

**BUY**

TP: Rs 1,800 | ▲ 20%

**V.S.T TILLERS TRACTORS** | Automobiles

11 August 2020

## Power tillers to steer growth – initiate with BUY

We believe VST Tillers Tractors (VSTT) is poised for strong growth given its market leadership in power tillers (~50% market share), ready capacity, focused growth in tractors and debt-free status. Import curbs on Chinese tillers (~30% market share) from Jul'20 are expected to fuel a 40% YoY spike in VSTT's tiller volumes for FY21 and propel segmental volumes well ahead of industry, at a 19% CAGR over FY20-FY23. This coupled with tractor launches should aid a 17%/59% revenue/earnings CAGR for the company. Initiate with BUY; Sep'21 TP Rs 1,800.

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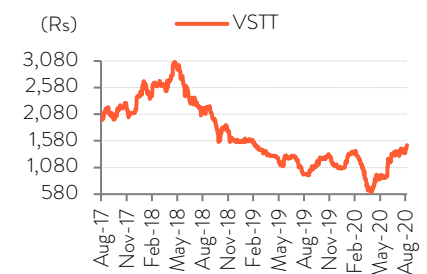
**Import curbs to reinforce dominance in power tillers:** VSTT leads the power tiller market in India with ~50% share. In Jul'20, the Indian government imposed import restrictions on Chinese tillers that currently command ~30% of the market and account for 50% of units imported annually. In the base case, we estimate that these curbs will give VSTT access to demand for >6,500 tillers in FY21, over and above the growth expected from a buoyant rural sector. We thus model for an 19% volume CAGR in the company's tiller segment for FY20-FY23 vs. 9% for industry. Tiller capacity stands at 60,000 units p.a. and FY20 utilisation was 32%.

Ticker/Price	VSTT IN/Rs 1,497
Market cap	US\$ 174.5mn
Shares o/s	9mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 1,550/Rs 588
Promoter/FPI/DII	55%/5%/15%

Source: NSE

**Going strong in tractors:** VSTT's current capacity stands at 36,000 units p.a. and it sold ~7,150 tractors in FY20, implying capacity utilisation of ~20%. The company launched a 27hp tractor in Jan'20, extending its footprint across the compact segment. We expect an 8% volume CAGR in the tractor business over FY20-FY23 (vs. -2% for FY16-FY20), led by the new product launch and anticipated healthy rural income.

## STOCK PERFORMANCE



Source: NSE

**Initiate with BUY:** We are positive on VSTT given its strong FCF, debt-free balance sheet, and demand impetus from power tiller import curbs. Revenue/EBITDA/PAT are forecast to log a robust CAGR of 17%/72%/59% over FY20-FY23. We value the stock at 23x Sep'22E EPS to arrive at our TP of Rs 1,800.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	6,148	5,437	6,997	7,821	8,671
EBITDA (Rs mn)	461	175	604	783	882
Adj. net profit (Rs mn)	461	180	504	642	721
Adj. EPS (Rs)	53.3	20.9	58.4	74.3	83.4
Adj. EPS growth (%)	(58.9)	(60.9)	179.9	27.3	12.2
Adj. ROAE (%)	7.8	3.1	8.1	9.6	10.0
Adj. P/E (x)	28.1	71.8	25.6	20.1	17.9
EV/EBITDA (x)	27.9	74.3	21.2	16.3	14.5

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.

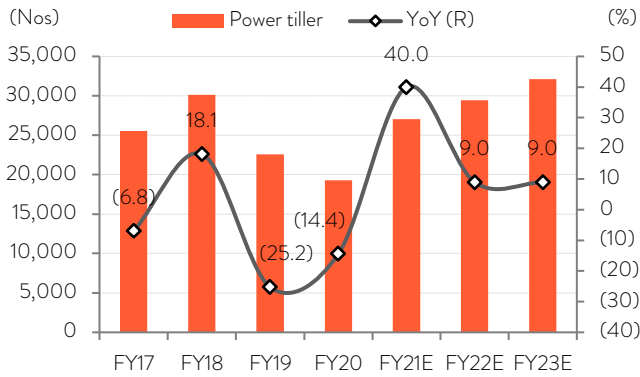


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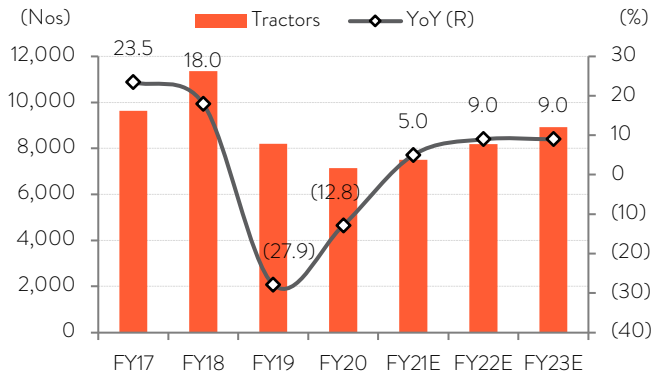
## Focus charts

