

SELL
 TP: Rs 3,267 | ▼ 15%

VST TILLERS TRACTORS | Automobiles

11 February 2025

Listless show, limited near-term respite; maintain SELL

- Q3 revenue grew 29% YoY (-23% MoM) to ~Rs 2.2bn, driven by volume gain of ~34%, dragged by 4% lower realisations of Rs 0.27mn (YoY)
- EBITDA doubled on very weak base YoY to Rs 196mn, margin failed to recover meaningfully staying at ~9% (down 440bps QoQ)
- We lower our FY25/FY26/FY27 earnings and TP to Rs 3,267 (from Rs 3,420), valuing VSTT at 20x P/E 1Y forward earnings. Maintain SELL

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Weak realisations drag revenue growth: VSTT’s revenue increased by 29% YoY (down 23% QoQ due to low volumes) to ~Rs 2.2bn as volume grew 34% YoY to ~8.1k units in Q3FY25. The realisation per vehicle fell ~4% YoY impacting growth. Sequentially the volume fell by 23% leading to QoQ fall in revenue by 23%. Volumes grew by 32%/43%/69%/35% YoY for Power Tiller/Tractors/Power Weeder & Reaper to 6.6k/1.4k/1.65k/1.6k respectively. In Q3FY25, revenue from the SFM (Specialised Farm Machinery) segment was Rs 1.24bn, Tractor segment Rs 0.64bn and Distribution and others Rs 0.26bn.

EBITDA gains from a low base: Raw material (RM) as a percentage of sales jumped by 20bps/120bps YoY/QoQ to 69.3% in Q3FY25 and the RM cost (adjusted for inventory) spiked by 29% YoY to ~Rs 1.7bn. Gross margin fell by 20bps YoY to 30.7% fully attributed to lower realisation. Staff expenses shot up by 24% YoY (flat QoQ) to ~Rs 254mn while other expenses were flat YoY at Rs 223mn (down 18% QoQ) owing to operating leverage. EBITDA rose YoY on a lower base to Rs 196mn. EBITDA margin stayed in single digits at 9% (down 440bps QoQ).

Focus on higher HP and compact segment: VSTT continues its focus on the high-end segment with expected launches in the near term. Zetor volume was ~100 tractors for seed sale. Further, the dealer network is expanding with newer regions. 26/35 new dealers were added for Tractor segment/SFM business. Eight to ten dealers each were added in Q3FY25 in Rajasthan, Uttar Pradesh and Madhya Pradesh, and one dealer each in Punjab and Bihar.

Maintain SELL: We lower our FY25/FY26/FY27 EPS estimates by 9%/9%/8% factoring in competitive challenges, growth concerns and cost inflation. We model in revenue/EBITDA/PAT CAGR of 8%/7%/6% over FY24-FY27E. We continue to value VSTT at 20x P/E 1-year forward earnings and arrive at a new TP of Rs 3,267 (from Rs 3,420) rolling 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 3,836
Market cap	US\$ 384.4mn
Free float	45%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 5,430/Rs 3,001
Promoter/FPI/DII	55%/5%/15%

