

HOLD

TP: Rs 3,167 | ▼ 6%

VST TILLERS TRACTORS | Automobiles

15 May 2024

Tepid performance; no major stress in the medium term

- Q4 revenue down 15% YoY driven by 19% volume decline due to slower-than-estimated rural demand recovery
- Weak topline and volumes resulted in 230bps YoY EBITDA margin contraction to 14.6%
- We lower our FY25E/FY26E earnings by 1%/2% and cut TP to Rs 3,167 (vs. Rs 3,213), valuing it at 20x P/E FY26E earnings. Maintain HOLD

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Lower volumes drag revenue: VSTT's Q4FY24 revenue fell 15% YoY to Rs 2.7bn as volumes fell due to slow rural demand recovery. VSTT clocked overall volumes of just ~11.6k units, a drop of 19% YoY (not comparable QoQ due to very weak show) with power tiller volumes down 10% YoY to ~11.5k units and tractor volumes declining sharply by 29% YoY to ~1k units. Net realisation per vehicle grew 5% YoY to Rs 0.23mn. Management has guided for 10-15% volume growth for tractors and 15-20% for tillers in FY25.

Margin continues to contract: Raw material cost stayed listless at 67% of sales from 68% in Q4FY23 due to weak volumes, contributing to flat gross margin at ~32.6% in Q4FY24 vs. 31.8% in Q4FY23. Effectively, EBITDA fell 27% YoY to Rs 398mn with margin contraction of 230bps to 14.6%. Adj. PAT slipped 13% YoY to Rs 351mn, marginally supported by other income of Rs 104mn (2x Q4FY23) on account of treasury gains booked in 4QFY24.

Focus on higher HP and compact segments: Tractor volumes remained subdued in Q4FY24 as key markets for compact tractors in Maharashtra and Karnataka have not yet revived. VSTT's Zetor tractors are currently being seeded in the markets and management expects volume to ramp up in Q1FY25. The Zetor 5011, 4511 and 4211, all in the 41-50 HP segment, were launched in Q4. Management expects to reach Rs 20bn in total revenue by FY26, revising its earlier guidance of Rs30bn.

Maintain HOLD: Given FY24's weak performance and the likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 1%/2%, modelling for a revenue/EBITDA/PAT CAGR of 6%/7%/15% over FY23-FY26. We continue to value VSTT at 20x P/E FY26E earnings and arrive at a new TP of Rs 3,167 (vs. Rs 3,213). 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. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VSTT IN/Rs 3,353
Market cap	US\$ 355.0mn
Free float	45%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 4,196/Rs 2,613
Promoter/FPI/DII	55%/5%/15%

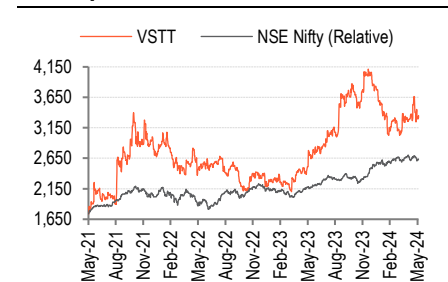
Source: NSE | Price as of 15 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	9,681	10,897	12,003
EBITDA (Rs mn)	1,242	1,385	1,555
Adj. net profit (Rs mn)	1,215	1,237	1,396
Adj. EPS (Rs)	140.6	143.2	161.6
Consensus EPS (Rs)	140.6	144.6	167.6
Adj. ROAE (%)	13.1	11.9	12.1
Adj. P/E (x)	23.8	23.4	20.8
EV/EBITDA (x)	23.4	20.8	18.1
Adj. EPS growth (%)	31.6	1.8	12.8

