

HOLD
 TP: Rs 3,213 | ▲ 6%

VST TILLERS TRACTORS | Automobiles

05 February 2024

Poor demand dampens performance

- Q3 revenue down 20% YoY on steep 33% volume decline due to anaemic rural demand
- Weak topline and volumes resulted in 530bps YoY EBITDA margin contraction to 5.6%
- Maintain HOLD with revised TP of Rs 3,213 (vs. Rs 3,858) as we roll valuations forward

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Topline drops on lower volumes...: VSTT's Q3FY24 revenue dropped 20%/39% YoY/QoQ to Rs 1.7bn as volumes plummeted owing to weak rural sentiments. The company clocked volumes of just ~6k units, a drop of 33%/50% YoY/QoQ, with power tiller volumes down 32%/53% YoY to ~5k units and tractor volumes declining 36%/32% YoY/QoQ to ~1k units. Net realisation per vehicle grew 18%/23% YoY/QoQ to Rs 0.3mn. Management has revised power tiller volume growth guidance down to single digits for FY24 from 15-20%.

...leading to margin contraction: Raw material cost increased to 69% of sales from 67% in Q2FY24 (flat YoY) due to weak volumes, contributing to a gross margin decline of 20bps/185bps YoY/QoQ to ~31% in Q3FY24. Consequently, EBITDA shrank 59%/78% YoY/QoQ to Rs 95mn with margin contraction of 530bps/990bps to 5.6%. Adj. PAT slipped 13%/53% YoY/QoQ to Rs 170mn, marginally supported by other income of Rs 182mn (+99%/+31%) on account of a Rs 154mn treasury gain.

Focus on higher-HP and compact segments: Tractor volumes remained subdued in Q3FY24 as key markets in Maharashtra and Karnataka for compact tractors have not yet revived. VSTT's Zetor tractors are currently being seeded in the markets and management expects volume ramp-up in Q1FY25. The Zetor 42HP, 45HP and 49HP were unveiled in Q3 and production will commence from Mar'24. Management maintains guidance of reaching Rs 30bn in total revenue by FY26 (+/-6 months).

Maintain HOLD: Given the weak 9MFY24 performance and low likelihood of quick revival, we cut our FY24/FY25 EPS estimates by 19%/24%. We now introduce FY26 projections and model for a revenue/EBITDA/PAT CAGR of 7%/8%/16% over FY23-FY26. We continue to value VSTT at 20x P/E and roll valuations over to FY26E for a new TP of Rs 3,213 (vs. Rs 3,858). VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. Early response to Zetor has also been muted. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VSTT IN/Rs 3,036
Market cap	US\$ 321.5mn
Free float	45%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 4,196/Rs 2,100
Promoter/FPI/DII	55%/5%/15%

