accelerate Zimeno's expansion and growth plans for the Indian and Asian market. VTTL has partnered with Zimeno to help accelerate the introduction of smart electric tractors in the Indian market.

Other products also gaining momentum

VTTL announced a unique one-of-a-kind offer of up to 100% finance for its wide range of brush cutters. Under this scheme, customers need to pay just Rs. 1/- down payment to own a brand-new brush cutter that is equipped with the latest technology customized for Indian farms. According to the company, the farmers in India face issues like high labour cost, low awareness on farm mechanization, lack of availability, affordability, and accessibility to modern farm solutions. This product would take care of the issue of labour availability.

The product cost between Rs 17,000-30,000 and a lot of time, the EMI facility is not available and an immediate amount of money is not available, hence, the farmer has to postpone his purchase decision. VTTL has roped in Paytm and the offer can be availed at more than 500 VTTL dealerships across the country. The balance payment can be paid via easy monthly installments within 2 to 12 months. Brush cutters are best suited for paddy harvesting, floriculture, horticulture, orchard, lawn, and resort segments.

Export revenues expected to double over next 3-4 years

The company is planning to nearly double its exports revenue from 5-6% now to 10% over the next three-four years, as it sees a large market opportunity for its compact tractors in Europe. Its shipments to Europe are growing and it expected exports of more than 1,200 tractors in FY22 to France, Germany, Spain, Portugal, Belgium, and the Netherlands. The company has entered into an agreement with ETG (Export Trading Group), for distribution of its tractors, power tillers, power reapers and diesel engines in the Southern African markets, including South Africa, Namibia, Botswana, Zimbabwe, Swaziland, and Zambia.

Commodity inflation getting passed on

VTTL has taken a price increase in Q3FY22. However, due to persistent increase in commodity prices it is looking at another price hike soon, which would lead to better realisation and protect margins of the company.

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.



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. Farmers prefer to wait for new government permits which are available at different intervals which results in higher volatility in tiller sales volume. Also, lot of farmers are reluctant to go for outright purchase. Moreover, non-availability of retail finance may hamper the demand for power tillers. However, in the recent past, looking at the positive impact of mechanisation on farm output, some farmers are buying power tiller without waiting for the subsidy.

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:

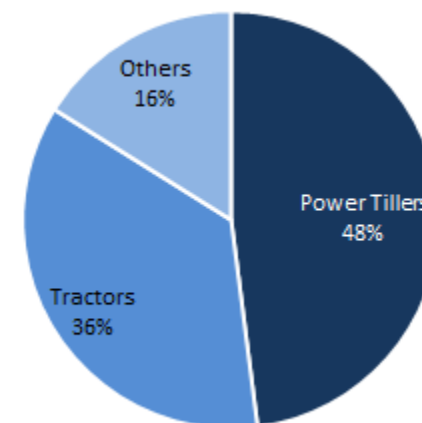
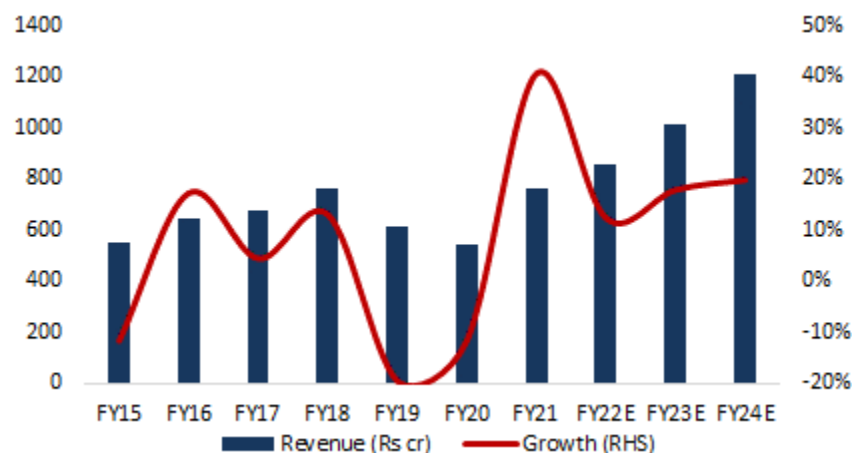
Established in 1967, VTTL is one of the leading power tiller and compact tractor manufacturer in India. It was established by the VST Group of companies, a well-known century old business house in South India, as a JV with Mitsubishi Heavy Industries, Japan and Mysore State Industrial Investment Corporation. 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 350 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 7991 tractors in FY22 which implies a capacity utilisation of ~22%. Tiller capacity stands at 60,000 units p.a. and FY22 utilisation was ~53%.

VST Tillers Tractors 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%).

