

**SELL**

TP: Rs 3,295 | ▼ 17%

VST TILLERS TRACTORS | Automobiles

13 August 2024

### Weakness persists; downgrade to SELL

- Q1 revenue fell ~23% YoY to Rs 1.9bn, dragged by lower volume at 7.38k units and down by ~30% YoY due to weak overall activity
- EBITDA fell 57.8% YoY to Rs 134mn driven by weak volume and revenue growth. Margin fell to single digits
- We cut FY25/FY26 estimates, introduce FY27 earnings. We raise TP to Rs 3,347, valuing it at 20x P/E 1Y forward earnings. Downgrade to SELL

Milind Raginwar

research@bobcaps.in

**Weak volumes drag revenue growth:** VSTT's Q1FY25 revenue fell ~23% YoY to Rs 1.9bn, dragged by volume falling by ~30% YoY to ~7.4k units due to weather conditions and general elections that halted subsidy schemes in Q1FY25. Volumes fell 33% YoY to ~6.1k units for Power Tiller and 12% YoY to ~1.3k units for Tractor. Revenue from the Smart Farm Machines (SFM) segment was Rs 1bn, Tractor segment Rs 0.6bn and distribution & others Rs 0.28bn in Q1FY25. Net realisation per vehicle grew 11% YoY to Rs 258.4k. Management guided for 15% volume growth for tractors and tillers in FY25.

**Muted topline keeps EBITDA under pressure:** The raw material cost (adjusted for inventory) fell by ~23% YoY (down ~30% QoQ) helping gross margin to stay at ~31.9%, vs 31.6%, up 30bps YoY. Other expenditure at 12% of sales vs 9.5% YoY (10.3% QoQ) was ~Rs 221mn and employee expenses at 13.3% pulled down EBITDA by ~57.8% YoY (-66.4% QoQ) to ~Rs 134mn. EBITDA margin fell sharply to 7.0%, down ~586bps YoY (-750 bps QoQ). Effectively, APAT fell by ~31% YoY to ~Rs 229mn vs ~Rs 330mn in 1QFY24 (-34.9% QoQ).

**Focus on higher HP and compact segment:** VSTT is working to expand in the dealers' network and enter Uttar Pradesh and Rajasthan. VSTT expects Zetor tractor volume to gain size over the next two years as expanding pan India will be gradual. Zetor exports are yet to kickstart but management expects this in Q3FY25.

**Downgrade to SELL:** Factoring in weak performance in H1FY25 and the likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 5%/2%. We introduce FY27 earnings modelling for 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 3,347 (from Rs 3,167). VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. The early response to Zetor has been muted and, hence, a pan-India presence will be delayed, in our view. We believe the recent run up in valuation is decoupled with earnings and, hence, unjustified. We downgrade the stock to SELL from HOLD rating.

### Key changes

Target	Rating
▲	▼

Ticker/Price	VSTT IN/Rs 3,994
Market cap	US\$ 413.8mn
Free float	45%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 4,392/Rs 2,975
Promoter/FPI/DII	55%/5%/15%

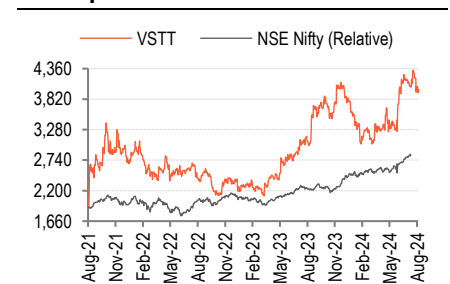
Source: NSE | Price as of 13 Aug 2024

### Key financials

Y/E 31 Mar	FY24P	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	144.6	166.6
Adj. ROAE (%)	13.1	11.4	11.9
Adj. P/E (x)	28.4	29.3	25.2
EV/EBITDA (x)	27.9	26.9	23.4
Adj. EPS growth (%)	31.6	(3.2)	16.4