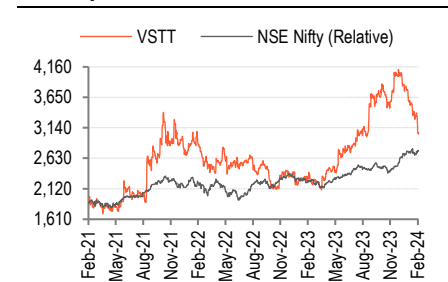
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	10,064	9,441	11,033
EBITDA (Rs mn)	1,272	1,048	1,399
Adj. net profit (Rs mn)	924	1,112	1,249
Adj. EPS (Rs)	106.9	128.7	144.6
Consensus EPS (Rs)	106.9	138.0	159.0
Adj. ROAE (%)	11.2	12.1	12.1
Adj. P/E (x)	28.4	23.6	21.0
EV/EBITDA (x)	20.5	25.1	18.5
Adj. EPS growth (%)	(7.0)	20.4	12.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes	Management has revised FY24 volume growth guidance for power tillers to single digits from 15-20% and for power weeders to ~5k+ units from ~6k. Tractor volumes remain low as key markets are yet to revive.	Management has maintained FY24 volume growth guidance for power tillers at 15-20% and power weeders at ~6k units; tractor growth is expected to be flattish.	Weak rural demand poses a challenge for VSTT.
Topline guidance	Management maintains revenue guidance of Rs 30bn by FY26 (+/- 6 months) backed by entry into new JVs, product launches, market forays and consolidation in European markets.	Management maintains revenue guidance of Rs 30bn by FY26 (~40% from tractors, ~40% from SFM, balance from others). Exports are expected to form 10-15% share.	We believe the FY26 target is aggressive and unlikely to be achieved unless VSTT initiates radical changes in its strategy.
VSTT Zetor	The VSTT Zetor JV has been formed after a two-month procedural delay and seeding of tractors in the market is currently underway. Management expects ramp-up of Zetor production from Q1FY25 and larger revenues from the Zetor brand in FY25.	Production of Zetor tractors began in Q1FY24 and VSTT expects to sell 1k units in 12 months with realisation per tractor at ~Rs 0.7mn. Margins are guided to remain a bit lower initially as compared to compact tractors due to higher development cost.	Our channel checks suggest a weaker response to VSTT's new launches.
Dealerships	No comment in Q3FY24.	The company has ~370 dealers for tractors (industry dealer network totals 800-900) and ~650 for power tillers.	
Margins	EBITDA margin guidance for FY24 is 11-13%.	Management indicated that it is open to price hikes since VSTT has not been able to fully pass on the previous commodity price impact to customers.	EBITDA margin has room to improve as costs have not been fully passed through.
Launches	VSTT Zetor 42HP, 45HP and 49HP were launched in Q3FY24, with 20 units currently seeded in the market. Production is expected to commence in Mar'24.	VSTT launched Zetor tractors in Sep'23. It also expects the newly launched VST Series-9 tractors to perform well in H2FY24 as compared to H1 due to weather-related issues in specific markets.	The focus on the compact tractor segment continues.
Capex and R&D spend	The company has procured land at Hosur (Tamil Nadu) for building an R&D global technology centre and expects the project to be completed in 1-1.5 years.	Management retained FY24/FY25 capex guidance at Rs 500mn each and is evaluating opportunities for inorganic acquisitions. Installed production capacity is 25k-30k units/year for tractors and ~72k units/year for tillers.	Capex of ~Rs 500mn remains low and augurs well for VSTT as the focus on improving utilisation will continue.
Other key points	<p>Q3FY24 revenue from the SFM segment stood at Rs 0.9bn, from tractors at Rs 0.5bn and from distribution & others at Rs 0.3bn.</p> <p>VSTT has announced a JV with Kobashi Industries (Japanese blade manufacturer) for sourcing blades for its power tillers, rotavators and rotary tillers.</p> <p>Management expects to enter the US market in the next two years with a portfolio of electric tractors.</p> <p>Of the guided ~1k units for Monarch in FY24, ~300 units have been supplied as on Jan'24.</p>	<p>Q2FY24 revenue from the SFM segment stood at Rs 1.7bn, from tractors at Rs 0.7bn, and from distribution & others at Rs 0.4bn.</p> <p>Management indicated that the supply of electric tractors to OEMs works out 20-30% cheaper if the sourcing is from India.</p> <p>VSTT has entered into an agreement with Solectrac, USA, for the development of customised power tillers.</p> <p>Monarch guidance remains at ~1k units with revenue of Rs 500mn by FY24.</p>	Other initiatives taken by the company are on the right track, but with weak macroeconomic conditions, it is likely the lead time to a positive market response will be higher.