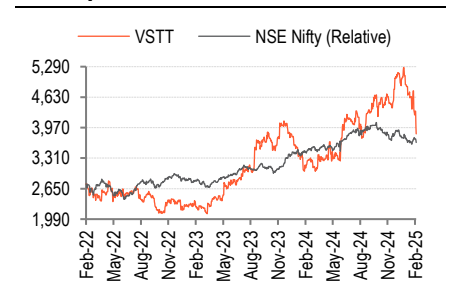
Source: NSE | Price as of 11 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,681	9,668	10,924
EBITDA (Rs mn)	1,242	1,137	1,309
Adj. net profit (Rs mn)	1,215	1,072	1,252
Adj. EPS (Rs)	140.6	124.0	144.9
Consensus EPS (Rs)	140.6	137.4	165.6
Adj. ROAE (%)	13.1	10.5	11.1
Adj. P/E (x)	27.3	30.9	26.5
EV/EBITDA (x)	26.7	29.0	25.1
Adj. EPS growth (%)	31.6	(11.8)	16.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volumes	<p>Volumes for Power Tiller/Tractors/Power Weeder/Reaper grew by 32%/43%/69%/35% YoY to 6.6k/1.4k/1.65k/1.6k respectively.</p> <p>Subsidy has been continuously coming down and differs from state to state.</p> <p>VSTT has guided for 20-25% growth to continue in FY26 as well.</p>	<p>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.</p>	<p>Above-normal monsoon, better crop yields and better reservoir levels could change in favour of demand. However, challenging business environment will mean revival for VSTT volume will be steady.</p>
Topline guidance	<p>Management expects strong growth in Tractor and Tiller segment in Feb and Mar'25.</p> <p>Volumes to carry forward from Q3FY25 to Q4FY25 on account of cash flow and billing delay.</p> <p>VSTT expects to end FY25 with higher single digit growth for Tillers. It expects Tractors to grow at 10-15% in FY25.</p>	<p>VSTT recorded 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.</p>	<p>We believe targets set by management are aggressive and its track record suggests it is unlikely to achieve its targets unless VSTT initiates radical changes in its strategy. The unfavourable regional mix in the domestic market needs to be addressed as a priority.</p>
Margins	<p>VSTT had an operational EBITDA margin of 8.92% and PAT of 0.77%.</p> <p>PAT impacted due to mark-to-market loss of Rs 0.11bn, against YoY market gain of Rs 0.15bn.</p>	<p>VSTT had an operational EBITDA margin of 13.33% and PAT of 15.9% (includes higher treasury income). Management expects margins to continue in H2 and does not expect much impact from commodity inflation.</p>	<p>No major respite in the operating performance. Commodity cost decline may help VSTT improve its performance but only for a limited period.</p>
Launches	<p>VSTT has set a target of sale of 1,500 Zetor in FY26. Another range of tractors are to be launched in Q1/Q2FY26.</p> <p>VSTT exports products to European, Asian, and African markets, while the US market remains untapped. VSTT continues to strengthen its presence in the European markets.</p>	<p>VSTT Zetor has 60 dealers in India and expects to increase this number to 75-80. The dealers break even at 30-40 units.</p> <p>VSTT is striving to have a global presence and is in the midst of launching products in Europe (Italy) and North America.</p>	<p>The focus on the 41-50 HP segment continues to yield limited success as reflected in the performance. Meaningful global presence is awaited. The volume target is aggressive.</p>
Capex and R&D spend	<p>No new capex announcement by the company. VSTT continues to expand its R&D team and spending to enable new launches.</p> <p>VSTT continues to evaluate M&A opportunities on a regular basis.</p>	<p>No new capex announcement by the company. VSTT has an R&D team of 80-90 people.</p>	<p>No aggressive capex augurs well for VSTT as the focus has to be on capacity utilisation ramp up.</p>
Other key points	<p>In Q3FY25, revenue from the Specialised Farm Machinery (SFM) segment was Rs 1.24bn, Tractor segment Rs 0.64bn and Distribution and others Rs 0.26bn.</p> <p>VSTT had plans to invest in the US in FY26. However, keeping in mind the new government in the US and volatility in tariffs, VSTT reserves being flexible on the timing of expansion.</p> <p>Employee expenses increased on account of additional employees hired for R&D. Further, ESOPs were issued in Q3FY25.</p>	<p>In Q2FY25, revenue from the SFM segment was Rs 1.85bn, Tractors segment Rs 0.74bn and Distribution & others Rs 0.28bn.</p> <p>Receivables rose due to government orders received and supply being in process. Management expects receivables days to normalise by Q3FY25 to 45-50 days.</p> <p>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.</p>	<p>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.</p> <p>Regulatory headwinds pose serious challenges for the company's margin profile which is already weak.</p> <p>Changing dynamics of the export markets, particularly the USA, only add to concerns.</p>

Parameter	Q3FY25	Q2FY25	Our view
	Retail financing has moved up to 8% vs 4% YoY and VSTT expects it to be 15% in FY26. Management has no plans to sell land as of now and shall dispose of it when the need for fund utilisation arises. In the SFM segment competitive headwinds are low whereas regulatory headwinds are higher (subsidy based).	VSTT joint venture (JV) with Kobashi Industries is on hold due to the slowdown at Kobashi Industries.	