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

### Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Volumes	Management has indicated FY25 volume growth guidance of ~15-20% for Tractors and similar growth for Tillers. Volumes for Q1FY25 stayed low due to various reasons like drought situation in most of VSTT's markets, and general election because of which subsidy schemes were not available in Q1FY25.	Management has indicated FY25 volume growth guidance of 15-20% for power tillers. Tractor volumes will grow by 10-15%. VSTT is setting up power weeders capacity of ~6k units.	Normal monsoon could change in favour of demand, however revival for VSTT volume will be steady.
Topline guidance	VSTT expects to double tiller volume in Q2FY25 compared to Q1FY25 (6.1k units). VSTT expects a strong Q2FY25, driven by better monsoons, signs of pick up in sowing, and State government subsidies pushed from Q1FY25 to Q2FY25 due to the general election.	Management maintains revenue guidance curtailed to Rs 20bn (earlier Rs 30bn) by FY26 (+/-6 months) backed by entry into new JVs, product launches, market forays and consolidation in European markets.	We believe FY25/FY26 targets are aggressive and unlikely to be achieved unless VSTT initiates radical changes in its strategy.
VSTT Zetor	During Q1FY25, VSTT's share of loss in the JV is ~Rs 3.8mn. Exports have not started for the Zetor JV but are slated for Q3FY25.	New launches continue in 4QFY24, but the response is unlikely to be very strong, at least in the short term.	Response to VSTT's new launches is weak according to channel checks.
Margins	VSTT expects EBITDA margin to improve from Q2FY25 as topline is expected to improve.	EBITDA margin guidance for FY25 is 11-13%.	No change in guidance. Commodity cost decline may help VSTT achieve guidance.
Launches	Presently VSTT has ~20 distributors who have started operations for new launches and VSTT expects to increase the number of distributors from Q2FY25.	The Zetor 5011, 4511 and 4211, all in the 41-50 HP segment, were launched in Q4.	The focus on the 41-50 HP segment continues to yield limited success as reflected in the performance.
Capex and R&D spend	No new capex announcement by the company.	No major change in the capex plans.	No aggressive capex augurs well for VSTT as the focus has to be on capacity utilisation ramp up.
Other key points	In Q1FY25, revenue from the SFM segment was Rs 1bn, tractors segment Rs 0.6bn and distribution & others Rs 0.28bn.  Revenue from Monarch was Rs 0.5bn in Q1FY25.  VSTT had announced a joint venture (JV) with Kobashi Industries (Japanese blade manufacturer) to source blades for its power tillers, rotavators and rotary tillers. The JV is still work in progress.	In FY24, SFM segment revenue stood at Rs 6bn, tractors Rs 3.6bn, and distribution & others Rs 1bn.  VSTT has announced a JV with Kobashi Industries (Japanese blade manufacturer) to source blades for its power tillers, rotavators and rotary tillers. The JV will be signed in Q1FY25 and production is expected by FY26.	Other initiatives taken by the company are on the right track, but with weak macroeconomic conditions the lead time to a positive market response is likely to be higher.

