

**BUY**

TP: Rs 3,218 | ▲ 16%

**VST TILLERS TRACTORS** | Automobiles

16 May 2023

### Solid quarter

- Q4 volume gains of 32% YoY helped by preponement of festive season and tiller & other non-tractor sales
- Lower commodity prices aid higher gross margin; EBITDA margin jumps 310bps YoY to ~17%
- FY24/FY25 EPS cut 2-3% on monsoon concerns even as TP rises to Rs 3,218 (vs. Rs 2,802) on rollover – maintain BUY

**Strong revenue growth:** VSTT's Q4FY23 revenue grew 48% YoY (+51% QoQ) to Rs 3.2bn as volumes surged 36% YoY (+64% QoQ) to 14.7k units aided by preponement of the festive season. Despite the volume push, festive demand supported a 9% YoY (-8% QoQ) increase in net realisation per vehicle (NRPV) to Rs 0.2mn. Strong volumes helped VSTT make up for the lag in 9MFY23 sales.

**EBITDA margin expands:** Raw material cost improved marginally to 68.2% of sales (68.9%/68.4% in Q3FY23/Q4FY22) owing to easing commodity costs. Gross margin expanded 15bps YoY (+72bps QoQ) to 31.8%. Other expenses were well controlled at Rs 266mn (+19% YoY/+11% QoQ) aided by positive leverage, helping EBITDA climb 81% YoY (+134% QoQ) to Rs 546mn. EBITDA margin increased 310bps YoY (+600bps QoQ) to 16.9% and PAT swelled 82% YoY (+107% QoQ) to Rs 402mn.

**Focus on higher HP segment:** Management expects the VSTT Zetor joint venture to have a larger revenue contribution in FY24 and believes that a major share of business will come from the higher HP segment under this JV over 3-4 years.

**No capacity constraints, focus on utilisation:** VSTT has the capacity to produce 30,000 tractors, of which the company manufactures only 8,000-10,000 units. Management is thus focusing on capacity utilisation over market share gains, and is targeting 100% utilisation, including production of compact and higher HP tractors.

**TP revised:** Given concerns over the monsoon pattern in FY24, we trim our volume assumptions and hence lower our FY24/FY25 earnings estimates by 3%/2%. On rolling valuations forward to FY25E and assigning the stock an unchanged 20x P/E multiple we arrive at a revised TP of Rs 3,218 (vs. Rs 2,802).

**Outlook healthy, maintain BUY:** VSTT's focus on high-end farm equipment, regional diversification (tapping regions beyond core South India market) and non-farm business contribution are helping to enhance earnings. Contribution from JV partners and technology development adds comfort. We thus retain our BUY rating.

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### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VSTT IN/Rs 2,763
Market cap	US\$ 292.5mn
Free float	45%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 3,069/Rs 2,028
Promoter/FPI/DII	55%/5%/15%

