

**BUY**

TP: Rs 2,100 | ▲ 20%

**VST TILLERS TRACTORS**

Automobiles

10 November 2020

**Strong Q2; price target revised upwards**

**VST Tillers' (VSTT) Q2FY21 results beat estimates – revenue surged 37% YoY to Rs 2.2bn and EBITDA margin came in at 17.1% (11.3% est.). We believe VSTT is poised for strong growth given market leadership in power tillers (~50% market share), ready capacity, focused growth in tractors and debt-free position. Considering the import ban on Chinese tillers, we model for a robust 18% volume CAGR over FY20-FY23. We raise FY21-FY23 EPS by 16-30% on stronger margin guidance and revise our Sep'21 TP to Rs 2,100 (vs. Rs 1,800). BUY.**

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**Q2 better than estimates:** Revenue increased 37% YoY to Rs 2.2bn and EBITDA was ahead of estimates at Rs 377mn. EBITDA margin at 17.4% was supported by better gross margins and operating efficiencies. Adj. PAT grew 4.7x YoY to Rs 299mn (Rs 205mn est.). Better operating efficiencies led by higher capacity utilization should aid healthy EBITDA margins ahead as well.

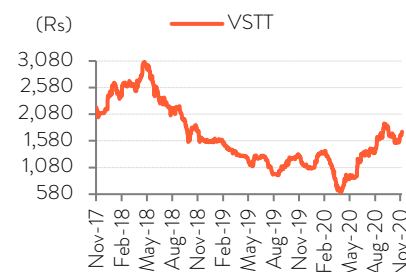
**Import curbs to reinforce dominance in power tillers; strong tractor growth:**

The Indian government-imposed import restrictions on Chinese tillers (~30% market share) in Jul'20. VSTT – being the market leader with over 50% market share – stands to be the biggest beneficiary. We thus model for an 18% volume CAGR in the company's tiller segment for FY20-FY23 and a 13% CAGR in its tractor business led by new product launches and anticipated healthy rural income.

**Earnings revised upwards; maintain BUY:** We are positive on VSTT given its strong FCF, debt-free balance sheet, and demand impetus from power tiller import curbs. Post-Q2, we raise our FY21/FY22/FY23 earnings estimates by 30%/16%/16%. Revenue/EBITDA/PAT are forecast to log a robust CAGR of 18%/81%/67% (earlier 17%/72%/59%) over FY20-FY23. We continue to value the stock at 23x Sep'22E EPS, revising our TP to Rs 2,100 (earlier Rs 1,800).

Ticker/Price	VSTT IN/Rs 1,752
Market cap	US\$ 205.3mn
Shares o/s	9mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 1,951/Rs 588
Promoter/FPI/DII	55%/5%/15%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	6,148	5,437	7,104	8,051	8,965
EBITDA (Rs mn)	461	174	770	899	1,022
Adj. net profit (Rs mn)	461	179	656	743	838
Adj. EPS (Rs)	53.3	20.7	76.0	86.0	97.0
Adj. EPS growth (%)	(58.9)	(61.1)	266.2	13.3	12.7
Adj. ROAE (%)	7.8	3.1	10.3	10.8	11.2
Adj. P/E (x)	32.9	84.5	23.1	20.4	18.1
EV/EBITDA (x)	32.7	87.6	19.5	16.7	14.7