Source: Company, BOBCAPS Research | HP: Horse power

**Fig 2 – Quarterly performance (standalone)**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	Deviation (%)
Volume	7,375	10,596	(30.4)	13,139	(43.9)	7,375	0.0
Avg. Realisation per Vehicle	2,58,427	2,32,295	11.2	2,08,113	24.2	2,18,519	18.3
Net Revenues	1,906	2,461	(22.6)	2,734	(30.3)	1,612	18.3
<b>Total Income (A)</b>	<b>1,906</b>	<b>2,461</b>	<b>(22.6)</b>	<b>2,734</b>	<b>(30.3)</b>	<b>1,612</b>	<b>18.3</b>
<b>Operating Expenses</b>							
Raw materials consumed	1,297	1,683	(22.9)	1,843	(29.6)	1,038	24.9
Employee Expenses	253	226	11.9	212	19.1	202	25.2
Other Expenses	221	235	(5.8)	281	(21.2)	161	37.3
<b>Total Expenditure (B)</b>	<b>1,772</b>	<b>2,144</b>	<b>(17.4)</b>	<b>2,336</b>	<b>(24.2)</b>	<b>1,402</b>	<b>26.4</b>
<b>EBITDA (A-B)</b>	<b>134</b>	<b>317</b>	<b>(57.6)</b>	<b>398</b>	<b>(66.3)</b>	<b>210</b>	<b>(36.1)</b>
Other Income	213	181	17.7	104	105.2	151	41.2
Depreciation	63	67	(6.4)	67	(6.3)	68	(8.1)
EBIT	285	432	(34.0)	436	(34.6)	293	(2.8)
Finance Costs	5	6	(8.9)	5	(1.9)	6	(15.0)
PBT after excep items	280	426	(34.3)	430	(35.0)	287	(2.5)
Tax expense	51	96	(47.0)	79	(35.7)	72	(29.1)
<b>Reported PAT</b>	<b>229</b>	<b>330</b>	<b>(30.6)</b>	<b>351</b>	<b>(34.8)</b>	<b>215</b>	<b>6.4</b>
<b>Adjusted PAT</b>	<b>229</b>	<b>330</b>	<b>(30.6)</b>	<b>351</b>	<b>(34.8)</b>	<b>215</b>	<b>6.4</b>
EPS (Rs)	26.5	38.2	(30.6)	40.6	(34.8)	24.9	6.4
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>		<b>(bps)</b>
Gross Margin	31.9	31.6	32	33	(68)	35.6	32.6
EBITDA Margin	7.0	12.9	(584)	15	(752)	13.0	14.9
EBIT Margin	15.0	17.5	(258)	16	(97)	18.2	17.5
PBT Margin	14.7	17.3	(262)	16	(105)	17.8	17.3
Tax Rate	18.2	22.5	(436)	18	(20)	25.0	24.1
Adj PAT Margin	12.0	13.4	(139)	13	(83)	13.4	13.2

Source: Company, BOBCAPS Research

## Valuation methodology

Factoring in a weak performance in H1FY25 and the likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 5%/2%. We introduce FY27 earnings modelling for revenue/EBITDA/PAT CAGR of 10%/11%/9% over FY24-FY27. We continue to value VSTT at 20x P/E 1-year forward earnings and arrive at a new TP of Rs 3,347 (from Rs 3,167).

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**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	10,328	11,687	13,003	10,897	12,003	NA	(5.2)	(2.6)	NA
EBITDA	1,276	1,465	1,698	1,385	1,555	NA	(7.9)	(3.2)	NA
Adj PAT	1,176	1,370	1,585	1,237	1,396	NA	(4.9)	(2.0)	NA
Adj EPS (Rs)	136	159	183	143	162	NA	(4.9)	(2.0)	NA

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Tractor volume	5,913	5,618	5,983	6,282
Tillers volume	34,204	36,291	40,283	43,908
Revenue (Rs mn)	9,441	10,328	11,687	13,003
Avg Realisation (Rs)	2,35,338	2,46,441	2,52,607	2,59,070
EBITDA (Rs mn)	1,242	1,276	1,465	1,698
EBITDA margin (%)	12.8	12.4	12.5	13.1
Adj. PAT (Rs mn)	1,215	1,176	1,370	1,585
EPS (Rs)	140.6	136.1	158.5	183.5

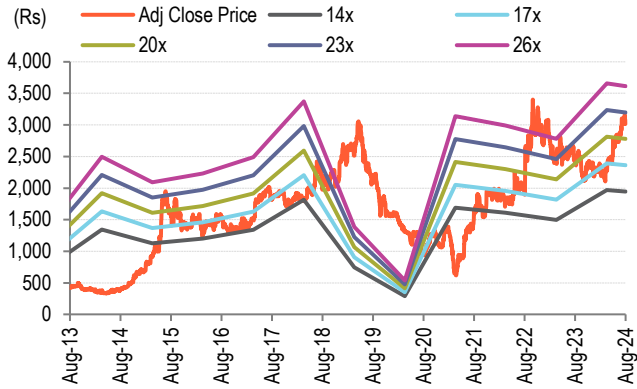
Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
VST Tillers Tractors	VSTT IN	SELL	3,347	136.1	158.5	12.0	12.6
Escorts Kubota	ESCORTS IN	SELL	2,514	12.6	12.1	12.0	11.9
Mahindra & Mahindra	MM IN	BUY	3,279	100.1	118.8	21.1	21.1

