

RESEARCH

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

VST TILLERS TRACTORS | TARGET: Rs 3,420 | -25% | SELL

Only minor respite from weak show; maintain SELL

AUTOMOBILES

MoM volume trends indicate healthy recovery mode

SUMMARY

INDIA ECONOMICS: BONDS WRAP

Upward rally in US 10Y steered other global yields. Resilience in US growth indicators coupled with stickiness in earnings report guided its movement of yield. The spillover was felt in yields across major AEs. In UK, concerns of a fiscal slippage added to further pressure in its yield. Going ahead, volatility in financial market would persist in the run up to the US elections. Thus, rewinding of positions would continue to exert pressure on global yields till traders are pacified by actual outcome.

[Click here](#) for the full report.

INDIA ECONOMICS: CURRENCY UPDATE

INR depreciated by 0.3% in Oct'24 (0.1% appreciation in Sep'24) and even fell to its lifetime low of 84.09/\$. Currently, it is trading around a new low of 84.12/\$. However, this decline was only marginal, when compared with bloodbath witnessed in other major currencies, as US\$ strengthened sharply during the month (+3.2%). The factors that led to stronger US\$ were: rising uncertainty around US Presidential race outcome, and trimmed US Fed rate cut outlook in view of mixed macro data points.

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VST TILLERS TRACTORS

- Q2 revenue was flat YoY at Rs 2.8bn, dragged by lower realisations of Rs 0.2mn down by ~1.3% YoY (13% MoM)
- EBITDA fell 12% YoY to Rs 378mn, driven by steady volume and revenue growth. Margin fell by over ~200bps
- We retain our FY25/FY26/FY27 earnings. We raise TP to Rs 3,420 (from Rs 3,347), valuing VSTT at 20x P/E 1Y forward earnings. Maintain SELL

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AUTOMOBILES

- Passenger vehicle volumes grew a high single digit (~7%) YoY with the SUV segment's share continuing to stay higher
- 2-wheeler segment takes a breather with 5% MoM growth after strong recovery in Sep'24 (+22% growth)
- Commercial vehicle segment grew MoM (~10%) on the back of 15% growth in Sep'24, pointing to healthy signals in the near future

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BONDS WRAP

04 November 2024

Fortnightly review

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Dipanwita Mazumdar
Economist

On domestic front, India's 10Y yield also moved in tandem with other global yields. Geopolitical conflict, rising yield differential with the US and muted corporate results continued to be weighed down on FPI flows. System liquidity remained comfortable. However, some pressure cannot be discounted as credit growth is maintaining its momentum. We expect India's 10Y yield to trade in the range of 6.8-6.9% in the current month, with risks tilted to the upside.

US 10Y yield guided movement of major global yields:

- US 10Y yield exhibited sharp upswing in Oct'24 and the momentum persists (10bps jump on the first day of Nov'24). Factors which drove yield higher were buoyant consumption demand as per Q3 advance estimates, stickier earnings data, higher input cost, upbeat consumer confidence, better services PMI data and pickup in home sales, which pointed towards resilience of US economy. IMF in its recent World Economic Outlook has also revised its growth forecast of the region by 20 and 30bps respectively for CY24 and CY25. Thus, the above macro drop support accommodative policy and not taking the risk of excessively loose monetary conditions. Fed November policy is also coinciding with US Presidential elections where opinion polls suggest a tight run between two Presidential candidates. US 10Y yield is expected to exhibit upward bias on account of squaring off in the run up to the elections. CME Fed watch tool is pricing in a 25bps rate cut by Fed both in Nov and Dec'24 policy meet. However, the terminal Fed fund rate is contingent on election outcome. A Republican party victory might hint at exceptionalism policy which might restrict the current discourse to easier financial conditions, while a Democratic Party win might signal policy continuity.
- Taking cues from a sharp rise in US 10Y yield, other Advanced Economies (AEs) also followed suit to maintain its yield differential. UK's 10Y yield has risen sharply. However, most of its rally in part was attributable from a loser fiscal policy and likely increase of slippage. Post Budget itself, UK's 10Y yield has risen by 13bps.