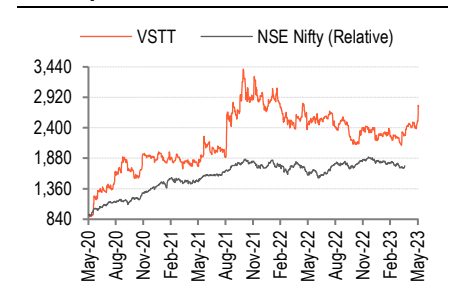
Source: NSE | Price as of 16 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	10,064	10,786	12,399
EBITDA (Rs mn)	1,272	1,391	1,632
Adj. net profit (Rs mn)	924	1,170	1,390
Adj. EPS (Rs)	106.9	135.4	160.9
Consensus EPS (Rs)	106.9	140.8	151.0
Adj. ROAE (%)	11.2	12.4	13.3
Adj. P/E (x)	25.8	20.4	17.2
EV/EBITDA (x)	18.6	17.2	14.3
Adj. EPS growth (%)	(7.0)	26.6	18.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Volumes	Management expects 20% volume growth in tractors for FY24 – ahead of the industry.	NA	VSTT's volume target looks quite aggressive given concerns over the monsoons this year due to El Nino.
Topline guidance	VSTT reported its highest revenue of Rs 10bn in FY23 with a target to achieve Rs 30bn by FY26.	Management aims to achieve Rs 30bn in revenue by FY26.	The revenue target is consistent but needs aggressive delivery and effective execution.
VST Zetor	<p>The company plans to launch higher HP VSTT Zetor products (utility tractors) in India towards end-Q1FY24, with plans to launch in the African markets sometime later as well.</p> <p>Management expects a major share of business to be contributed by the higher HP segment in the next 3-4 years.</p>	<p>VSTT Zetor launch is targeted for March and thus no incremental volumes are expected in FY23.</p> <p>Management expects VSTT Zetor to contribute 1,000+ units in FY24 and higher HP products to form 20-30% of the overall mix in the next three years.</p>	The focus on high-end value-added products should help guard/improve margins.
Distribution business	<p>Spare parts (distribution) business has crossed Rs 1bn.</p> <p>VSTT has already launched electric pump (trading) channels in Uttar Pradesh and Bihar, and expects to add six more states in FY24.</p>	<p>Distribution channels for electric pumps have been set up in Bihar and Uttar Pradesh this year and these contribute Rs 3mn-4mn in revenue/month.</p> <p>Four states will be added in Q1FY24, and management expects revenue of Rs 1bn in the next three years from this segment.</p>	Given the healthy response, VSTT has set additional targets to expand the non-farm business.
Margin guidance	EBITDA margin guidance of 11-13% for FY24 has been maintained, considering investments into new markets and product development.	Commodity softening effect to reflect in Q4FY23. Management guides for margin in the range of 12-14% for FY23 with slight downward revision of 1-2% for FY24 due to increased marketing spends.	Guidance is consistent; expect sales rationalisation in FY24, with FY25 to be a fast-growing year for the company.
Capex and R&D spend	VSTT believes capacity is adequate for the next 2-3 years. Instead, capex will be incurred towards product development and building a tech centre (Rs 1bn allocated) as well as manufacturing electric tractors. R&D investment will be Rs 500mn for FY24.	Current R&D expenses are at Rs 400mn-500mn and management expects this will rise to Rs 1bn/year in the next couple of years.	The strategy of capex for product and technology development is in the right direction from the medium/long-term perspective.
Dealership	<p>Management expects to add 175-200 dealers in the small farm mechanisation (SFM) segment by FY24.</p> <p>Over the next 2-3 years, management indicates it should go above 1,000 dealers in the country, largely in North India.</p>	<p>In the SFM space, there are 650 dealers cumulatively in the west, south and east. North India has 30-40 dealers.</p> <p>VSTT will scale up the number of dealerships and expects northern markets to contribute 30% of revenue in 3-5 years.</p>	The focus on geographical diversification continues by moving out of core markets and tapping new markets in the northern and eastern regions.
Other key points	<p>Monarch supplies are likely to ramp up in FY24. Management expect the power weeder segment to record strong growth in the next 2-3 years (i.e. 10k-15k+ units).</p> <p>Q4 revenue from the SFM segment was at Rs 5.9bn, tractors Rs 2.8bn, distribution Rs 1bn.</p>	<p>Capacity utilisation at Hosur plant will improve with Zetor and Monarch products, and management expects utilisation to reach +80% in FY24.</p> <p>Mysore unit revenue was at ~Rs 210mn and external business contributed Rs 50mn-60mn.</p>	Focus on development of other businesses will aid revenue diversification and help lower reliance on the core business.