Source: Company, BOBCAPS Research | SFM: Small Farm Mechanisation

Fig 2 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume	6,039	8,993	(32.8)	12,170	(50.4)	28,805	28,277	1.9
Avg. Realisation per Vehicle	281,437	237,618	18.4	228,850	23.0	241,142	241,829	(0.3)
Net Revenues	1,700	2,137	(20.5)	2,785	(39.0)	6,946	6,838	1.6
Total Income (A)	1,700	2,137	(20.5)	2,785	(39.0)	6,946	6,838	1.6
Operating Expenses:								
Raw materials consumed	1,175	1,473	(20.2)	1,874	(37.3)	4,732	4,847	(2.4)
Employee Expenses	205	191	7.7	219	(6.4)	650	576	12.9
Other Expenses	224	240	(6.7)	261	(14.1)	720	690	4.4
Total Expenditure (B)	1,604	1,904	(15.7)	2,354	(31.9)	6,103	6,112	(0.2)
EBITDA (A-B)	95	233	(59.1)	431	(77.9)	844	726	16.2
Other Income	182	91	99.1	139	30.6	502	197	154.5
Depreciation	68	70	(3.7)	69	(1.5)	203	200	1.5
EBIT	209	254	(17.6)	501	(58.3)	1,142	723	58.1
Finance Costs	6	5	31.1	5	22.9	16	9	83.1
Exceptional items (less)	-	-	0.0	-	0.0	-	-	0.0
PBT after excep items	203	250	(18.5)	497	(59.1)	1,126	714	57.7
Tax expense	34	55	(38.8)	132	(74.4)	262	192	36.8
Reported PAT	170	194	(12.8)	365	(53.5)	864	522	65.4
Adjusted PAT	170	194	(12.8)	365	(53.5)	864	522	65.4
Adj EPS (Rs)	19.6	22.5	(12.8)	42.2	(53.5)	100.0	60.4	65.4
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	30.9	31.1	(21)	33	(185)	31.9	29.1	275
EBITDA Margin	5.6	10.9	(530)	15	(987)	12.1	10.6	153
EBIT Margin	12.3	11.9	42	18	(569)	16.4	10.6	588
PBT Margin	12.0	11.7	29	18	(587)	16.2	10.4	577
Tax Rate	16.6	22.1	(550)	27	(998)	23.3	26.8	(357)
Adj PAT Margin	10.0	9.1	88	13	(311)	12.4	7.6	480

Source: Company, BOBCAPS Research

Valuation methodology

Given the weak 9MFY24 performance and low likelihood of quick revival, we cut our FY24/FY25 EPS estimates by 19%/24%. We now introduce FY26 projections and model for a revenue/EBITDA/PAT CAGR of 7%/8%/16% for VSTT over FY23-FY26. We continue to value the stock at 20x P/E and roll valuations over to FY26E for a new TP of Rs 3,213 (vs. Rs 3,858).

VSTT has delivered a disappointing performance despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. Early response to Zetor has also been muted. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	9,441	11,033	12,150	11,584	13,475	NA	(18.5)	(18.1)	NA
EBITDA	1,048	1,399	1,585	1,566	1,912	NA	(33.1)	(26.8)	NA
Adj PAT	1,112	1,249	1,423	1,368	1,634	NA	(18.7)	(23.6)	NA
Adj EPS (Rs)	128.7	144.6	164.7	158.3	189.1	NA	(18.7)	(23.5)	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Tractor volume	7,236	7,598	7,978	7,978
Tillers volume	36,291	41,462	47,475	47,475
Revenue (Rs mn)	10,064	11,584	13,475	13,475
Avg Realisation (Rs)	227,277	235,338	243,165	251,225
EBITDA (Rs mn)	1,272	1,048	1,399	1,585
EBITDA margin (%)	12.6	11.1	12.7	13.0
Adj. PAT (Rs mn)	924	1,112	1,249	1,423
EPS (Rs)	107	129	145	165

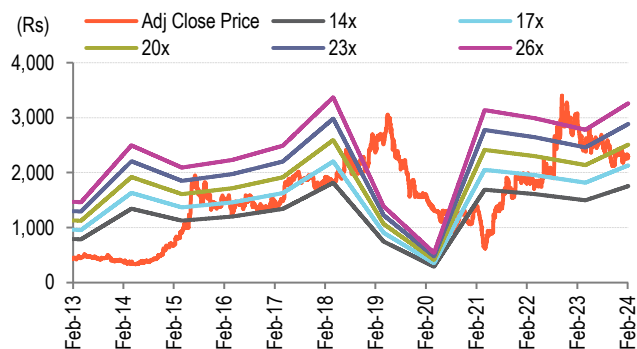
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
VST Tillers Tractors	VSTT IN	HOLD	3,213	128.7	144.6	12.1	12.1
Escorts Kubota	ESCORTS IN	SELL	2,343	95.2	113.0	11.5	12.1
Mahindra & Mahindra	MM IN	BUY	1,849	78.2	92.1	19.4	19.0