**FIG 1 – POWER TILLER VOLUMES EXPECTED TO LOG 19% CAGR DURING FY20-FY23E**



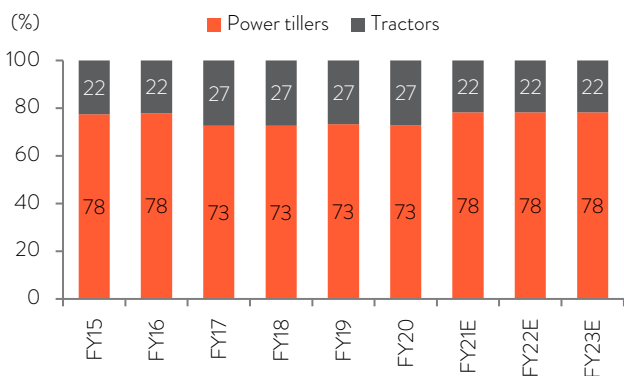
Source: Company, BOBCAPS Research

**FIG 2 – TRACTOR VOLUMES PROJECTED TO CLOCK 8% CAGR**



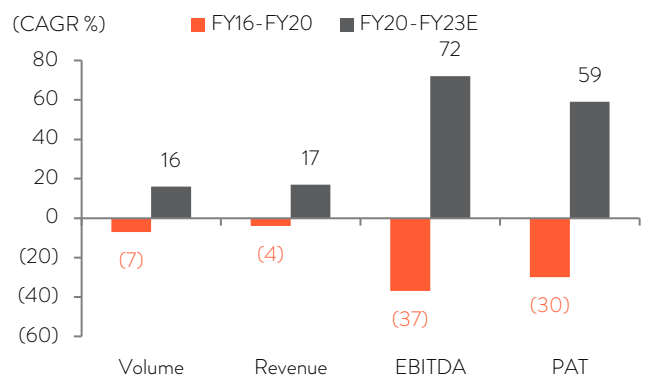
Source: Company, BOBCAPS Research

**FIG 3 – VOLUME MIX TILTING TOWARDS TILLERS DUE TO PARTIAL BAN ON CHINESE IMPORTS**



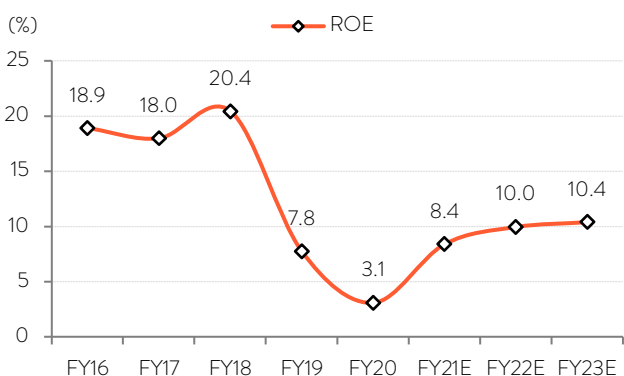
Source: Company, BOBCAPS Research

**FIG 4 – EXPECT STRONG OPERATIONAL UPTICK ON LOWER BASE (FY16-FY20) & LIKELY RURAL BUOYANCY**



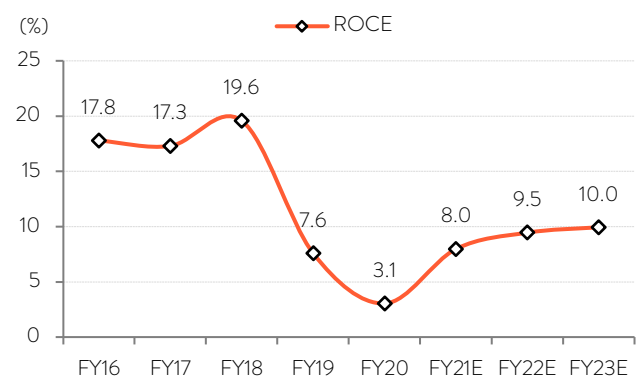
Source: Company, BOBCAPS Research

**FIG 5 – ROE TO IMPROVE SIGNIFICANTLY FROM FY20 BASE...**



Source: Company, BOBCAPS Research

**FIG 6 – ...SIMILAR PERFORMANCE TREND EXPECTED IN ROCE**



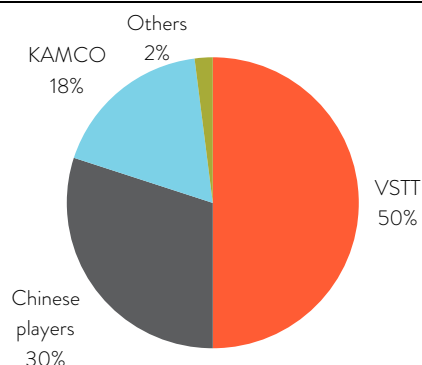
Source: Company, BOBCAPS Research

## Investment rationale

### Import curbs to reinforce leadership in power tillers

VSTT is the largest player in India's power tiller market, commanding ~50% market share. Tillers form 73% of the company's volume mix and ~50% of revenues. We expect the domestic power tiller industry to grow steadily backed by good monsoons, availability of easy financing and paucity of labour in the agriculture sector, logging a 9% volume CAGR over FY20-FY23. Product line expansion and recent import restrictions on Chinese tillers are estimated to fuel a 43% YoY spike in VSTT's tiller revenue for FY21 and propel its volumes well ahead of industry, at a 19% CAGR through FY23.