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	14,776	10,858	36.1	8,993	64.3	43,053	39,765	8.3
Avg. Realisation per Vehicle	218,334	201,105	8.6	237,618	(8.1)	233,765	214,727	8.9
<b>Net Revenues</b>	<b>3,226</b>	<b>2,184</b>	<b>47.7</b>	<b>2,137</b>	<b>51.0</b>	<b>10,064</b>	<b>8,539</b>	<b>17.9</b>
Total Income (A)	3,226	2,184	47.7	2,137	51.0	10,064	8,539	17.9
<b>Operating Expenses:</b>								
Raw materials consumed	2,200	1,493	47.4	1,473	49.4	7,047	5,781	21.9
Employee Expenses	215	166	29.3	191	12.7	791	706	12.0
Other Expenses	266	224	18.9	240	10.6	955	809	18.1
Total Expenditure (B)	2,681	1,882	42.4	1,904	40.8	8,793	7,297	20.5
<b>EBITDA (A-B)</b>	<b>546</b>	<b>302</b>	<b>80.9</b>	<b>233</b>	<b>133.9</b>	<b>1,271</b>	<b>1,242</b>	<b>2.4</b>
Other Income	52	64	(18.7)	91	(42.7)	250	341	(26.8)
Depreciation	69	72	(3.8)	70	(2.0)	269	250	7.6
EBIT	529	294	79.8	254	108.2	1,251	1,332	(6.1)
Finance Costs	3	3	20.0	5	(33.3)	12	11	13.3
Exceptional items (less)	-	-	-	-	-	-	-	-
PBT after excep items	526	292	80.3	250	110.7	1,240	1,322	(6.2)
Tax expense	124	71	76.1	55	125.2	316	329	(3.9)
Reported PAT	402	221	81.7	194	106.6	924	993	(7.0)
<b>Adjusted PAT</b>	<b>402</b>	<b>221</b>	<b>81.7</b>	<b>194</b>	<b>106.6</b>	<b>924</b>	<b>993</b>	<b>(7.0)</b>
Adj EPS (Rs)	46.5	25.6	81.7	22.5	106.6	106.9	114.9	(7.0)
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin (%)	31.8	31.6	15	31.1	72	30.0	32.3	(231)
EBITDA Margin (%)	16.9	13.8	310	10.9	600	12.6	14.5	(191)
EBIT Margin (%)	16.4	13.5	292	11.9	450	12.4	15.6	(317)
PBT Margin (%)	16.3	13.4	294	11.7	462	12.3	15.5	(316)
Tax Rate (%)	23.6	24.2	(57)	22.1	152	25.5	24.9	61
Adj PAT Margin (%)	12.4	10.1	232	9.1	335	9.2	11.6	(245)

Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our BUY rating on VSTT given that its focus on high-end farm equipment, regional diversification (tapping regions beyond core market of South India) and non-farm business contribution are prudent steps to enhance earnings. Contribution from JV partners and technology development adds comfort.

However, given concerns over the monsoon pattern in FY24, we trim our volume assumptions and hence lower our FY24/FY25 earnings estimates by 3%/2%. On rolling valuations forward to FY25E and assigning the stock an unchanged 20x P/E multiple we arrive at a revised TP of Rs 3,218 (vs. Rs 2,802).

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	10,786	12,399	10,883	12,579	(0.9)	(1.4)
EBITDA	1,391	1,632	1,432	1,687	(2.9)	(3.3)
Adj PAT	1,170	1,390	1,211	1,422	(3.4)	(2.3)
Adj EPS (Rs)	135.4	160.9	140.1	164.6	(3.4)	(2.2)

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Tractor volume	7,991	7,236	7,920	8,316
Tillers volume	31,774	35,817	41,462	47,475
Revenue	8,539	10,064	10,786	12,399
Avg Realisation	214,727	233,758	218,420	222,240
EBITDA	1,242	1,271	1,391	1,632
EBITDA margin (%)	14.5	12.6	12.9	13.2
Adj. PAT	993	924	1,170	1,390
EPS (Rs)	114.9	106.9	135.4	160.9

Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
VST Tillers Tractors	VSTT IN	BUY	3,218	135.4	160.9	13.2	14.0
Escorts Kubota	ESCORTS IN	SELL	1,749	67.0	84.4	10.1	11.7
Mahindra & Mahindra	MM IN	BUY	1,496	69.3	75.9	17.3	16.3

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- volume growth lower than estimates for macroeconomic reasons,
- delayed product launches, and
- input cost inflation growing faster than our expectations.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.4	153	169	BUY
Bajaj Auto	BJAUT IN	16.0	4,538	4,188	HOLD
Eicher Motors	EIM IN	12.1	3,633	3,761	HOLD
Escorts	ESCORTS IN	3.3	2,068	1,749	SELL
Hero MotoCorp	HMCL IN	6.5	2,686	2,712	HOLD
Mahindra & Mahindra	MM IN	19.2	1,262	1,496	BUY
Maruti Suzuki	MSIL IN	33.3	9,071	9,858	HOLD
TVS Motor	TVSL IN	7.2	1,244	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,763	3,218	BUY