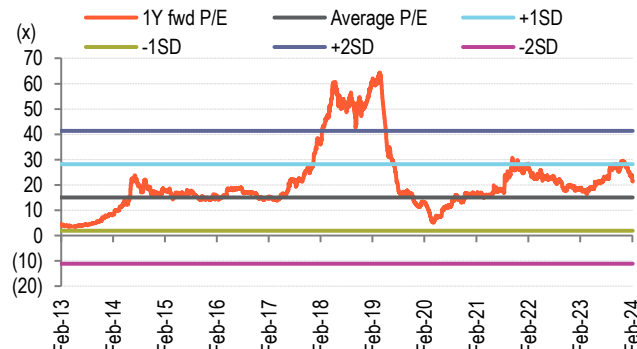
Source: BOBCAPS Research

Fig 6 – P/E band: Weak performance though priced in will keep valuations lower



Source: Bloomberg, BOBCAPS Research

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



Source: Bloomberg, BOBCAPS Research

Key risks

- Above-expected volume growth represents a key upside risk to our estimates.
- Delayed product launches and above-expected input cost inflation are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.4	179	210	BUY
Bajaj Auto	BJAUT IN	27.0	7,658	6,272	SELL
Escorts	ESCORTS IN	4.8	2,968	2,343	SELL
Mahindra & Mahindra	MM IN	25.9	1,704	1,849	BUY
Maruti Suzuki	MSIL IN	38.3	10,429	12,234	BUY
TVS Motor	TVSL IN	11.7	2,024	2,242	BUY
VST Tillers Tractors	VSTT IN	0.3	3,036	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	8,539	10,064	9,441	11,033	12,150
EBITDA	1,242	1,272	1,048	1,399	1,585
Depreciation	216	232	249	271	296
EBIT	1,332	1,252	1,481	1,683	1,915
Net interest inc./(exp.)	(10)	(13)	(18)	(18)	(18)
Other inc./(exp.)	341	249	682	555	626
Exceptional items	0	0	0	0	0
EBT	1,322	1,239	1,463	1,665	1,897
Income taxes	329	316	351	416	474
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	1	1	1
Reported net profit	993	924	1,112	1,249	1,423
Adjustments	0	0	0	0	0
Adjusted net profit	993	924	1,112	1,249	1,423

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,273	1,767	1,175	1,243	667
Other current liabilities	824	801	867	1,114	1,916
Provisions	52	70	77	85	93
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	86	86	86	86	86
Reserves & surplus	7,409	8,158	9,103	10,193	11,434
Shareholders' fund	7,495	8,244	9,190	10,279	11,521
Total liab. and equities	9,644	10,883	11,309	12,722	14,198
Cash and cash eq.	313	281	627	877	848
Accounts receivables	676	1,492	828	967	1,098
Inventories	1,006	1,079	1,190	1,360	1,531
Other current assets	750	1,001	828	952	1,065
Investments	4,136	4,299	4,799	5,299	6,085
Net fixed assets	2,304	2,614	2,765	2,894	3,098
CWIP	120	141	300	400	500
Intangible assets	355	0	0	0	0
Deferred tax assets, net	(16)	(25)	(26)	(28)	(29)
Other assets	0	0	0	0	0
Total assets	9,645	10,883	11,309	12,722	14,198

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	960	219	870	835	894
Capital expenditures	(516)	(245)	(559)	(500)	(600)
Change in investments	(793)	(163)	(500)	(500)	(787)
Other investing cash flows	341	249	682	555	626
Cash flow from investing	(968)	(158)	(377)	(445)	(761)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(10)	(13)	(18)	(18)	(18)
Dividends paid	(173)	(173)	(167)	(159)	(181)
Other financing cash flows	0	31	1	1	1
Cash flow from financing	(183)	(155)	(184)	(176)	(198)
Chg in cash & cash eq.	(191)	(94)	309	214	(64)
Closing cash & cash eq.	313	281	627	877	848