Revenue trend and breakup (FY21)



(Source: Company, HDFC sec)



Financials

Income Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	544	764	854	998	1179
Growth (%)	-11.6	40.6	11.8	16.9	18.2
Operating Expenses	526	672	728	845	989
EBITDA	17	92	126	153	190
Growth (%)	-61.2	429.2	36.8	21.6	24.4
EBITDA Margin (%)	3.2	12.0	14.7	15.3	16.1
Depreciation	16	17	24	28	32
Other Income	24	46	38	42	45
EBIT	25	121	139	167	203
Interest expenses	1	2	2	2	2
PBT	23	119	137	165	201
Tax	5	28	35	42	51
Adj. PAT	18	91	103	123	150
Growth (%)	-60.9	404.3	13.3	20.1	21.7
EPS	20.8	105.1	119.0	142.9	174.0

Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	9	9	9	9	9
Reserves	568	659	727	807	906
Shareholders' Funds	577	668	736	816	915
Total Debt	0	0	0	0	0
Net Deferred Taxes	1	-1	-1	-1	-1
Total Sources of Funds	578	667	735	815	914
APPLICATION OF FUNDS					
Net Block & Goodwill	184	248	274	302	343
CWIP	48	25	20	24	32
Investments	193	318	339	357	381
Other Non-Curr. Assets	14	6	17	20	24
Total Non Current Assets	424	592	634	684	756
Inventories	102	107	122	145	165
Debtors	96	82	112	139	165
Cash & Equivalents	26	32	28	20	13
Other Current Assets	80	72	77	82	97
Total Current Assets	304	293	339	387	440
Creditors	58	83	99	109	123
Other Current Liab & Provisions	93	135	138	146	159
Total Current Liabilities	150	218	238	255	281
Net Current Assets	154	75	102	132	158
Total Application of Funds	578	667	735	816	914

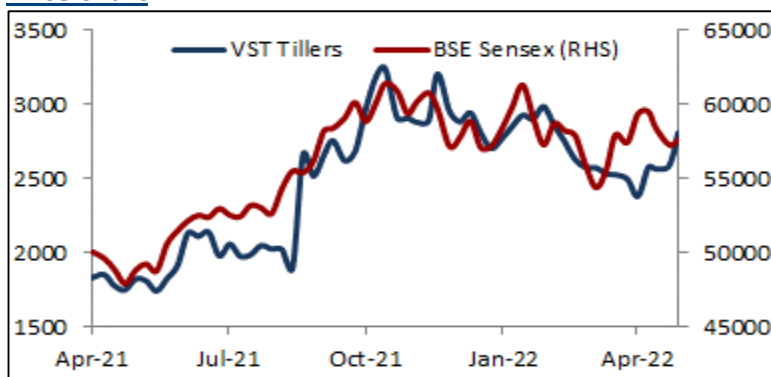


VST Tillers Tractors Ltd.

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	23	119	137	165	201
Non-operating & EO items	1	-30	-7	0	-2
Interest Expenses	0	-3	2	2	2
Depreciation	16	17	24	28	32
Working Capital Change	42	77	-34	-41	-36
Tax Paid	-10	-25	-35	-42	-51
OPERATING CASH FLOW (a)	72	155	87	112	147
Capex	-34	-28	-45	-60	-80
Free Cash Flow	38	127	42	52	67
Investments	-4	-127	-10	-15	-20
Non-operating income	5	8	0	0	0
INVESTING CASH FLOW (b)	-33	-148	-55	-75	-100
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-1	-2	-2	-2	-2
FCFE	38	6	31	35	45
Share Capital Issuance	0	0	0	0	0
Dividend	-26	0	-35	-43	-52
Others	-5	0	0	0	0
FINANCING CASH FLOW (c)	-33	-2	-36	-45	-54
NET CASH FLOW (a+b+c)	7	6	-4	-8	-7

Price chart



Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	3.2	12.0	14.7	15.3	16.1
EBIT Margin	4.5	15.8	16.3	16.7	17.2
APAT Margin	3.3	11.9	12.0	12.4	12.7
RoE	3.1	14.6	14.7	15.9	17.4
RoCE	4.2	19.4	19.8	21.5	23.5
Solvency Ratio (x)					
Net Debt/EBITDA	-1.5	-0.3	-0.2	-0.1	-0.1
Net D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	20.8	105.1	119.0	142.9	174.0
CEPS	39.8	124.8	146.9	175.0	210.7
BV	667.7	772.7	851.6	944.5	1058.5
Dividend	15.0	35.0	40.0	50.0	60.0
Turnover Ratios (days)					
Debtor days	65	42	41	46	47
Inventory days	76	50	49	49	48
Creditors days	31	34	39	38	36
VALUATION (x)					
P/E	134.4	26.7	23.5	19.6	16.1
P/BV	4.2	3.6	3.3	3.0	2.6
EV/EBITDA	131.0	23.2	16.9	13.9	11.1
EV / Revenues	4.2	2.8	2.5	2.1	1.8
Dividend Yield (%)	0.5	1.3	1.4	1.8	2.1
Dividend Payout (%)	72.0	33.3	33.6	35.0	34.5

(Source: Company, HDFC sec)



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. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

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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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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