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume	10,675	7,810	36.7	6,952	53.6	17,627	14,522	21.4
Avg. Realisation per Vehicle	206,453	205,992	0.2	210,357	(1.9)	207,993	206,969	0.5
<b>Total Income (A)</b>	<b>2,204</b>	<b>1,609</b>	<b>37.0</b>	<b>1,462</b>	<b>50.7</b>	<b>3,666</b>	<b>3,006</b>	<b>22.0</b>
<b>Operating Expenses:</b>								
Raw materials consumed	1,446	1,164	24.2	980	47.6	2,426	2,058	17.9
Employee Expenses	174	183	(5.0)	168	3.5	342	387	(11.6)
Other Expenses	206	222	(7.2)	151	36.8	357	377	(5.2)
<b>Total Expenditure (B)</b>	<b>1,827</b>	<b>1,570</b>	<b>16.4</b>	<b>1,299</b>	<b>40.6</b>	<b>3,126</b>	<b>2,821</b>	<b>10.8</b>
<b>EBITDA (A-B)</b>	<b>377</b>	<b>39</b>	<b>862.5</b>	<b>164</b>	<b>130.8</b>	<b>541</b>	<b>184</b>	<b>193.3</b>
Other Income	79	103	(23.2)	93	(14.8)	172	151	14.0
Depreciation	42	38	10.2	42	(0.5)	84	75	11.7
EBIT	414	104	299.0	214	93.6	628	260	142.0
Finance Costs	5	8	(41.8)	5	(2.1)	9	16	(41.1)
PBT before excep items	410	96	327.1	209	95.8	619	244	153.9
Tax expense	110	32	242.2	39	186.2	149	65	130.5
<b>Reported PAT</b>	<b>299</b>	<b>64</b>	<b>370.0</b>	<b>171</b>	<b>75.4</b>	<b>470</b>	<b>179</b>	<b>162.3</b>
<b>Adjusted PAT</b>	<b>299</b>	<b>64</b>	<b>370.0</b>	<b>171</b>	<b>75.4</b>	<b>470</b>	<b>179</b>	<b>162.3</b>
Adj EPS (Rs)	34.7	7.4	370.0	19.8	75.4	54.4	20.7	162.3

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	34.4	27.6	674	33	139	33.8	31.5	228
EBITDA Margin	17.1	2.4	1,468	11	594	14.8	6.1	862
EBIT Margin	18.8	6.5	1,234	15	417	17.1	8.6	850
PBT Margin	18.6	6.0	1,262	14	428	16.9	8.1	877
Tax Rate	26.9	33.6	(667)	18	850	24.0	26.5	(244)
Adj PAT Margin	13.6	4.0	963	12	191	12.8	6.0	686

Source: Company, BOBCAPS Research

## Valuation methodology

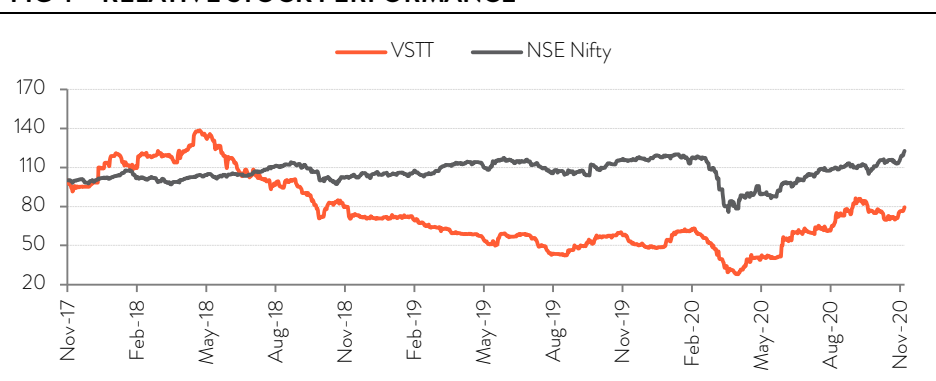
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**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E	FY22E	FY23E
<b>Current</b>			
Revenues	7,104	8,051	8,965
EBITDA	770	899	1,022
OPM (%)	11	11	11
Adj. PAT	656	743	838
EPS	76	86	97
<b>Old Estimates</b>			
Revenues	6,997	7,821	8,671
EBITDA	604	783	882
OPM (%)	9	10	10
Adj. PAT	504	642	721
EPS	58	74	83
<b>Change (%)</b>			
Revenues	1.5	2.9	3.4
EBITDA	27.5	14.9	15.8
OPM (%)	221	116	122
Adj. PAT	30.2	15.8	16.2
EPS	30.1	15.8	16.3