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	114.9	106.9	128.7	144.6	164.7
Adjusted EPS	114.9	106.9	128.7	144.6	164.7
Dividend per share	20.0	20.0	19.3	18.4	21.0
Book value per share	867.6	954.3	1,063.7	1,189.8	1,333.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	2.6	2.8	2.3	2.1
EV/EBITDA	20.9	20.5	25.1	18.5	16.0
Adjusted P/E	26.4	28.4	23.6	21.0	18.4
P/BV	3.5	3.2	2.9	2.6	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	75.1	74.5	76.0	75.0	75.0
Interest burden (PBT/EBIT)	99.2	99.0	98.8	98.9	99.1
EBIT margin (EBIT/Revenue)	15.6	12.4	15.7	15.3	15.8
Asset turnover (Rev./Avg TA)	115.9	127.9	108.3	113.3	111.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.9	11.7	12.8	12.8	13.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	11.7	17.9	(6.2)	16.9	10.1
EBITDA	18.0	2.4	(17.6)	33.5	13.3
Adjusted EPS	(4.8)	(7.0)	20.4	12.3	13.9
Profitability & Return ratios (%)					
EBITDA margin	14.5	12.6	11.1	12.7	13.0
EBIT margin	15.6	12.4	15.7	15.3	15.8
Adjusted profit margin	11.6	9.2	11.8	11.3	11.7
Adjusted ROAE	13.2	11.2	12.1	12.1	12.3
ROCE	13.6	11.9	12.9	13.0	13.2
Working capital days (days)					
Receivables	32	39	45	30	31
Inventory	44	38	44	42	43
Payables	66	79	82	58	42
Ratios (x)					
Gross asset turnover	0.4	0.4	0.5	0.5	0.5
Current ratio	1.3	1.5	1.6	1.7	1.7
Net interest coverage ratio	127.5	98.4	82.3	93.5	106.4
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%

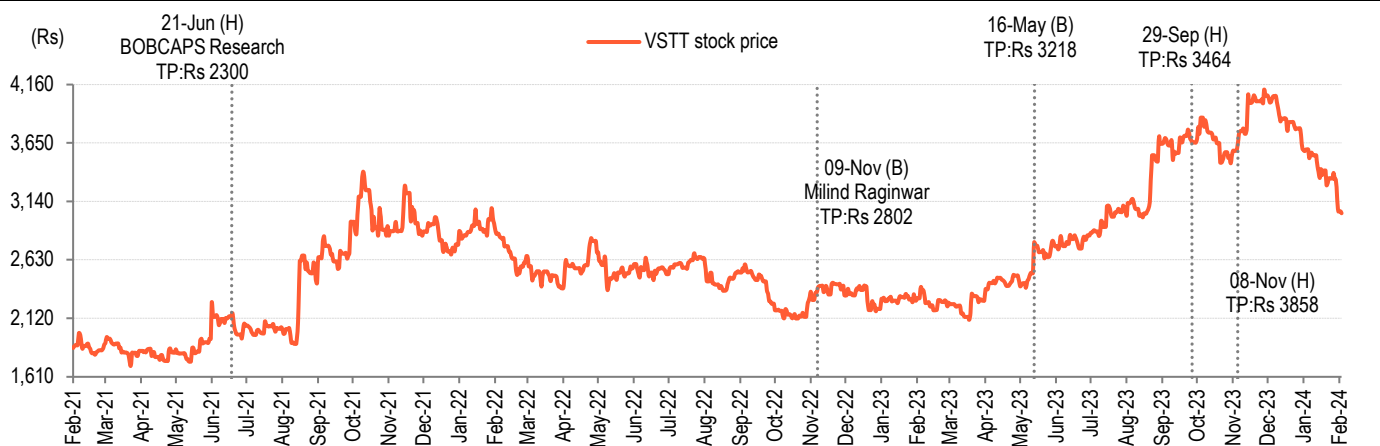
HOLD – Expected return from -6% to +15%

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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