Source: BOBCAPS Research, NSE | Price as of 16 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>7,642</b>	<b>8,539</b>	<b>10,064</b>	<b>10,786</b>	<b>12,399</b>
EBITDA	1,053	1,242	1,272	1,391	1,632
Depreciation	171	216	269	244	266
EBIT	1,343	1,332	1,252	1,557	1,871
Net interest inc./(exp.)	(15)	(10)	(13)	(18)	(18)
Other inc./(exp.)	461	341	250	410	506
Exceptional items	(135)	0	0	0	0
EBT	1,192	1,322	1,240	1,539	1,853
Income taxes	285	329	316	369	463
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	1	1
<b>Reported net profit</b>	<b>908</b>	<b>993</b>	<b>924</b>	<b>1,170</b>	<b>1,390</b>
Adjustments	135	0	0	0	0
<b>Adjusted net profit</b>	<b>1,043</b>	<b>993</b>	<b>924</b>	<b>1,170</b>	<b>1,390</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	831	1,273	1,107	1,253	1,409
Other current liabilities	864	824	1,440	1,050	1,228
Provisions	47	52	70	76	82
Debt funds	0	0	0	0	0
Other liabilities	434	0	0	0	0
Equity capital	86	86	86	86	86
Reserves & surplus	6,724	7,409	8,158	9,367	10,340
Shareholders' fund	6,811	7,495	8,245	9,454	10,427
<b>Total liab. and equities</b>	<b>8,988</b>	<b>9,644</b>	<b>10,862</b>	<b>11,834</b>	<b>13,147</b>
Cash and cash eq.	448	313	281	723	869
Accounts receivables	818	676	1,492	946	1,087
Inventories	1,069	1,006	1,079	1,359	1,529
Other current assets	723	750	983	946	1,070
Investments	3,343	4,136	4,307	4,807	5,307
Net fixed assets	2,260	2,304	2,635	2,791	2,925
CWIP	254	120	120	300	400
Intangible assets	0	355	0	0	0
Deferred tax assets, net	6	(16)	(36)	(38)	(40)
Other assets	67	0	0	0	0
<b>Total assets</b>	<b>8,988</b>	<b>9,645</b>	<b>10,862</b>	<b>11,834</b>	<b>13,147</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,808</b>	<b>960</b>	<b>277</b>	<b>1,052</b>	<b>1,037</b>
Capital expenditures	(369)	(516)	(245)	(580)	(500)
Change in investments	(1,555)	(793)	(171)	(500)	(500)
Other investing cash flows	461	341	250	410	506
<b>Cash flow from investing</b>	<b>(1,463)</b>	<b>(968)</b>	<b>(166)</b>	<b>(670)</b>	<b>(494)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(15)	(10)	(13)	(18)	(18)
Dividends paid	(173)	(173)	216	(351)	(417)
Other financing cash flows	3	0	(370)	392	2
<b>Cash flow from financing</b>	<b>(185)</b>	<b>(183)</b>	<b>(167)</b>	<b>23</b>	<b>(433)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>160</b>	<b>(191)</b>	<b>(56)</b>	<b>405</b>	<b>110</b>
<b>Closing cash &amp; cash eq.</b>	<b>448</b>	<b>313</b>	<b>281</b>	<b>723</b>	<b>869</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	120.7	114.9	106.9	135.4	160.9
Adjusted EPS	120.7	114.9	106.9	135.4	160.9
Dividend per share	20.0	20.0	(25.0)	40.6	48.3
Book value per share	788.3	867.6	954.3	1,094.3	1,206.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.1	2.8	2.4	2.2	1.9
EV/EBITDA	22.6	19.0	18.6	17.2	14.3
Adjusted P/E	22.9	24.0	25.8	20.4	17.2
P/BV	3.5	3.2	2.9	2.5	2.3

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	87.5	75.1	74.5	76.0	75.0
Interest burden (PBT/EBIT)	88.8	99.2	99.0	98.8	99.0
EBIT margin (EBIT/Revenue)	17.6	15.6	12.4	14.4	15.1
Asset turnover (Rev./Avg TA)	113.8	115.9	127.9	121.9	124.7
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>16.6</b>	<b>13.9</b>	<b>11.7</b>	<b>13.2</b>	<b>14.0</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	40.6	11.7	17.9	7.2	15.0
EBITDA	506.4	18.0	2.4	9.3	17.3
Adjusted EPS	481.8	(4.8)	(7.0)	26.6	18.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.8	14.5	12.6	12.9	13.2
EBIT margin	17.6	15.6	12.4	14.4	15.1
Adjusted profit margin	13.6	11.6	9.2	10.8	11.2
Adjusted ROAE	15.3	13.2	11.2	12.4	13.3
ROCE	15.2	13.6	11.9	13.4	14.1
<b>Working capital days (days)</b>					
Receivables	42	32	39	41	30
Inventory	50	44	38	41	43
Payables	50	66	62	58	57
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.8	1.3	1.5	1.7	1.7
Net interest coverage ratio	87.2	127.5	98.6	86.5	104.0
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): VST TILLERS TRACTORS (VSTT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

### Analyst certification

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