

**SELL**

TP: Rs 3,420 | ▼ 25%

**VST TILLERS TRACTORS** | Automobiles

05 November 2024

**Only minor respite from weak show; maintain SELL**

- 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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**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%

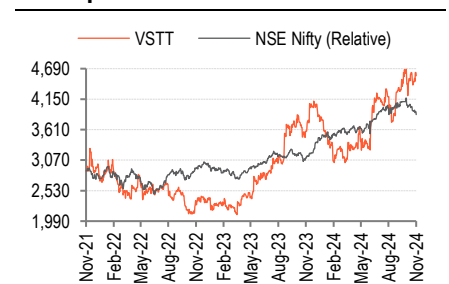
Source: NSE | Price as of 4 Nov 2024

**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



**Fig 1 – Earnings call highlights**

Parameter	Q2FY25	Q1FY25	Our view
Volumes	VSTT expects a minimum of 20% growth in FY25 in the SFM space, 20% in Tiller and expects Tractors to grow more than other segments due to a lower base. VSTT recorded 46% growth in volumes YoY in the Power Tiller segment and 135% growth in volumes YoY in the Tractor segment in Oct'24. No subsidy schemes were available in Q2FY25.	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.	Above-normal monsoon, better crop yields and better reservoir levels could change in favour of demand, however revival for VSTT volume will be steady.
Topline guidance	VSTT recorded a volume of 11.23k units for Power Tillers (+84% QoQ). VSTT expects H2FY25 to grow at 20-30% and being better than H1 due to good monsoon and high reservoir levels. VSTT targets a topline of Rs 30bn by FY27. VSTT expects exports to contribute 25-30% of revenue in the next 2-3 years from 13% in FY24. According to management, VSTT will not be providing significant discounts to boost volume.	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 pickup in sowing, and State government subsidies pushed from Q1FY25 to Q2FY25 due to the general election.	We believe FY25/FY26/FY27 targets are aggressive and unlikely to be achieved unless VSTT initiates radical changes in its strategy.
Margins	VSTT had an operational EBITDA margin of 13.33% and PAT of 15.9% (includes higher treasury income). Management expects the margins to continue in H2 and does not expect much impact from commodity inflation.	VSTT expects EBITDA margin to improve from Q2FY25 as topline is expected to improve.	No change in guidance. Commodity cost decline may help VSTT achieve guidance.
Launches	VSTT Zetor has 60 dealers in India and expects to increase the number to 75-80 dealers. The dealers break even at 30-40 units.  VSTT is striving to have a global presence and is in the midst of launching products in Europe (Italy) and North America.	Presently VSTT has ~20 distributors who have started operations for new launches and VSTT expects to increase the number of distributors from Q2FY25.	The focus on the 41-50 HP segment continues to yield limited success as reflected in the performance. Meaningful global presence is awaited.
Capex and R&D spend	No new capex announcement by the company. VSTT has an R&D team of 80-90 people.	No new capex announcement by the company.	No aggressive capex augurs well for VSTT as the focus has to be on capacity utilisation ramp up.
Other key points	In Q2FY25, revenue from the SFM segment was Rs 1.85bn, Tractors segment Rs 0.74bn and Distribution & others Rs 0.28bn. Receivables rose due to government orders received and supply being in process. Management expects receivables days to normalise by Q3FY25 to 45-50 days. Payables has further reduced due to faster payment being made to MSMEs. Short-term debt of Rs 70mn taken in Q2FY25 for better capital management. Management has no plans to sell the land as of now.  VSTT joint venture (JV) with Kobashi Industries is on hold due to slowdown at Kobashi Industries.	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 a work in progress.	Other initiatives taken by the company are on the right track, but with improving macroeconomic conditions the lead time to a positive market response should narrow.

Source: Company, BOBCAPS Research | HP: Horse power

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

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	Q2FY25E	Deviation (%)
Volume (nos)	12,542	12,170	3.1	7,375	70.1	12,542	0.0
Avg. Realisation per Vehicle (Rs)	2,25,985	2,28,850	(1.3)	2,58,427	(12.6)	2,61,011	15.5
Net Revenues	2,834	2,785	1.8	1,906	48.7	3,274	15.5
<b>Total Income (A)</b>	<b>2,834</b>	<b>2,785</b>	<b>1.8</b>	<b>1,906</b>	<b>48.7</b>	<b>3,274</b>	<b>15.5</b>
<b>Operating Expenses</b>							
Raw materials consumed	1,930	1,874	3.0	1,297	48.7	2,215	14.8
Employee Expenses	255	219	16.1	253	0.6	255	0.2
Other Expenses	272	261	4.3	221	23.1	327	20.2
<b>Total Expenditure (B)</b>	<b>2,456</b>	<b>2,354</b>	<b>4.4</b>	<b>1,772</b>	<b>38.7</b>	<b>2,798</b>	<b>13.9</b>
<b>EBITDA (A-B)</b>	<b>378</b>	<b>431</b>	<b>(12.3)</b>	<b>134</b>	<b>181.4</b>	<b>476</b>	<b>26.0</b>
Other Income	268	139	92.4	213	25.5	139	(48.1)
Depreciation	65	69	(6.1)	63	3.4	67	3.7
EBIT	581	501	15.9	285	103.8	548	(5.7)
Finance Costs	6	5	16.7	5	9.8	5	(10.7)
PBT after excep items	575	497	15.8	280	105.5	543	(5.6)
Tax expense	126	132	(4.6)	51	147.5	136	7.7
<b>Reported PAT</b>	<b>449</b>	<b>365</b>	<b>23.3</b>	<b>229</b>	<b>96.2</b>	<b>407</b>	<b>(9.4)</b>
<b>Adjusted PAT</b>	<b>449</b>	<b>365</b>	<b>23.3</b>	<b>229</b>	<b>96.2</b>	<b>407</b>	<b>(9.4)</b>
EPS (Rs)	52.0	42.2	23.3	26.5	96.2	47.1	(9.4)
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>		<b>(bps)</b>
Gross Margin	31.9	32.7	(80)	32	0	32.3	(303)
EBITDA Margin	13.3	15.5	(215)	7	629	14.5	(360)
EBIT Margin	20.5	18.0	249	15	554	16.7	(374)
PBT Margin	20.3	17.8	247	15	561	16.6	(373)
Tax Rate	21.9	26.6	(470)	18	372	25.0	11
Adj PAT Margin	15.9	13.1	276	12	384	12.4	(281)