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

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes	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.	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.	Steady recovery in rural segment is a challenge, however normal monsoon could change in favour of demand.
Topline guidance	Management maintains revenue guidance curtailed to Rs 20bn (earlier Rs30bn) 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 (+/- 6 months) backed by entry into new JVs, product launches, market forays and consolidation in European markets.	We believe even the FY26 target is aggressive and unlikely to be achieved unless VSTT initiates radical changes in its strategy.
VSTT Zetor	New launches continue in 4QFY24, but the response is unlikely to be very strong, at least in the short term.	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 Zetor production to be ramped up from Q1FY25 and larger revenues from the Zetor brand in FY25.	Our channel checks suggest a weaker response to VSTT's new launches.
Dealerships	Current dealership size at ~750 dealers.	No comment in Q3FY24.	The dealership ramp up from 175 in FY20 to 750 currently is not reflected in the volume.
Margins	EBITDA margin guidance for FY25 is 11-13%.	EBITDA margin guidance for FY24 is 11-13%.	No change in the guidance, commodity cost decline may help VSTT achieve the guidance.
Launches	The Zetor 5011, 4511 and 4211, all in the 41-50 HP segment, were launched in Q4.	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.	The focus on the 41-50HP segment continues.
Capex and R&D spend	No major change in the capex plans.	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.	No aggressive capex augurs well for VSTT as the focus has to be on capacity utilisation ramp up.
Other key points	In FY24, revenue from the SFM segment stood at Rs 6bn – from tractors at Rs 3.6bn and from distribution & others at 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	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. VSTT has announced a JV with Kobashi Industries (Japanese blade manufacturer) to source blades for its power tillers, rotavators and rotary tillers. Management expects to enter the US market in the next two years with a portfolio of electric tractors. Of the guided ~1k units for Monarch in FY24, ~300 units have been supplied as on Jan'24.	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 | SFM: Small Farm Mechanisation

Fig 2 – Quarterly performance

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	11,654	14,388	(19.0)	6,039	93.0
Avg. Realisation per Vehicle	2,67,365	2,24,222	19.2	2,27,125	17.7
Net Revenues	3,116	3,226	(3.4)	1,372	127.2
Total Income (A)	3,116	3,226	(3.4)	1,372	127.2
Operating Expenses:					
Raw materials consumed	2,154	2,200	(2.1)	895	140.5
Employee Expenses	222	215	3.4	221	0.5
Other Expenses	374	266	40.7	251	49.0
Total Expenditure (B)	2,749	2,681	2.6	1,367	101.1
EBITDA (A-B)	366	546	(32.8)	4	-
Other Income	151	52	188.7	111	36.0
Depreciation	68	69	(1.4)	68	(0.3)
EBIT	449	529	(15.0)	47	856.2
Finance Costs	6	3	100.0	6	9.1
Exceptional items (less)	-	-	-	-	-
PBT after excep items	443	526	(15.7)	41	968.5
Tax expense	111	124	(10.8)	10	968.5
Reported PAT	333	402	(17.2)	31	968.5
Adjusted PAT	333	402	(17.2)	31	968.5
Adj EPS (Rs)	38.5	46.5	(17.2)	3.6	968.5
Key Ratios (%)			(bps)		(bps)
Gross Margin	32.6	31.8	80	30.9	173
EBITDA Margin	14.6	16.9	(234)	5.6	895
EBIT Margin	15.9	16.4	(46)	12.3	362
PBT Margin	15.7	16.3	(56)	12.0	377
Tax Rate	18.4	23.6	(526)	16.6	176
Adj PAT Margin	12.8	12.4	40	10.0	287

Source: Company, BOBCAPS Research

Valuation methodology

Given the weak FY24 performance and likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 1%/2% and model for a revenue/EBITDA/PAT CAGR of 6%/7%/15% over FY23-FY26. We continue to value VSTT at 20x P/E FY26E earnings and arrive at new TP of Rs 3,167 (vs. Rs 3,213).

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 also been muted. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	10,897	12,003	11,033	12,150	(1.2)	(1.2)
EBITDA	1,385	1,555	1,399	1,585	(1.0)	(1.9)
Adj PAT	1,237	1,396	1,249	1,423	(0.9)	(1.9)
Adj EPS (Rs)	143	162	144.6	164.7	(1.0)	(1.9)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
Tractor volume	7,991	5,913	5,913	6,150
Tillers volume	36,291	34,204	38,993	41,722
Revenue (Rs mn)	10,064	9,441	10,897	12,003
Avg Realisation (Rs)	227,277	235,338	242,653	250,732
EBITDA (Rs mn)	1,272	1,242	1,385	1,555
EBITDA margin (%)	12.6	12.8	12.7	13.0
Adj. PAT (Rs mn)	924	1,215	1,237	1,396
EPS (Rs)	106.9	140.6	143.2	161.6