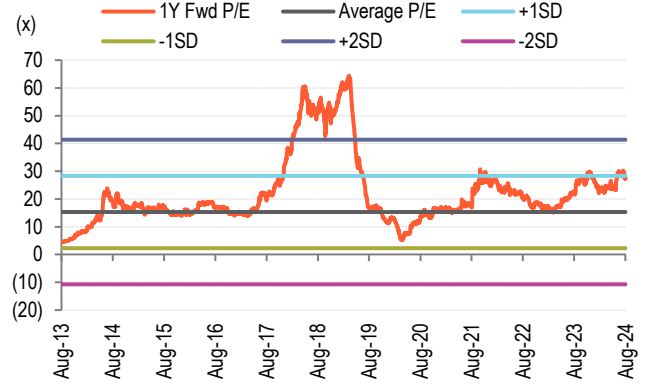
Source: BOBCAPS Research

**Fig 6 – P/E band: Valuations decoupled with weak performance**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 7 – P/E 1Y fwd: We expect stock to revert to mean valuations**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

Key upside risks to our estimates are:

- Above-expected volume growth.
- Faster-than-expected product launches and below-expected input cost inflation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>10,064</b>	<b>9,681</b>	<b>10,328</b>	<b>11,687</b>	<b>13,003</b>
EBITDA	1,272	1,242	1,276	1,465	1,698
Depreciation	232	270	271	296	324
EBIT	1,252	1,578	1,593	1,853	2,140
Net interest inc./(exp.)	(13)	(22)	(25)	(27)	(27)
Other inc./(exp.)	249	606	588	684	766
Exceptional items	0	0	0	0	0
EBT	1,239	1,556	1,568	1,826	2,113
Income taxes	316	341	392	457	528
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	1	1	1	1
<b>Reported net profit</b>	<b>924</b>	<b>1,215</b>	<b>1,176</b>	<b>1,370</b>	<b>1,585</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>924</b>	<b>1,215</b>	<b>1,176</b>	<b>1,370</b>	<b>1,585</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	1,767	1,419	1,200	1,333	1,497
Other current liabilities	801	850	1,001	1,154	1,270
Provisions	70	94	85	93	103
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	86	86	86	86	86
Reserves & surplus	8,158	9,155	10,217	11,412	12,795
Shareholders' fund	8,244	9,241	10,303	11,498	12,881
<b>Total liab. and equities</b>	<b>10,883</b>	<b>11,604</b>	<b>12,589</b>	<b>14,079</b>	<b>15,751</b>
Cash and cash eq.	281	467	475	434	683
Accounts receivables	1,492	1,552	905	1,057	1,176
Inventories	1,079	1,178	1,273	1,473	1,639
Other current assets	1,001	1,080	891	1,025	1,140
Investments	4,299	4,844	5,844	6,591	7,342
Net fixed assets	2,614	2,744	2,873	3,077	3,252
CWIP	141	300	400	500	600
Intangible assets	0	(492)	0	0	0
Deferred tax assets, net	(25)	(70)	(73)	(77)	(81)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>10,883</b>	<b>11,604</b>	<b>12,589</b>	<b>14,079</b>	<b>15,751</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>219</b>	<b>346</b>	<b>1,496</b>	<b>766</b>	<b>1,005</b>
Capital expenditures	(245)	(67)	(992)	(600)	(600)
Change in investments	(163)	(546)	(1,000)	(746)	(751)
Other investing cash flows	249	606	588	684	766
<b>Cash flow from investing</b>	<b>(158)</b>	<b>(7)</b>	<b>(1,404)</b>	<b>(663)</b>	<b>(585)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(13)	(22)	(25)	(27)	(27)
Dividends paid	(173)	(182)	(150)	(175)	(202)
Other financing cash flows	31	8	40	4	4
<b>Cash flow from financing</b>	<b>(155)</b>	<b>(196)</b>	<b>(135)</b>	<b>(198)</b>	<b>(225)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(94)</b>	<b>143</b>	<b>(43)</b>	<b>(95)</b>	<b>195</b>
<b>Closing cash &amp; cash eq.</b>	<b>281</b>	<b>467</b>	<b>475</b>	<b>434</b>	<b>683</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	106.9	140.6	136.1	158.5	183.5
Adjusted EPS	106.9	140.6	136.1	158.5	183.5
Dividend per share	20.0	21.1	17.4	20.2	23.4
Book value per share	954.3	1,069.6	1,192.6	1,330.9	1,491.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	3.4	3.6	3.3	2.9	2.6
EV/EBITDA	27.0	27.9	26.9	23.4	20.2
Adjusted P/E	37.4	28.4	29.3	25.2	21.8
P/BV	4.2	3.7	3.3	3.0	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.5	78.1	75.0	75.0	75.0
Interest burden (PBT/EBIT)	99.0	98.6	98.4	98.5	98.7
EBIT margin (EBIT/Revenue)	12.4	16.3	15.4	15.9	16.5
Asset turnover (Rev./Avg TA)	127.9	110.7	105.7	107.2	106.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	11.7	13.9	12.0	12.6	13.0

