

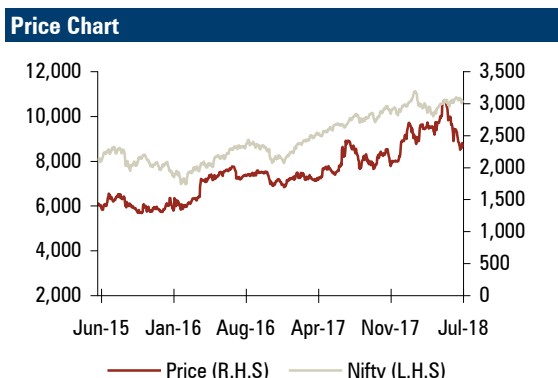
Rating matrix		
Rating	:	Hold
Target	:	2220
Target Period	:	12-18 months
Potential Upside	:	-3%

What's changed?	
Target	Changed from ₹ 2835 to ₹ 2220
EPS FY19E	Changed from ₹ 123.8 to ₹ 106.5
EPS FY20E	Changed from ₹ 141.4 to ₹ 138.8
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	693.7	764.0	835.6	925.7
EBITDA	98.1	119.5	124.4	151.2
Net Profit	71.7	112.0	92.0	119.9
EPS (₹)	80.3	129.6	106.5	138.8

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	27.5	17.6	21.4	16.4
Target P/E	26.8	17.1	20.8	16.0
EV / EBITDA	18.1	15.1	14.0	11.1
P/BV	4.0	3.3	2.9	2.6
RoNW	14.2	18.8	13.7	15.5
RoCE	19.2	24.0	18.2	20.7

Stock data	
Stock Data	
Market Capitalization	₹ 1970 crore
Total Debt (FY18)	₹ 0 crore
Cash & Investments (FY18)	₹ 148 crore
EV	₹ 1822 crore
52 week H/L	3085 / 1935
Equity capital	₹ 8.6 crore
Face value	₹ 10
MF Holding (%)	15.1
FII Holding (%)	4.4



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VST Tillers Tractors (VSTTIL)

₹ 2280

Muted sales volumes dim future outlook...

- VST Tillers & Tractors (VST) reported muted sales volumes in Q1FY19 on both the power tillers and tractors front. For June 2018, power tiller sales volumes came in at 2948 units (down 28.0% YoY) while tractor sales volumes were at 871 units (down 8.7% YoY)
- For Q1FY19, power tiller sales volume came in at 5,367 units, down 24.6% YoY while tractor sales were at 1,927 units, down 24.6% YoY
- The weak performance by the company in the less than 30 hp tractor segment comes as a big negative surprise given healthy growth (~20%+) witnessed by leading tractor players indicating a potential loss in market share by VST to competition

Monsoon activity muted as on date, pick up expected in near term

South West Monsoon, which accounts for ~70% of annual rainfall domestically, has been forecast to be normal in nature. It is forecast at 97% of the long period average (LPA) by the Indian Meteorological Department (IMD) and 100% of LPA by private weather monitoring agency Skymet. Currently, as per the latest press release by the IMD, total cumulative rainfall in the ongoing monsoon season as of July 3 was at ~7% of LPA. The rainfall is surplus in the southern and northwest region while it is in deficit in the eastern and central regions. Cumulative sowing as of June 29 was at 16.5 million hectares, down 22% YoY. Muted sowing activity was largely following muted rainfall spell and is likely to pick up pace as the monsoon progresses. Normal to positive monsoon is positive for all agri machinery companies including VST Tillers & Tractors.

Government focus on doubling farm income by 2022 bodes well for VST

The central government has time and again reiterated its intent to double farm income by 2022. It is targeted through both increase in yields/efficiency as well as better farm realisations. On the yield front, the government focus lies on increasing the irrigation penetration domestically with special emphasis on micro irrigation systems. A lot of these efficiency measures have been promoted through budgetary support. On the pricing front, the government's focus lies on value added products i.e. food processing, wider market reach for farmers through e-NAM network as well as fixing of MSPs at 50% mark up to the cost price. The intent bodes well for domestic farming community with consequent rise in farm income benefiting farm machinery companies including VST.

Weak growth overshadows strong business model; maintain HOLD

Tracking muted sales volume reported in Q1FY19, we downward revise our estimates for VST, going forward. At VST, we expect sales, EBITDA and PAT to grow at a CAGR of 10.1%, 12.5% and 3.5%, respectively, in FY18-20E. We model in power tiller sales volume CAGR of 5.8% and tractor sales volume CAGR of 8.6% in FY18-20E. This is largely in line with the management commentary of rather soft sales volume in the aforesaid period. On the positive side, VST has a capital efficient business model wherein it does ~3x asset turnover, realises ~15% margins and possesses a controlled working capital cycle (~60 days). Consequently, VST is expected to maintain healthy RoIC of ~25% and average operating cash flow yield of ~5.5%. On the balance sheet front, VST remains a cash surplus company (₹ 148 crore as of FY18). Overall, given the dependence on subsidies for its power tiller segment and low growth prospects, we revise our valuation multiple from 20x to 16x. We value VST at ₹ 2220, i.e. 16x P/E on FY20E EPS of ₹ 138.8 with a **HOLD** rating on the stock. Adding volatility to the earnings is the MTM gains/losses on equity investment book at VST.