Source: Company, BOBCAPS Research | HP: Horse power

Fig 2 – Quarterly performance (standalone)

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Volume (nos)	8,086	6,039	33.9	12,542	(35.5)	8,086	0.0
Avg. Realisation per Vehicle (Rs)	2,70,962	2,81,437	(3.7)	2,25,985	19.9	2,23,725	(17.4)
Net Revenues	2,191	1,700	28.9	2,834	(22.7)	1,809	(17.4)
Total Income (A)	2,191	1,700	28.9	2,834	(22.7)	1,809	(17.4)
Operating Expenses							
Raw materials consumed	1,518	1,175	29.2	1,930	(21.3)	1,222	(19.5)
Employee Expenses	254	205	23.9	255	(0.2)	241	(5.2)
Other Expenses	223	224	(0.5)	272	(18.1)	172	(22.9)
Total Expenditure (B)	1,996	1,604	24.4	2,456	(18.8)	1,635	(18.1)
EBITDA (A-B)	196	95	104.9	378	(48.3)	175	(10.7)
Other Income	132	27	382.8	62	114.1	188	42.1
Depreciation	64	68	(5.9)	65	(1.2)	66	3.4
EBIT	264	55	380.0	375	(29.6)	297	12.3
Finance Costs	5	6	(18.6)	6	(14.3)	6	25.0
PBT after excep items	110	(154)		(206)		-	(100.0)
Tax expense	149	203	(26.8)	575	(74.1)	291	95.3
Reported PAT	127	170	(24.8)	449	(71.6)	68	219.0
Adjusted PAT	238	15	1454.2	244	(2.3)	222	74.5
EPS (Rs)	27.5	19.6	40.3	28.2	(2.3)	222	(6.5)
Key Ratios (%)			(bps)		(bps)		(bps)
Gross Margin	30.7	30.9	(17)	32	(122)	32.5	(309)
EBITDA Margin	8.9	5.6	331	13	(441)	9.6	(230)
EBIT Margin	12.0	3.2	881	13	(119)	16.4	(278)
PBT Margin	11.8	2.9	894	13	(121)	16.1	(272)
Tax Rate	14.4	16.6	(224)	22	(752)	23.5	321
Adj PAT Margin	10.9	0.9	995	9	226	12.3	(146)

Source: Company, BOBCAPS Research

Valuation methodology

We lower our FY25/FY26/FY27 EPS estimates by 9%/9%/8%, factoring in competitive challenges, growth concerns and cost inflation. We model in revenue/EBITDA/PAT CAGR of 8%/7%/6% over FY24-FY27E.

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.

We continue to value VSTT at 20x P/E 1-year forward earnings and arrive at a new TP of Rs 3,267 (from Rs 3,420) rolling forward. Thus, we maintain a SELL rating on VSTT.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,668	10,924	12,135	10,328	11,687	13,003	(6.4)	(6.5)	(6.7)
EBITDA	1,137	1,309	1,525	1,276	1,465	1,698	(10.9)	(10.7)	(10.2)
Adj PAT	1,072	1,252	1,455	1,176	1,370	1,585	(8.9)	(8.6)	(8.2)
Adj EPS (Rs)	124.0	144.9	168.4	136	159	184	(8.9)	(8.6)	(8.2)

Source: Company, BOBCAPS Research

Fig 4 – Key assumptions

	FY24	FY25E	FY26E	FY27E
Tractor volume (nos)	5,913	5,618	5,983	6,282
Tillers volume (nos)	34,204	30,784	34,170	37,245
Revenue (Rs mn)	9,441	9,668	10,924	12,135
Avg realisation (Rs)	2,35,338	2,65,584	2,72,060	2,78,783
EBITDA (Rs mn)	1,242	1,137	1,309	1,525
EBITDA margin (%)	12.8	11.8	12.0	12.6
Adj. PAT (Rs mn)	1,215	1,072	1,252	1,455
EPS (Rs)	140.6	124.0	144.9	168.4