Source: Company, BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

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

## 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>7,104</b>	<b>8,051</b>	<b>8,965</b>
EBITDA	461	174	770	899	1,022
Depreciation	158	164	161	172	186
EBIT	740	246	892	1,009	1,138
Net interest income/(expenses)	(25)	(15)	(15)	(15)	(18)
Other income/(expenses)	437	236	283	282	303
Exceptional items	22	0	0	0	0
EBT	737	231	877	994	1,120
Income taxes	255	52	221	250	282
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>179</b>	<b>656</b>	<b>743</b>	<b>838</b>
Adjustments	(22)	0	0	0	0
<b>Adjusted net profit</b>	<b>461</b>	<b>179</b>	<b>656</b>	<b>743</b>	<b>838</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	343	578	581	695	781
Other current liabilities	695	494	738	755	808
Provisions	15	17	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	5,680	6,270	6,791	7,377
Shareholders' fund	5,899	5,766	6,357	6,877	7,464
<b>Total liabilities and equities</b>	<b>7,413</b>	<b>7,272</b>	<b>8,126</b>	<b>8,777</b>	<b>9,502</b>
Cash and cash eq.	188	258	256	277	332
Accounts receivables	964	962	1,226	1,390	1,523
Inventories	1,237	1,023	1,265	1,434	1,572
Other current assets	943	734	1,070	1,191	1,326
Investments	1,653	1,788	1,988	2,038	2,288
Net fixed assets	2,057	1,839	1,778	1,906	1,920
CWIP	348	477	350	350	350
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(70)	(14)	(14)	(14)	(14)
Other assets	93	206	206	206	206
<b>Total assets</b>	<b>7,412</b>	<b>7,272</b>	<b>8,126</b>	<b>8,777</b>	<b>9,502</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	618	343	817	916	1,024
Interest expenses	(25)	(15)	(15)	(15)	(18)
Non-cash adjustments	(437)	(236)	(283)	(282)	(303)
Changes in working capital	(65)	306	(581)	(322)	(268)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>92</b>	<b>398</b>	<b>(61)</b>	<b>297</b>	<b>436</b>
Capital expenditures	(413)	(75)	27	(300)	(200)
Change in investments	389	(135)	(200)	(50)	(250)
Other investing cash flows	437	236	283	282	303
<b>Cash flow from investing</b>	<b>412</b>	<b>25</b>	<b>110</b>	<b>(68)</b>	<b>(147)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(25)	(15)	(15)	(15)	(18)
Dividends paid	(520)	(312)	(66)	(223)	(251)
Other financing cash flows	7	(56)	0	0	0
<b>Cash flow from financing</b>	<b>(538)</b>	<b>(384)</b>	<b>(81)</b>	<b>(238)</b>	<b>(269)</b>
<b>Changes in cash and cash eq.</b>	<b>(34)</b>	<b>40</b>	<b>(32)</b>	<b>(9)</b>	<b>19</b>
<b>Closing cash and cash eq.</b>	<b>188</b>	<b>258</b>	<b>256</b>	<b>277</b>	<b>332</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	53.3	20.7	76.0	86.0	97.0
Adjusted EPS	53.3	20.7	76.0	86.0	97.0
Dividend per share	50.0	30.0	7.6	25.8	29.1
Book value per share	682.8	667.4	735.8	796.0	863.9

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.5	2.8	2.1	1.9	1.7
EV/EBITDA	32.7	87.6	19.5	16.7	14.7
Adjusted P/E	32.9	84.5	23.1	20.4	18.1
P/BV	2.6	2.6	2.4	2.2	2.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	62.5	77.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.6	94.0	98.3	98.5	98.4
EBIT margin (EBIT/Revenue)	12.0	4.5	12.6	12.5	12.7
Asset turnover (Revenue/Avg TA)	96.6	86.7	109.4	113.9	117.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	7.8	3.1	10.8	11.2	11.7

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)	30.7	13.3	11.3
EBITDA	(61.5)	(62.4)	343.8	16.7	13.6
Adjusted EPS	(58.9)	(61.1)	266.2	13.3	12.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.5	3.2	10.8	11.2	11.4
EBIT margin	12.0	4.5	12.6	12.5	12.7
Adjusted profit margin	7.5	3.3	9.2	9.2	9.3
Adjusted ROAE	7.8	3.1	10.3	10.8	11.2
ROCE	7.6	3.0	10.3	10.7	11.2
<b>Working capital days (days)</b>					
Receivables	84	65	56	59	59
Inventory	60	76	59	61	61
Payables	43	45	44	43	45
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.4	0.4	0.4
Current ratio	3.2	2.7	2.9	3.0	3.0
Net interest coverage ratio	29.7	16.7	59.5	67.3	63.2
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): VST TILLERS TRACTORS (VSTT IN)



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

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