Financial summary

Profit and loss statement				
	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	693.7	764.0	835.6	925.7
Other Operating Income	0.8	0.0	0.0	0.0
Total Operating Income	694.5	764.0	835.6	925.7
Growth (%)	7.4	10.0	9.4	10.8
Raw Material Expenses	445.9	493.8	549.1	601.7
Employee Expenses	58.5	69.0	71.7	75.6
Other Operating Expense	92.0	81.8	90.5	97.2
Total Operating Expenditure	596.4	644.5	711.3	774.6
EBITDA	98.1	119.5	124.4	151.2
Growth (%)	-13.0	21.8	4.1	21.5
Depreciation	11.8	10.9	12.9	16.7
Interest	3.0	1.7	0.0	0.0
Other Income	16.2	45.3	20.0	36.8
PBT	99.5	152.2	131.5	171.3
Exceptional Item	-3.3	0.0	0.0	0.0
Total Tax	31.2	40.2	39.4	51.4
PAT	71.7	112.0	92.0	119.9
Growth (%)	-3.3	56.2	-17.8	30.3
EPS (₹)	80.3	129.6	106.5	138.8

Source: Company, ICICI Direct Research

Cash flow statement				
	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	71.7	112.0	92.0	119.9
Add: Depreciation	11.8	10.9	12.9	16.7
(Inc)/dec in Current Assets	5.3	-93.1	-0.5	-35.4
Inc/(dec) in CL and Provisions	13.8	58.5	11.8	16.8
Others	3.0	1.7	0.0	0.0
CF from operating activities	105.5	89.9	116.2	118.1
(Inc)/dec in Investments	-74.6	-19.0	-50.0	-45.0
(Inc)/dec in Fixed Assets	-18.9	-66.4	-50.0	-50.0
Others	2.6	-9.6	16.0	5.0
CF from investing activities	-90.9	-94.9	-84.0	-90.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-18.5	-53.5	-15.6	-20.7
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	12.8	47.1	0.0	0.0
CF from financing activities	-5.7	-6.4	-15.6	-20.7
Net Cash flow	8.9	-11.4	16.7	7.3
Opening Cash	27.7	36.6	25.2	41.9
Closing Cash	36.6	25.2	41.9	49.2

Source: Company, ICICI Direct Research

Balance sheet				
	₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	8.6	8.6	8.6	8.6
Reserve and Surplus	480.4	587.7	664.1	763.3
Total Shareholders funds	489.1	596.3	672.8	771.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	3.7	5.9	5.9	5.9
Minority Interest / Others	39.9	39.2	44.2	49.2
Total Liabilities	532.7	641.4	722.8	827.0
Assets				
Gross Block	199.5	219.4	276.2	366.2
Less: Acc Depreciation	72.9	83.8	96.7	113.4
Net Block	126.6	135.6	179.5	252.8
Capital WIP	10.3	56.8	50.0	10.0
Total Fixed Assets	136.9	192.4	229.5	262.8
Investments	210.9	229.8	279.8	324.8
Inventory	70.7	78.4	91.6	101.4
Debtors	132.3	186.1	194.6	215.6
Loans and Advances	29.8	56.6	33.4	37.0
Other Current Assets	1.5	6.3	8.4	9.3
Cash	36.6	25.2	41.8	49.2
Total Current Assets	270.9	352.6	369.8	412.5
Current Liabilities	81.6	142.7	148.8	164.9
Provisions	4.3	1.7	7.4	8.2
Current Liabilities & Prov	85.9	144.4	156.3	173.1
Net Current Assets	185.0	208.2	213.5	239.4
Others Assets	0.0	11.0	0.0	0.0
Application of Funds	532.7	641.4	722.8	827.0

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	83.0	129.6	106.5	138.8
Cash EPS	96.6	142.2	121.4	158.1
BV	566.1	690.2	778.7	893.4
DPS	18.0	60.0	18.0	24.0
Cash Per Share (Incl Invst)	286.4	295.1	372.3	432.9
Operating Ratios (%)				
EBITDA Margin	14.1	15.6	14.9	16.3
PAT Margin	10.3	14.7	11.0	12.9
Inventory days	37.2	37.5	40.0	40.0
Debtor days	69.6	88.9	85.0	85.0
Creditor days	42.9	68.2	65.0	65.0
Return Ratios (%)				
RoE	14.2	18.8	13.7	15.5
RoCE	19.2	24.0	18.2	20.7
RoIC	26.0	26.7	25.4	25.3
Valuation Ratios (x)				
P/E	27.5	17.6	21.4	16.4
EV / EBITDA	18.1	15.1	14.0	11.1
EV / Net Sales	2.6	2.4	2.1	1.8
Market Cap / Sales	2.8	2.6	2.4	2.1
Price to Book Value	4.0	3.3	2.9	2.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.3	2.1	2.1
Quick Ratio	1.9	1.7	1.5	1.5

Source: Company, ICICI Direct Research

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Hold: Up to +/-10%;

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