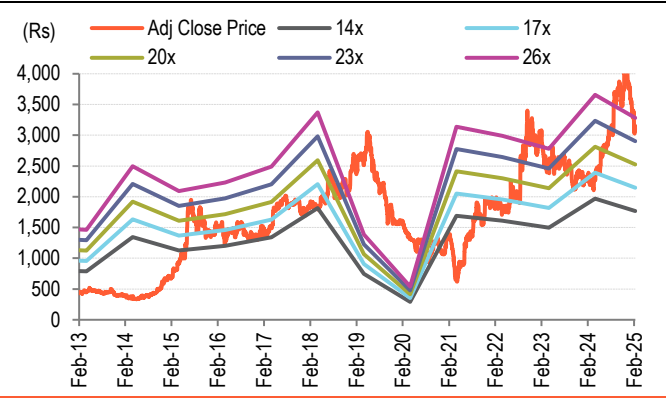
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
VST Tillers Tractors	VSTT IN	SELL	3,267	144.9	168.4	11.6	12.2
Escorts Kubota	ESCORTS IN	SELL	2,533	108.3	129.1	11.0	11.7
Mahindra & Mahindra	MM IN	BUY	3,689	127.1	142.5	22.3	20.8

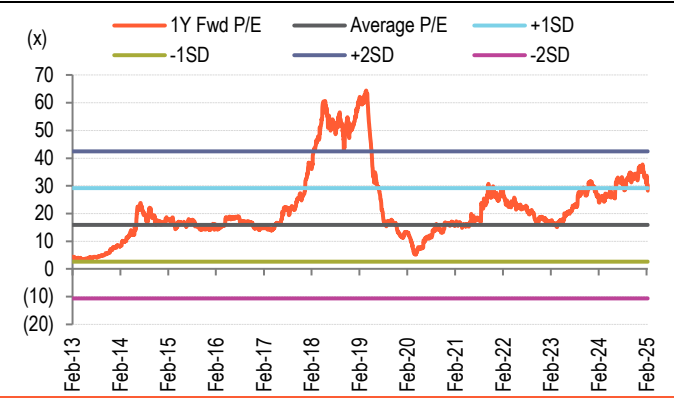
Source: BOBCAPS Research

Fig 6 – P/E band: Valuations decoupled from 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	FY24A	FY25E	FY26E	FY27E
Total revenue	10,064	9,681	9,668	10,924	12,135
EBITDA	1,272	1,242	1,137	1,309	1,525
Depreciation	232	270	271	296	324
EBIT	1,252	1,578	1,454	1,697	1,967
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	1,429	1,670	1,940
Income taxes	316	341	357	417	485
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	1	1	1	1
Reported net profit	924	1,215	1,072	1,252	1,455
Adjustments	0	0	0	0	0
Adjusted net profit	924	1,215	1,072	1,252	1,455

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,767	1,419	1,160	1,247	1,397
Other current liabilities	801	850	909	1,087	1,195
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	10,126	11,219	12,488
Shareholders' fund	8,244	9,241	10,212	11,305	12,574
Total liab. and equities	10,883	11,604	12,366	13,732	15,269
Cash and cash eq.	281	467	448	319	465
Accounts receivables	1,492	1,552	848	988	1,097
Inventories	1,079	1,178	1,192	1,377	1,529
Other current assets	1,001	1,080	834	958	1,064
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
Total assets	10,883	11,604	12,366	13,732	15,269

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	219	346	1,457	663	885
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
Cash flow from investing	(158)	(7)	(1,404)	(663)	(585)
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)	(137)	(160)	(185)
Other financing cash flows	31	8	40	4	4
Cash flow from financing	(155)	(196)	(122)	(183)	(209)
Chg in cash & cash eq.	(94)	143	(69)	(183)	91
Closing cash & cash eq.	281	467	448	319	465