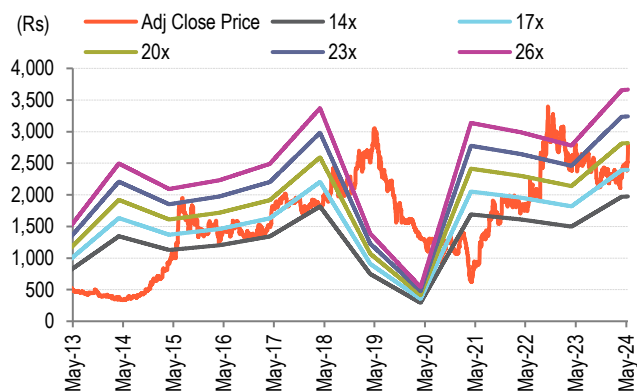
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
VST Tillers Tractors	VSTT IN	HOLD	3,167	143.2	161.6	12.6	12.7
Escorts Kubota	ESCORTS IN	SELL	2,530	106.8	125.2	12.1	12.7
Mahindra & Mahindra	MM IN	BUY	2,077	94.6	103.4	19.0	17.6

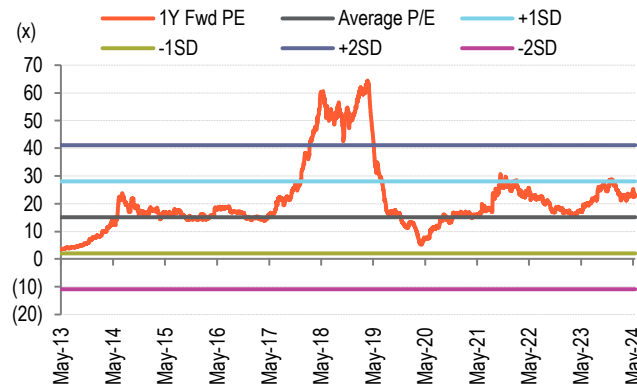
Source: BOBCAPS Research

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	7.2	201	226	BUY
Bajaj Auto	BJAUT IN	31.4	8,903	6,823	SELL
Eicher Motors	EIM IN	15.5	4,649	4,045	HOLD
Escorts	ESCORTS IN	5.9	3,650	2,530	SELL
Hero MotoCorp	HMCL IN	12.3	5,057	4,776	HOLD
Maruti Suzuki	MSIL IN	46.9	12,767	12,965	HOLD
TVS Motor	TVSL IN	12.1	2,100	2,382	BUY
VST Tillers Tractors	VSTT IN	0.4	3,353	3,167	HOLD

Source: BOBCAPS Research, NSE | Price as of 15 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	8,539	10,064	9,681	10,897	12,003
EBITDA	1,242	1,272	1,242	1,385	1,555
Depreciation	216	232	270	271	296
EBIT	1,332	1,252	1,578	1,675	1,888
Net interest inc./(exp.)	(10)	(13)	(22)	(25)	(27)
Other inc./(exp.)	341	249	606	560	629
Exceptional items	0	0	0	0	0
EBT	1,322	1,239	1,556	1,650	1,861
Income taxes	329	316	341	412	465
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	1	1	1
Reported net profit	993	924	1,215	1,237	1,396
Adjustments	0	0	0	0	0
Adjusted net profit	993	924	1,215	1,237	1,396

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,273	1,767	1,419	1,234	658
Other current liabilities	824	801	850	1,082	1,896
Provisions	52	70	94	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	9,155	10,270	11,488
Shareholders' fund	7,495	8,244	9,241	10,357	11,575
Total liab. and equities	9,644	10,883	11,604	12,758	14,222
Cash and cash eq.	313	281	467	975	981
Accounts receivables	676	1,492	1,552	955	1,085
Inventories	1,006	1,079	1,178	1,343	1,513
Other current assets	750	1,001	1,080	940	1,052
Investments	4,136	4,299	4,844	5,344	6,091
Net fixed assets	2,304	2,614	2,744	2,873	3,077
CWIP	120	141	300	400	500
Intangible assets	355	0	(492)	0	0
Deferred tax assets, net	(16)	(25)	(70)	(73)	(77)
Other assets	0	0	0	0	0
Total assets	9,645	10,883	11,604	12,758	14,222