CURRENCY UPDATE

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Sonal Badhan
Economist

Labour market is still perceived to be resilient, when accounted for temporary/seasonal shocks. Consumer confidence is on the rise, and input prices are noting a comeback (US ISM manufacturing sub-index). Domestically, sharp decline in equity indices have led to FPI outflows in this segment. In addition, narrowing spread between US10Y and India 10Y has impacted debt segment FPI outflows. As a result, INR traded in the range of 83.82-84.09/\$. In the next fortnight, we expect pressure on INR to remain, but the movement will be range bound. Geo-political developments (US elections, tensions in the Middle East) and domestic inflation trajectory will be closely watched events. We thus expect INR to trade in the range of 83.9-84.2/\$ in the current fortnight.

Movement in global currencies in Oct'24

In Oct'24, all major global currencies depreciated against the dollar. The movement in global currencies was led by strengthening US dollar. DXY index, measuring the dollar's value against a basket of currencies rose by 3.2% in Oct'24 (nearing highest levels seen since end Jul'24), following the 0.9% decline in Sep'24. Much of the gains were noted in the first fortnight of Oct'24 when it rose by 2.5%, compared with 0.4% increase noted in the second fortnight. DXY's performance has been driven by steep jump in US10Y yield. In Oct'24 alone, US 10Y yield rose by 50bps (~4.3%) to hover at early Jul'24 levels. This comes largely in the wake of rising political uncertainty ahead of a closely fought US Presidential election and mixed macro indicators. On one hand, ADP employment report showed that private sector employment rose by 233k in Oct'24. Conference board consumer confidence shot up to 108.7 in Oct'24 from 99.2 in Sep'24, as consumer turned more optimistic about economic situation in 6 months ahead. This was helped by rising stock prices and falling gasoline cost. On the other hand, BLS data showed that non-farm payrolls rose by mere 12k versus estimated 113k. This data appears to be distorted by seasonal shocks (two major hurricanes) and worker strikes (Boeing/Textron). US ISM manufacturing index also signalled fastening pace of contraction in manufacturing activity (46.5 in Oct'24 versus 47.2 in Sep'24), dragged by lower production. Input prices are beginning to see upside pressure.



SELL
 TP: Rs 3,420 | ▼ 25%

VST TILLERS TRACTORS | Automobiles

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- We retain our FY25/FY26/FY27 earnings. We raise TP to Rs 3,420 (from Rs 3,347), valuing VSTT at 20x P/E 1Y forward earnings. Maintain SELL

Milind Raginwar
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Weak realisations drag revenue growth: VSTT's Q2FY25 revenue was flat YoY at Rs 2.8bn, dragged by weak realisations which fell by 1.3% YoY despite better weather conditions, healthy government orders (impacting receivable days) and strong buoyancy as reflected in volume growth. Volumes grew 3%/70% YoY/QoQ to ~12.5k units, contributed by 5% Power Tiller growth to 11.2k units. Tractor units fell by 10% YoY to ~1.3k units. In Q2FY25, revenue from the Specialised Farm Machinery (SFM) segment was Rs 1.85bn, Tractor segment Rs 0.74bn and Distribution and others Rs 0.28bn. Net realisation per vehicle fell 13% QoQ to Rs 225.8k. VSTT expects H2FY25 to grow at 20-30% and being better than H1 due to a good monsoon.

EBITDA falls 12% YoY on firm costing: The raw material cost (adjusted for inventory) rose by ~3% YoY/~49% QoQ) leading gross margin to stay at ~31.9%, vs 32.7%, a fall of 80bps YoY (flat QoQ). Other expenditure at 9.6% of sales vs 9.4% YoY was ~Rs 272mn and employee expenses at 9% vs ~8% YoY pulled down EBITDA by ~12% YoY to ~Rs 378mn. EBITDA margin fell to 13.3%, down ~220bps YoY from 15.5%. However, APAT rose by ~23% YoY to ~Rs 449mn vs ~Rs 365mn in 2QFY24 due to higher other income on account of booking valuation gains.

Focus on higher HP and compact segment: VSTT continues to work to expand its dealer network and enter newer regions. VSTT Zetor has 60 dealers in India and expects to increase this number to 75-80 dealers. VSTT expects Zetor tractor volume to gain size over the next two years as expanding pan India will be gradual.