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	17.9	(3.8)	6.7	13.2	11.3
EBITDA	2.4	(2.4)	2.8	14.8	15.9
Adjusted EPS	(7.0)	31.6	(3.2)	16.4	15.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.6	12.8	12.4	12.5	13.1
EBIT margin	12.4	16.3	15.4	15.9	16.5
Adjusted profit margin	9.2	12.6	11.4	11.7	12.2
Adjusted ROAE	11.2	13.1	11.4	11.9	12.3
ROCE	11.9	14.1	12.2	12.7	13.2
<b>Working capital days (days)</b>					
Receivables	39	57	43	31	31
Inventory	38	43	43	43	44
Payables	79	88	67	57	58
<b>Ratios (x)</b>					
Gross asset turnover	0.4	0.5	0.5	0.5	0.5
Current ratio	1.5	1.8	1.6	1.5	1.6
Net interest coverage ratio	98.4	73.4	63.7	68.6	79.3
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

**BUY** – Expected return >+15%

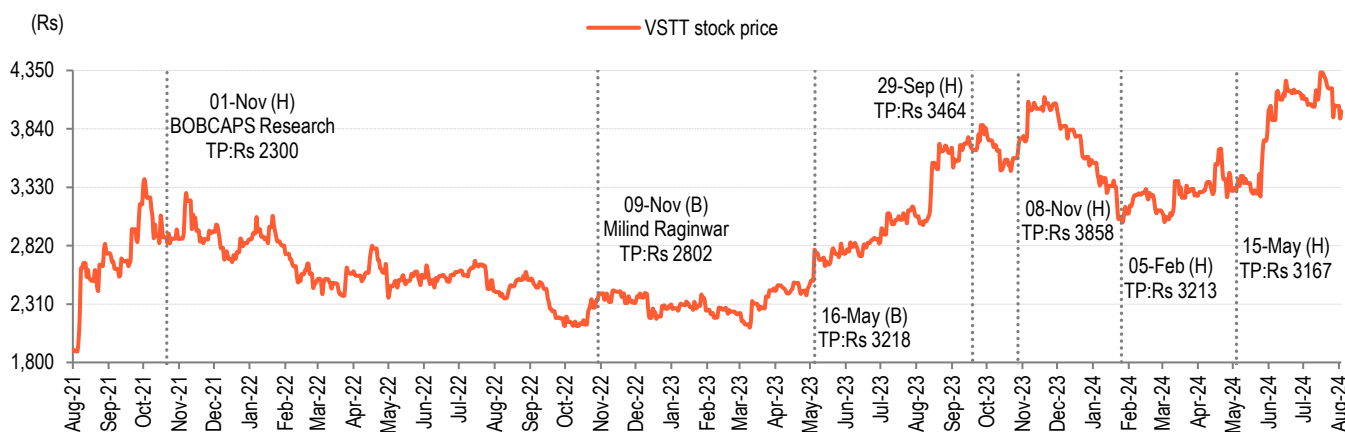
**HOLD** – Expected return from -6% to +15%

**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

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