**FIG 7 – TILLER INDUSTRY MARKET SHARE (FY20)**



Source: Company, BOBCAPS Research, Industry

**Recent import ban on Chinese tillers to boost market share for VSTT**

### Plugging gaps in the portfolio

VSTT derives 50% of its revenues from power tillers, wherein the states of Karnataka and Odisha contribute ~30% of segmental sales. Tiller capacity stands at 60,000 units p.a. and FY20 utilisation was ~32%.

Traditionally, the company has operated in the mid-powered subsegment (13.5hp), but has recently developed tillers in both high- (18hp) and low-HP (8hp) categories in order to tap the expected rise in demand. An 8hp tiller will be launched according to market potential and demand.

### New restrictions to blunt Chinese competition

Imported Chinese power tillers have acquired over 30% market share in India due to their low selling price and high dealer distribution margins. Chinese machines are priced at Rs 108k-195k, 10-20% cheaper than indigenous tillers which range from Rs 140k-215k. Wide gaps in the sales price among states further raises the differential between indigenous and Chinese products by Rs 10k-30k.

Greaves Cotton is a major importer from China. Many new manufacturers/traders have also begun assembling Chinese power tillers for marketing in India. In a key positive for Indian players, the Directorate General of Foreign Trade (DGFT) in Jul'20 introduced several restrictions on tiller imports – (1) power tillers have been classified under the 'restricted' category, which means importers will now need a licence to buy foreign products. (2) Only a manufacturer will be allowed to import this product or its components. (3) The value of imports is restricted to only 10% of prior year imports (FY20).

We have built a case scenario of the benefits that could flow to VSTT due to these import restrictions (Fig 1). In the base case, we expect the company to have access to added demand for ~6,750 tillers in FY21, translating to incremental segment revenue of Rs ~940mn (33% of FY20 revenue) and earnings accretion of Rs 54mn.

**FIG 8 – POWER TILLER IMPORT CURBS – SCENARIO ANALYSIS**

FY21E	Bear	Base	Bull
Domestic tiller industry (units)	50,000	50,000	50,000
VSTT's share (%)	50	50	50
Imports from China (%)	30	30	30
Imports from China (units)	15,000	15,000	15,000
Restriction @ 10% (units)	1,500	1,500	1,500
Net benefit (units)	13,500	13,500	13,500
<b>VSTT's gain (%)</b>	<b>30</b>	<b>50</b>	<b>70</b>
Additional demand (units)	4,050	6,750	9,450
Expected tiller revenue (Rs mn)	2,815	2,815	2,815
Additional revenue (Rs mn)	563	938	1,313
As a % of current tiller revenue	20	33	47
Additional earnings expected (Rs mn)	32	54	75
Additional EPS expected (Rs)	3.7	6.2	8.7

Source: BOBCAPS Research

### Low penetration leaves headroom for growth

Power tillers, which are essentially mini-tractors with two wheels and rotary tillers, are ideal for small farms. About 68% of the farm holdings in India belong to small and marginal farmers. Entry-level tillers and tractors are a meaningful upgrade for such farmers dependent on manual labour, especially given the shortage of rural workers.

However, the use of power tillers remains confined to a handful of crops, such as paddy and sugarcane, and mainly to southern and northeastern states. In Japan, where the average farm size is smaller than India, power tillers are used extensively for paddy cultivation. But in India, even small and marginal farmers prefer to own or hire a tractor than opt for more affordable tillers. Consequently, the industry has remained underdeveloped, producing only 35k-40k units annually vs. 5mn/2mn in Japan/China.

## Subsidy to small farmers aids demand

In order to increase mechanisation and productivity in India's agriculture sector, the government has rolled out various schemes to help farmers own agricultural machinery. For instance, the government subsidises agricultural machinery under schemes such as Pradhan Mantri Mudra Yojana (PMMY) and Palakmantri Earth Moving Machines Kharedi Yojana (PEMMKY).

Most tiller sales are subsidy-driven with the subsidy at 40-50% of the cost of tillers – hence, farmers prefer to wait for new government permits rather than opting for outright purchase. These subsidy permits are available at different intervals through various state governments, which leads to a periodic rise and fall in sales.

**FIG 9 – TILLER SUBSIDIES**

Beneficiaries	Maximum permissible subsidy per machine/equipment
SC, ST, Small & Marginal Farmers, Women, and NE States	<ul style="list-style-type: none"> <li>■ 50% for power tillers below 8hp subject to a maximum of Rs 50,000</li> <li>■ Rs 75,000 for power tillers of 8hp &amp; above</li> </ul>
Other Beneficiaries	<ul style="list-style-type: none"> <li>■ 40% subject to a maximum of Rs 40,000 (below 8hp) &amp; Rs 60,000 (above 8hp)</li> </ul>

Source: BOBCAPS Research

## New launches to accelerate growth in tractors

VSTT predominantly deals in <30hp tractors and has market share of 10% in the segment. The company recently launched a 27hp product, which extends its footprint across the gamut of compact and small tractors – this coupled with ready capacity and structural market drivers such as low tractor penetration, growing farm mechanisation and stable farm income should enable it to grow at an estimated 8% volume CAGR vs. 5% for the industry during FY20-FY23.