Maintain SELL: We maintain our FY25/FY26/FY27 EPS estimates given the weak H1, but have seen a small recovery in Q2FY25. We model in revenue/EBITDA/PAT CAGR of 10%/11%/9% over FY24-FY27E. We continue to value VSTT at 20x P/E 1-year forward earnings and arrive at a new TP of Rs 3,420 (from Rs 3,347) on roll forward. We believe the valuations are steep and remain decoupled from earnings and, hence, are unjustified. VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. Hence, we maintain a SELL rating on VSTT.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VSTT IN/Rs 4,565
Market cap	US\$ 472.2mn
Free float	45%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 4,840/Rs 2,996
Promoter/FPI/DII	55%/5%/15%

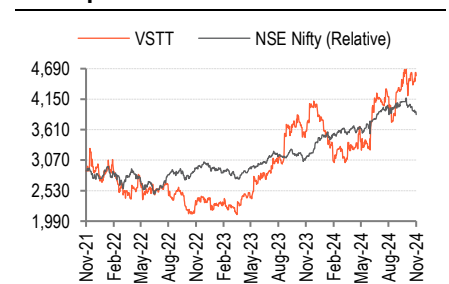
Source: NSE | Price as of 4 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,681	10,328	11,687
EBITDA (Rs mn)	1,242	1,276	1,465
Adj. net profit (Rs mn)	1,215	1,176	1,370
Adj. EPS (Rs)	140.6	136.1	158.5
Consensus EPS (Rs)	140.6	138.2	165.6
Adj. ROAE (%)	13.1	11.4	11.9
Adj. P/E (x)	32.5	33.5	28.8
EV/EBITDA (x)	31.9	30.8	26.7
Adj. EPS growth (%)	31.6	(3.2)	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



AUTOMOBILES

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Passenger vehicle segment: Domestic PV industry volumes grew 7.38%/11.18% YoY/MoM driven by the healthy festive season and better-than-expected crop yields. MSIL's volume dropped 2.3% YoY but grew 10.4% MoM as the SUV segment continues to offset the decline in compact segment sales. Exports were healthy too. TTMT volumes were flat YoY but grew 17.2% MoM, and MM grew ~22.7%/6.7% YoY/MoM driven by record sales of SUV and tractor sales. Hyundai India's domestic volume grew by ~27.1%/9.2% YoY/MoM and continued in second position.

Two-wheeler segment: The 2W segment grew ~13.04%/5.38% YoY/MoM, driven equally by domestic and export markets. HMCL grew a strong 18.1%/6.6% YoY/MoM. BJAUT delivered tepid growth of ~1.5% YoY despite new launches. BJAUT's domestic volume degrowth of 8.1% YoY was offset by 22.2% growth in exports. TVSL's volume grew 13.7% YoY contributed by both domestic and export volumes. EIM's volume posted strong ~31%/27.1% YoY/MoM volume growth.

Three-wheeler segment: Volumes were flat (0.6%) YoY (+4.2%/MoM) driven by domestic and export volumes. BJAUT's domestic 3W volume grew 3.6% YoY and dropped 5.4% MoM, while TVSL's overall volume fell 23% YoY dragged by exports.

Tractors segment: Overall tractor sales grew 31.72%/47.51% YoY/MoM due to healthy monsoon. Domestic market volumes of ESCORTS, MM and VSTT grew YoY/MoM; ESCORTS's exports fell sharply by 52%/31.5% YoY/MoM.

Commercial vehicles: CV segment volume grew 3.33%/10.44% YoY/MoM. Exports were flat, while domestic volume grew 4.37% YoY and fell 18.9% QoQ. The M&HCV segment's volume fell 5.88%/5.35% YoY/MoM. TTMT volumes grew 7.8% MoM, but dropped 1.8% YoY. AL's CV volume dropped 10.3%/17.4% YoY/MoM. In the LCV segment TTMT grew 17.3%/~2% MoM/YoY, and AL fell by ~11.3%/3.4% YoY/MoM. The LCV segment declined, with TTMT volume falling 13.8%/1.0% YoY/MoM. Overall, the segment fell 7% YoY but gained 2.5% MoM.

Key ratings: BUY rating on MSIL, MM and AL, and SELL on ESCORTS and VSTT.



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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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