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	106.9	140.6	124.0	144.9	168.4
Adjusted EPS	106.9	140.6	124.0	144.9	168.4
Dividend per share	20.0	21.1	15.8	18.5	21.5
Book value per share	954.3	1,069.6	1,182.0	1,308.5	1,455.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.3	3.4	3.4	3.0	2.7
EV/EBITDA	25.9	26.7	29.0	25.1	21.7
Adjusted P/E	35.9	27.3	30.9	26.5	22.8
P/BV	4.0	3.6	3.2	2.9	2.6

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	98.3	98.4	98.6
EBIT margin (EBIT/Revenue)	12.4	16.3	15.0	15.5	16.2
Asset turnover (Rev./Avg TA)	127.9	110.7	99.4	101.5	101.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	11.7	13.9	11.0	11.6	12.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	17.9	(3.8)	(0.1)	13.0	11.1
EBITDA	2.4	(2.4)	(8.5)	15.1	16.5
Adjusted EPS	(7.0)	31.6	(11.8)	16.9	16.2
Profitability & Return ratios (%)					
EBITDA margin	12.6	12.8	11.8	12.0	12.6
EBIT margin	12.4	16.3	15.0	15.5	16.2
Adjusted profit margin	9.2	12.6	11.1	11.5	12.0
Adjusted ROAE	11.2	13.1	10.5	11.1	11.6
ROCE	11.9	14.1	11.2	11.8	12.4
Working capital days (days)					
Receivables	39	57	45	31	31
Inventory	38	43	45	43	44
Payables	79	88	71	58	58
Ratios (x)					
Gross asset turnover	0.4	0.5	0.5	0.5	0.5
Current ratio	1.5	1.8	1.5	1.5	1.5
Net interest coverage ratio	98.4	73.4	58.2	62.8	72.8
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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BUY – Expected return >+15%

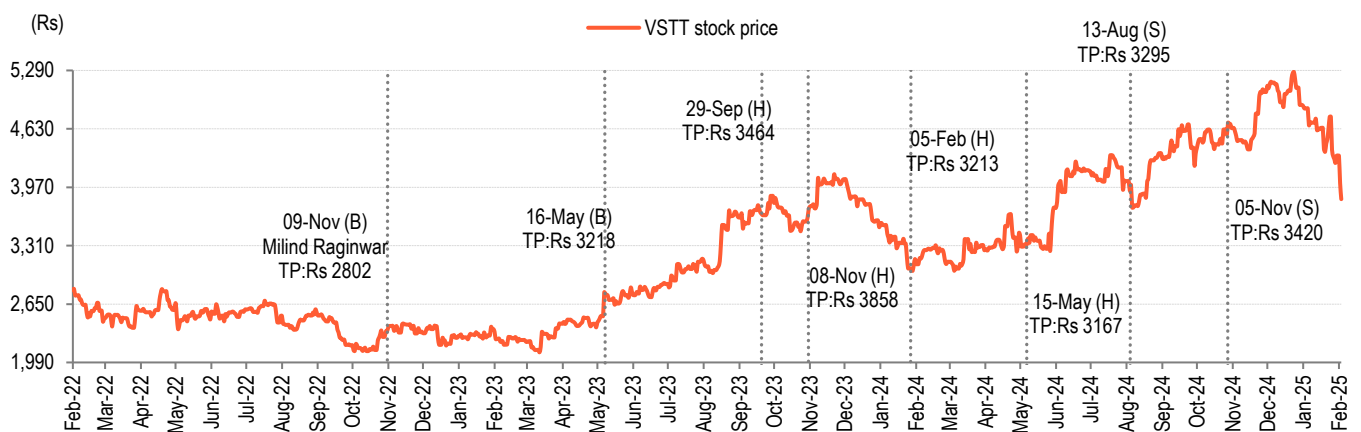
HOLD – Expected return from -6% to +15%

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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