## Capacity preparedness, new launches to support growth

VSTT is among top 5 players in <30hp tractors with 10% market share. Tractors constitute 27% of the company's volumes and 39% of revenue, with ~7,150 units sold in FY20. Demand for small, compact tractors is growing as the lower investment, running and maintenance cost, and other operational advantages are becoming more important factors in buying decisions, especially for agricultural use. Anticipating this demand, the company has already set up capacity at Hosur (Tamil Nadu) for ~36,000 tractors.

Further, in order to address the vast demand in the 20-30hp subsegment, VSTT launched a 27hp tractor in Jan'20 and expects to gain market share with its new offering. New products and ready capacity enable the company to cover the entire range of compact and small segment tractors.

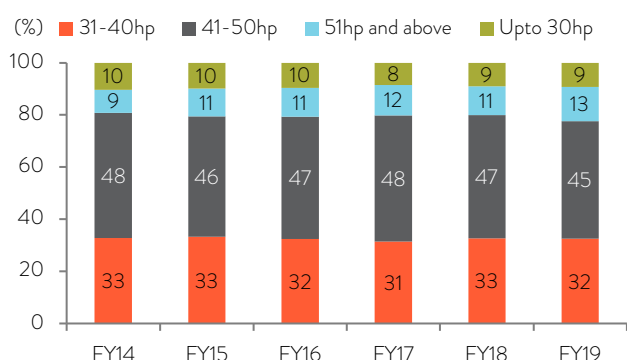
### Structural demand drivers to aid 8-9% volume CAGR

India's tractor industry has developed over the years to become the largest in the world, growing to over 800,000 units per annum due to increased use of tractors, not only for agriculture but also for haulage and non-agricultural applications. The opportunities are still immense considering the low farm mechanisation levels in the country when compared to other developed markets.

We note that domestic tractor industry volumes declined ~11% in FY20 to ~781,000 units against ~879,000 units in FY19. Key reasons for this underperformance were (1) the NBFC crisis that led to a pullback of aggressive financing, (2) a high base effect, and (3) slowdown in the economy due in part to Covid-19. In our view, two straight seasons of good harvest and higher crop MSPs should ensure a strong rural revival in FY21.

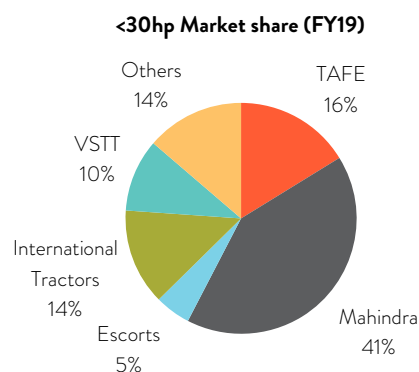
The long-term tractor growth story in India also remains intact, underpinned by structural drivers such as low market penetration, uptick in farm mechanisation, stable farm income and government focus on rural development – we thus expect a 5% industry volume CAGR over FY20-FY23. VSTT is the fastest growing tractor company in India, given its low base and limited presence in the lower HP segment – we forecast an above-industry CAGR of 8-9% for the company through to FY23.

**FIG 10 – TRACTOR INDUSTRY VOLUME MIX**



Source: Tractor Manufacturer's association, BOBCAPS Research

**FIG 11 – VSTT'S SHARE IN <30HP TRACTOR SEGMENT**



Source: Tractor Manufacturer's association, BOBCAPS Research

## Small and marginal farmers hold the key

India is one of the lowest penetrated tractor markets in the world (at 0.8hp/hectare vs. 3-4hp/hectare in developed countries) but the largest in terms of size and volumes. This anomaly arises because small and marginal farmers hold 68% of the land in India and it isn't feasible for most of them to own a tractor due to subpar operating efficiencies. However, with stable farm income and increased awareness of farm mechanisation benefits (Fig 12), demand for tillers as well as tractors is expected to grow in the coming years.

The cost-benefit analysis below is based on information obtained from farmers in Nasik and clearly illustrates the effectiveness of tractors over conventional non-mechanised farming.

**FIG 12 – TRACTORS OFFER BETTER COST-BENEFIT FOR FARMERS VS. BULLS**

(Rs)	Bulls	Tractor
Basic cost	100,000	180,000
Average life	8 years	12 years
Per year cost	12,500	15,000
Maintenance cost (per year)	6,000	3,000
Fodder/ Diesel cost (per year)	40,500	35,000
<b>Cost per year</b>	<b>59,000</b>	<b>53,000</b>

Source: Company, BOBCAPS Research

## Macro factors favourable

India is the largest tractor market in the world but fragmented land holdings also mean it has low tractor penetration at 0.8hp/hectare vs. 3-4hp/hectare in developed countries. The tiller market is also small at 40k-50k units annually vs. 5mn/2mn in Japan/China. With the shortage of farm labour, rising wages and focus on productivity, we expect both low-end tractors and tillers to be strong structural bets over the next few years. VSTT's solid market positioning and preparedness on capacity (60k tillers, 36k tractors) give it a strong edge over peers.