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	960	219	346	1,532	871
Capital expenditures	(516)	(245)	(67)	(992)	(600)
Change in investments	(793)	(163)	(546)	(500)	(746)
Other investing cash flows	341	249	606	560	629
Cash flow from investing	(968)	(158)	(7)	(932)	(718)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(10)	(13)	(22)	(25)	(27)
Dividends paid	(173)	(173)	(182)	(158)	(178)
Other financing cash flows	0	31	8	40	4
Cash flow from financing	(183)	(155)	(196)	(143)	(201)
Chg in cash & cash eq.	(191)	(94)	143	457	(48)
Closing cash & cash eq.	313	281	467	975	981

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	114.9	106.9	140.6	143.2	161.6
Adjusted EPS	114.9	106.9	140.6	143.2	161.6
Dividend per share	20.0	20.0	21.1	18.3	20.6
Book value per share	867.6	954.3	1,069.6	1,198.8	1,339.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.4	2.9	3.0	2.6	2.3
EV/EBITDA	23.1	22.6	23.4	20.8	18.1
Adjusted P/E	29.2	31.4	23.8	23.4	20.8
P/BV	3.9	3.5	3.1	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	75.1	74.5	78.1	75.0	75.0
Interest burden (PBT/EBIT)	99.2	99.0	98.6	98.5	98.6
EBIT margin (EBIT/Revenue)	15.6	12.4	16.3	15.4	15.7
Asset turnover (Rev./Avg TA)	115.9	127.9	110.7	111.2	109.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	13.9	11.7	13.9	12.6	12.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	11.7	17.9	(3.8)	12.6	10.2
EBITDA	18.0	2.4	(2.4)	11.6	12.3
Adjusted EPS	(4.8)	(7.0)	31.6	1.8	12.8
Profitability & Return ratios (%)					
EBITDA margin	14.5	12.6	12.8	12.7	13.0
EBIT margin	15.6	12.4	16.3	15.4	15.7
Adjusted profit margin	11.6	9.2	12.6	11.4	11.6
Adjusted ROAE	13.2	11.2	13.1	11.9	12.1
ROCE	13.6	11.9	14.1	12.8	12.9
Working capital days (days)					
Receivables	32	39	57	42	31
Inventory	44	38	43	42	43
Payables	66	79	88	65	42
Ratios (x)					
Gross asset turnover	0.4	0.4	0.5	0.5	0.5
Current ratio	1.3	1.5	1.8	1.8	1.7
Net interest coverage ratio	127.5	98.4	73.4	67.0	69.9
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%

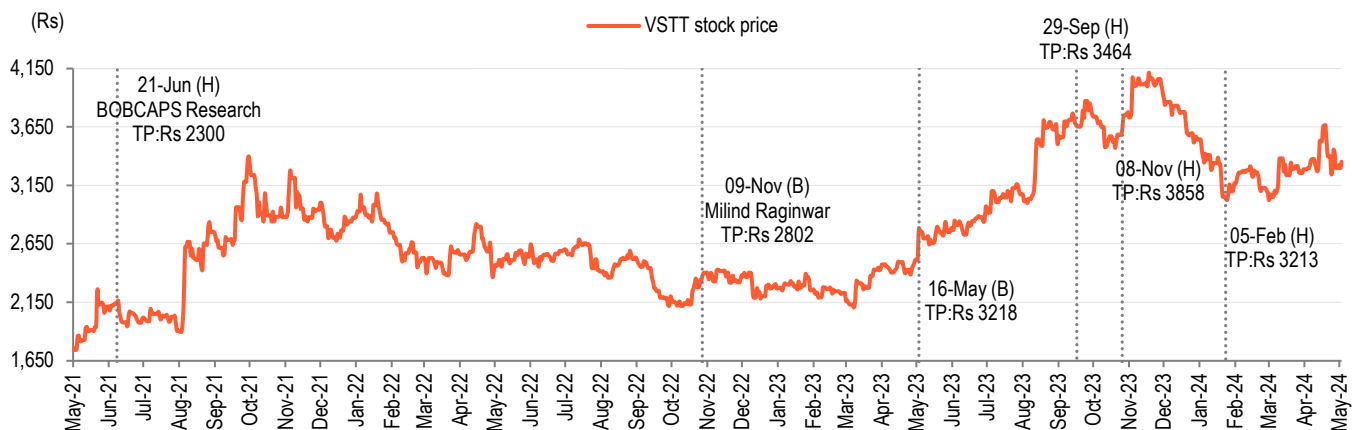
HOLD – Expected return from -6% to +15%

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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