Source: Company, BOBCAPS Research

### Valuation methodology

We maintain our FY25/FY26/FY27 EPS estimates given the weak H1 but saw 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. The early response to Zetor has been muted and, hence, its pan-India spread will be delayed. Thus, we maintain our SELL rating on VSTT.

**Fig 3 – Key assumptions**

	FY24	FY25E	FY26E	FY27E
Tractor volume (nos)	5,913	5,618	5,983	6,282
Tillers volume (nos)	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

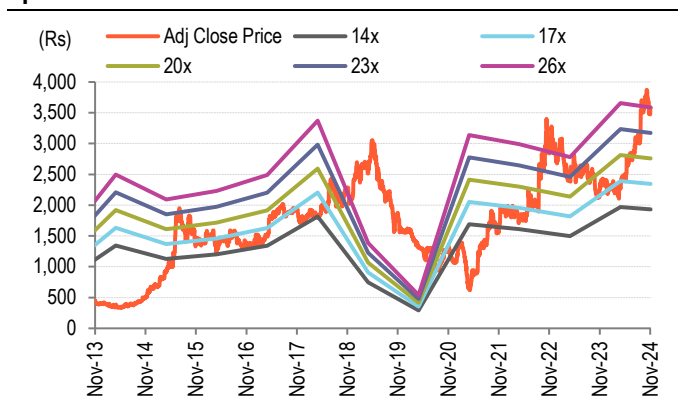
Source: Company, BOBCAPS Research

**Fig 4 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
VST Tillers Tractors	VSTT IN	SELL	3,420	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

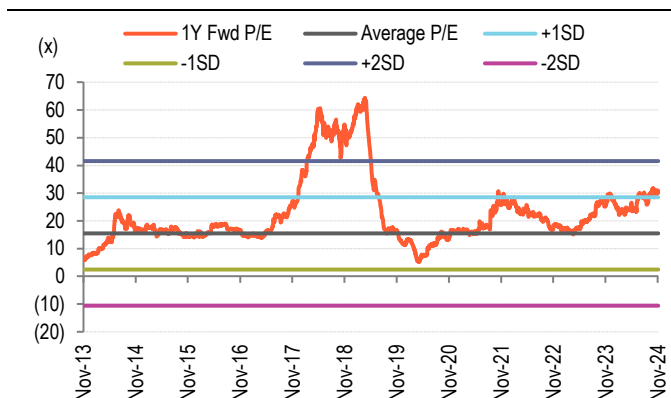
Source: BOBCAPS Research

**Fig 5 – P/E band: Valuations decoupled from weak performance**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 6 – 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	FY24A	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	FY24A	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	FY24A	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	FY24A	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	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.9	4.1	3.8	3.4	3.0
EV/EBITDA	30.9	31.9	30.8	26.7	23.2
Adjusted P/E	42.7	32.5	33.5	28.8	24.9
P/BV	4.8	4.3	3.8	3.4	3.1

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	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	FY24A	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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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

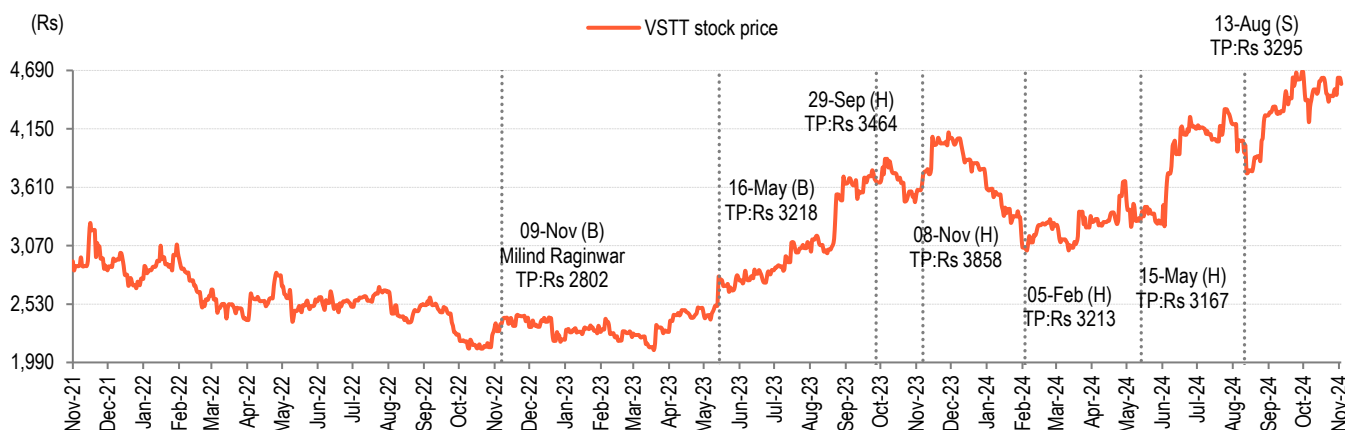
**HOLD** – Expected return from -6% to +15%

**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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