## Robust agriculture outlook

Agriculture has always been a key sector of India's economy – it currently contributes ~17% of Indian GDP, accounts for ~13% of exports and is growing at an average of 2.2%. India is the largest producer of pulses, second largest producer of rice, wheat, vegetables, groundnuts and fruits, and third largest producer of coarse grains in the world.



Sowing data released by the agriculture ministry shows that the area under rabi (winter) crop cultivation has risen 7% YoY from 53.5mn hectares sown last year to 57.1mn hectares this year. Water levels are adequate and with normal monsoon expectations, kharif (summer) crop cultivation is also expected to be buoyant. This bodes well for sales of both tillers and tractors.

### **Paucity of farm labour**

Inexpensive farm labour is increasingly becoming scarce due to migration to urban areas, leading to more mechanisation. The average wage rate for farm labour has risen from Rs 200-250 a day to Rs 350-400 a day.

### **Government support for mechanisation**

The agriculture ministry has implemented various subsidy schemes to improve farmer access to agricultural machinery – of which tractors form the largest segment followed by power tillers. The ever-growing need to increase production and productivity in agriculture even as rural labour supply grows scarce continues to be a key growth driver for the farm equipment sector.

## Quarterly performance

**FIG 13 – QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Volume (units)</b>	<b>7,054</b>	<b>7,483</b>	<b>6,570</b>	<b>9,398</b>	<b>6,712</b>	<b>7,810</b>	<b>5,543</b>	<b>6,384</b>	<b>6,952</b>
<b>Average Blended Realization (Rs)</b>	<b>206,266</b>	<b>193,211</b>	<b>222,192</b>	<b>190,136</b>	<b>208,105</b>	<b>205,992</b>	<b>222,479</b>	<b>187,657</b>	<b>210,357</b>
<b>Net sales</b>	<b>1,455</b>	<b>1,446</b>	<b>1,460</b>	<b>1,787</b>	<b>1,397</b>	<b>1,609</b>	<b>1,233</b>	<b>1,198</b>	<b>1,462</b>
YoY (%)	(19.7)	(17.6)	(11.9)	(26.0)	(4.0)	11.3	(15.5)	(33.0)	4.7
QoQ (%)	(39.8)	(0.6)	1.0	22.4	(21.8)	15.2	(23.3)	(2.9)	22.1
<b>Expenditure</b>									
(Inc)/dec in stock-in-trade	(266)	(292)	(117)	357	60	92	(14)	109	268
Materials	1,173	1,238	1,067	902	834	1,073	876	695	713
% of sales	62.3	65.4	65.1	70.5	64.0	72.4	69.9	67.1	67.0
YoY (%)	(24.6)	(17.5)	(6.3)	(20.0)	(1.5)	23.0	(9.3)	(36.1)	9.7
QoQ (%)	(42.3)	4.3	0.4	32.5	(29.1)	30.3	(26.0)	(6.7)	21.9
Staff cost	166	187	155	153	204	183	169	127	168
% of sales	11.4	13.0	10.6	8.6	14.6	11.4	13.7	10.6	11.5
YoY (%)	5.3	11.9	0.4	(27.2)	22.8	(2.2)	8.9	(16.7)	(17.5)
QoQ (%)	(21.0)	12.9	(17.4)	(1.2)	33.3	(10.1)	(8.0)	(24.4)	31.9
Other expenditure	198	284	221	262	154	222	149	331	151
% of sales	13.6	19.7	15.1	14.6	11.1	13.8	12.1	27.6	10.3
YoY (%)	(4.2)	44.9	11.3	21.2	(22.0)	(21.9)	(32.4)	26.6	(2.3)
QoQ (%)	(8.2)	43.6	(22.3)	18.3	(41.0)	43.9	(32.8)	121.6	(54.4)
Total expenses	1,271	1,418	1,326	1,674	1,252	1,570	1,180	1,263	1,299
<b>EBITDA</b>	<b>184</b>	<b>28</b>	<b>134</b>	<b>113</b>	<b>145</b>	<b>39</b>	<b>54</b>	<b>(65)</b>	<b>164</b>
YoY (%)	(25.0)	(88.6)	(53.7)	(72.8)	(21.1)	41.0	(59.9)	(157.0)	12.6
QoQ (%)	(55.9)	(84.9)	382.0	(15.4)	28.2	(73.0)	37.0	(220.3)	(353.1)
<b>OPM (%)</b>	<b>12.6</b>	<b>1.9</b>	<b>9.2</b>	<b>6.3</b>	<b>10.4</b>	<b>2.4</b>	<b>4.4</b>	<b>(5.4)</b>	<b>11.2</b>
Other income	72	160	66	139	48	103	37	49	93
Interest	7	8	5	3	8	8	8	(9)	5
Depreciation	29	31	33	65	37	38	39	49	42
Profit before tax	220	149	162	185	148	96	43	(56)	209
YoY (%)	(39.0)	(44.5)	(60.5)	(61.8)	(32.7)	(35.8)	(73.2)	(130.3)	41.5
Provision for taxation	75	58	61	61	32	32	9	(22)	39
Tax Rate (%)	34.2	38.5	37.5	32.9	21.9	33.6	19.9	39.5	18.4
<b>Profit after tax</b>	<b>145</b>	<b>92</b>	<b>101</b>	<b>124</b>	<b>116</b>	<b>64</b>	<b>35</b>	<b>(34)</b>	<b>171</b>
YoY (%)	(48.7)	(50.9)	(67.8)	(63.3)	(20.1)	(30.7)	(65.7)	(127.3)	47.8
QoQ (%)	(57.1)	(36.4)	10.0	22.5	(6.7)	(44.8)	(45.5)	(197.4)	(605.0)
PAT Margin	9.9	6.4	6.9	6.9	8.3	4.0	2.8	(2.8)	11.7

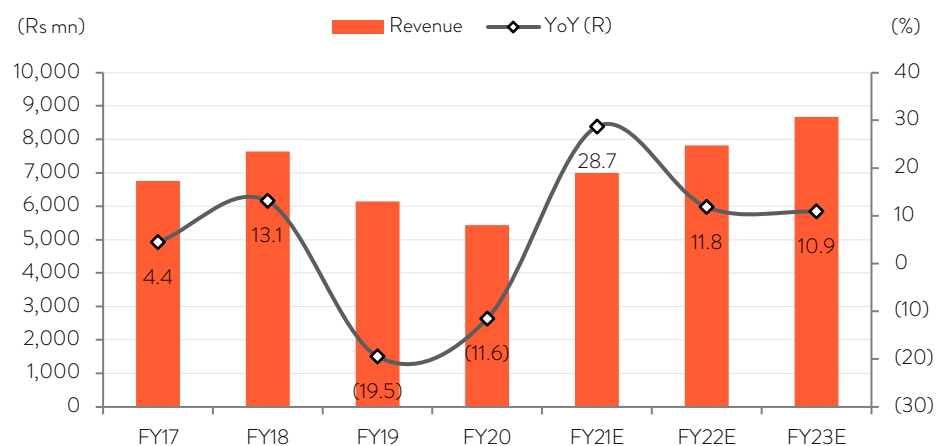
Source: Company, BOBCAPS Research

## Financial review

### Expect volume-led revenue growth

We model for a 17% revenue CAGR for VSTT over FY20-FY23 assuming (1) 21% growth in the tiller segment backed by volume growth of 19% (vs. 9% estimated for industry) as import curbs kick in, and (2) 10% growth in tractors aided by a volume uptick of 8% (vs. 5% for industry) from new product offerings.

**FIG 14 – REVENUE GROWTH TREND**

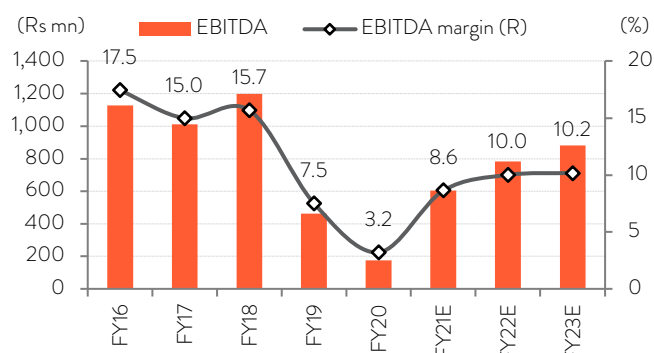


Source: Company, BOBCAPS Research

### Robust profit outlook

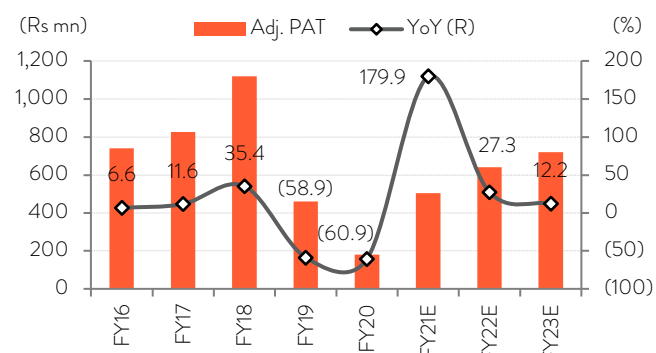
Historically, the company has reported ~16% operating margins (FY13-FY18), but the lower margin tractor business and cheap Chinese tiller competition had sapped profitability. With higher volumes ahead due to anticipated buoyancy in rural demand and import restrictions, we expect better operating efficiencies to pan out. Benign input costs will also aid margins. We thus expect EBITDA margins to surge from 3.2% in FY20 to 10.2% in FY23. As margins expand, we model for a 72% EBITDA CAGR and 59% PAT CAGR over FY20-FY23.

**FIG 15 – EBITDA AND OPERATING MARGINS TREND**



Source: Company, BOBCAPS Research

**FIG 16 – ADJ. PAT TREND**

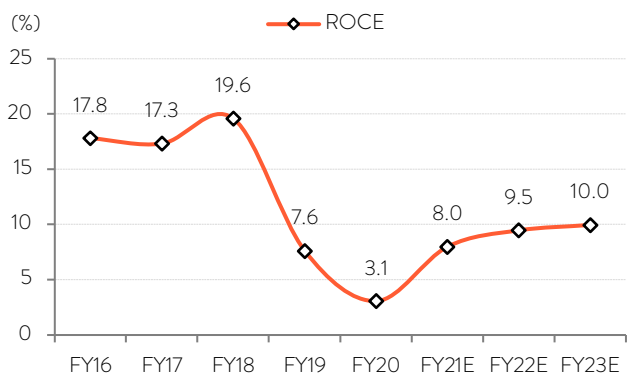


Source: Company, BOBCAPS Research

## Valuation methodology

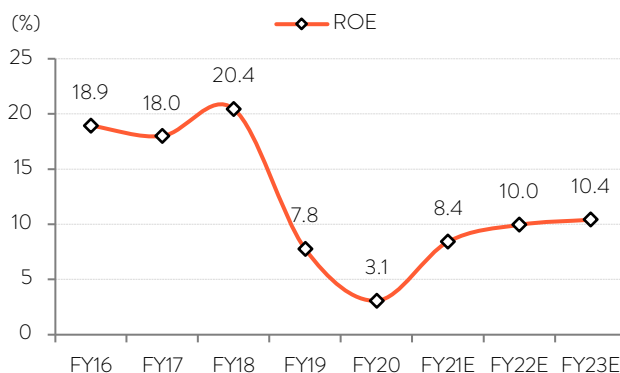
We expect VSTT to post a revenue/EBITDA/PAT CAGR of 17%/72%/59% over FY20–FY23, with ROCE/ROE estimated to reach ~10% each by end-FY23 from the 3% reported in FY20. We value the stock at a P/E of 23x Sep’22E EPS, in line with its long-term average (8-yrs) due to the strong growth prospects, healthy free cash flows, debt-free balance sheet and improving return ratios over FY20-23. Initiate with BUY for a Sep’21 target price of Rs 1,800.

**FIG 17 – ROCE TREND**



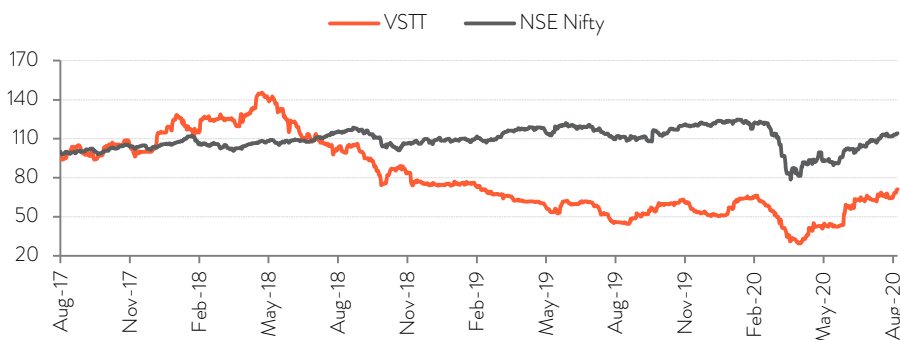
Source: Company, BOBCAPS Research

**FIG 18 – ROE TREND**



Source: Company, BOBCAPS Research

**FIG 19 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Removal of import restrictions on Chinese power tillers
- Slower-than-expected rural growth

## Annexure A: Company profile

VST Tillers Tractors (VSTT) was established in the year 1967 by the VST Group of companies, a century-old business house in South India. The group built its reputation through retailing of petroleum products and distribution of automobiles in Karnataka and Tamil Nadu.

VSTT was promoted by VST Motors as a joint venture with Mitsubishi Heavy Industries, Japan. The company is now the largest manufacturer of power tillers in India. It also markets tractors under the 'Fieldtrac' brand in various EU markets.

The company has state-of-the-art tractor plants at Malur and Hosur near Bengaluru and also at Mysore for precision components. VSTT has expanded its presence into more than 20 countries over a decade and established itself as a preferred brand for compact tractors.

**FIG 1 – A BIRD'S EYE VIEW ON CORPORATE GOVERNANCE**

Name	Designation	Total Remuneration (Rs mn)	No. of board meetings attended	Attended last AGM	Committees (Y/N)/ No of meetings attended			
					1- Audit	2- Nomination & remuneration	3- Stakeholders relationship	4- CSR
Mr. V.K Surendra	Chairman	0.5	5	Y		Y/3	Y/1	Y/1
Mr. R Subramanian	Independent director	0.6	5	Y	Y/6			
Mr. M K Banerjee	Independent director	0.8	5	Y	Y/5	Y/3	Y/1	Y/1
Mr. K.M Pai	Independent director	1.40	5	Y	Y/5	Y/3	Y/1	
Ms Siva Kameswari Vissa	Independent director	0.50	4	Y	Y/5			
Mr. Bikanji Jagannath	Independent director	0.10	1	N				
Mr. V.P Mahendra	Vice Chairman & MD	10.40	5	Y				Y/1
Mr V. V Pravindra	Non- executive director	0.20	3	Y				Y/1
Mr. V T Ravindra	Executive director	5.80	5	Y				
Mr. Arun V Surendra	Non- executive director	0.15	3	Y				

Source: Company, BOBCAPS Research

**FIG 2 – OTHER DETAILS**

<b>Auditors</b>	M/s K.S. Rao & Co
<b>Cost Auditors</b>	M/s Rao, Murthy & Associates
<b>Internal Auditors</b>	M/s Brahmayya & Co
<b>Bankers</b>	Canara Bank
<b>CSR</b>	
Prescribed CSR (Rs mn)	24.1
CSR expensed (Rs mn)	16.5

Source: Company, BOBCAPS Research

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>6,148</b>	<b>5,437</b>	<b>6,997</b>	<b>7,821</b>	<b>8,671</b>
EBITDA	461	175	604	783	882
Depreciation	158	164	172	183	196
EBIT	740	247	686	873	981
Net interest income/(expenses)	(25)	(15)	(12)	(15)	(18)
Other income/(expenses)	437	236	254	273	295
Exceptional items	22	0	0	0	0
EBT	737	232	674	858	963
Income taxes	255	52	170	216	243
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>482</b>	<b>180</b>	<b>504</b>	<b>642</b>	<b>721</b>
Adjustments	(22)	0	0	0	0
<b>Adjusted net profit</b>	<b>461</b>	<b>180</b>	<b>504</b>	<b>642</b>	<b>721</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	343	578	576	680	757
Other current liabilities	695	522	755	747	801
Provisions	15	0	0	0	0
Debt funds	0	0	0	0	0
Other liabilities	461	418	450	450	450
Equity capital	86	86	86	86	86
Reserves & surplus	5,813	5,683	6,137	6,586	7,090
Shareholders' fund	5,899	5,769	6,223	6,672	7,177
<b>Total liabilities and equities</b>	<b>7,413</b>	<b>7,286</b>	<b>8,004</b>	<b>8,549</b>	<b>9,185</b>
Cash and cash eq.	188	258	250	237	242
Accounts receivables	964	962	1,208	1,350	1,473
Inventories	1,237	1,023	1,246	1,393	1,520
Other current assets	943	799	1,054	1,157	1,283
Investments	1,653	1,595	1,795	1,845	2,095
Net fixed assets	2,057	2,062	1,990	2,107	2,111
CWIP	348	477	350	350	350
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(70)	0	0	0	0
Other assets	93	111	111	111	111
<b>Total assets</b>	<b>7,412</b>	<b>7,286</b>	<b>8,004</b>	<b>8,549</b>	<b>9,185</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	618	344	676	825	917
Interest expenses	(25)	(15)	(12)	(15)	(18)
Non-cash adjustments	(437)	(236)	(254)	(273)	(295)
Changes in working capital	(65)	347	(461)	(296)	(245)
Other operating cash flows	0	(213)	0	0	0
<b>Cash flow from operations</b>	<b>92</b>	<b>227</b>	<b>(50)</b>	<b>241</b>	<b>358</b>
Capital expenditures	(413)	(298)	27	(300)	(200)
Change in investments	389	58	(200)	(50)	(250)
Other investing cash flows	437	236	254	273	295
<b>Cash flow from investing</b>	<b>412</b>	<b>(4)</b>	<b>81</b>	<b>(77)</b>	<b>(155)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(25)	(15)	(12)	(15)	(18)
Dividends paid	(520)	(97)	(50)	(193)	(216)
Other financing cash flows	7	(70)	0	0	0
<b>Cash flow from financing</b>	<b>(538)</b>	<b>(182)</b>	<b>(62)</b>	<b>(208)</b>	<b>(234)</b>
<b>Changes in cash and cash eq.</b>	<b>(34)</b>	<b>40</b>	<b>(32)</b>	<b>(44)</b>	<b>(30)</b>
<b>Closing cash and cash eq.</b>	<b>188</b>	<b>258</b>	<b>250</b>	<b>237</b>	<b>242</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	53.3	20.9	58.4	74.3	83.4
Adjusted EPS	53.3	20.9	58.4	74.3	83.4
Dividend per share	50.0	9.4	5.8	22.3	25.0
Book value per share	682.8	667.8	720.3	772.3	830.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.1	2.4	1.8	1.6	1.5
EV/EBITDA	27.9	74.3	21.2	16.3	14.5
Adjusted P/E	28.1	71.8	25.6	20.1	17.9
P/BV	2.2	2.2	2.1	1.9	1.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	62.5	77.6	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.6	94.0	98.3	98.3	98.2
EBIT margin (EBIT/Revenue)	12.0	4.5	9.8	11.2	11.3
Asset turnover (Revenue/Avg TA)	96.6	86.7	108.8	113.4	117.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	7.8	3.1	8.4	10.0	10.4

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	(19.5)	(11.6)	28.7	11.8	10.9
EBITDA	(61.5)	(62.2)	246.0	29.7	12.6
Adjusted EPS	(58.9)	(60.9)	179.9	27.3	12.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.5	3.2	8.6	10.0	10.2
EBIT margin	12.0	4.5	9.8	11.2	11.3
Adjusted profit margin	7.5	3.3	7.2	8.2	8.3
Adjusted ROAE	7.8	3.1	8.1	9.6	10.0
ROCE	7.6	3.1	8.0	9.5	10.0
<b>Working capital days (days)</b>					
Receivables	84	65	57	60	59
Inventory	60	76	59	62	61
Payables	43	45	45	44	45
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.6	0.5	0.5	0.4
Current ratio	3.2	2.8	2.8	2.9	2.9
Net interest coverage ratio	29.7	16.8	57.2	58.2	54.5
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): V.S.T TILLERS TRACTORS (VSTT IN)



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

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