# VST Tillers Tractors (VSTTIL)

ICICI direct Research

| CMP: ₹ 1,360 | Target:₹ 1,300 (-4%) | Target Period: 12 months | HOLD |
|---|---|---|---|

June 25, 2020

## Sharp run-up bakes in positives, execution awaited…

VST Tillers & Tractors (VST) reported a dismal Q4FY20 performance. The company reported negative EBITDA margin to the tune of 5.4% with consequent loss of ₹ 3.4 crore at the PAT level in Q4FY20. Power tiller sales volume in Q4FY20 was at 4917 units, down 32% YoY while tractor sales volume was at 1470 units, down 31% YoY. Sales in value terms for Q4FY20 came in at ₹ 120 crore, down 33% YoY. For full year FY20, net sales were at ₹ 544 crore with EBITDA at ₹ 17.3 crore and PAT at ₹ 18 crore (EPS ₹ 20.8).

### China angle may potentially support power tiller volumes

VST is the industry leader in the power tiller segment with a market share of ~46% as of FY20. It is down significantly from ~58-60% market share enjoyed by VST in the past primarily tracking management conscious decision to control receivables, given the power tiller demand is entirely driven by the subsidy mechanism. In the power tiller segment, apart from VST, a state owned entity (Kamco) controls ~25% market share. Then there are a host of companies who directly import from China with their cumulative market share pegged at ~25-30%. This represents an immediate opportunity to VST given the present thrust on reducing Chinese's imports and Chinese products not faring well on strigent testing parameters by government for subsidy rebates. However, it remains to be seen whether this transition away from China actually happens. Moreover, with state governments spending meaningful resources to counter Covid-19, it is possible state share of subsidies towards power tiller segment may decline in H2FY21E. This will limit the overall growth prospects for the industry. For VST, we bake in positive 5% volume growth in this segment for FY21E and 12% volume growth thereafter in FY22E (22,778 units in FY22E).

### Management optimistic on regaining margin glory

The EBITDA margin profile has been muted in the recent past amid material costs pressures and high provisioning for bad debts. The EBITDA margin profile has deteriorated quite significantly from being steady 15%+ till FY18 to 3.2% in FY20. With management guidance of worst behind them they foresee regaining the margin glory. Conservatively, we bake in 10% EBITDA margins for FY21E and 12% for FY22E. VST is also developing innovative solutions in the higher hp tractor segment and is hopeful of tasting success in this domain both domestically as well in exports.

### Valuation & Outlook

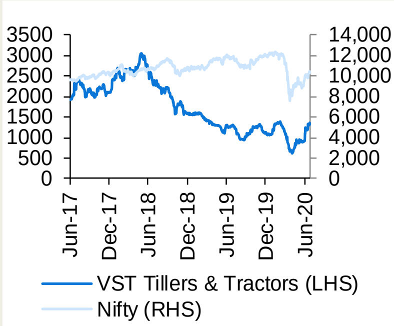
VST's stock witnessed a sharp up move (>2x) from early April 2020 lows with key positives on China dependency shift and regaining of higher margin trajectory and now trades at ~19x P/E on FY22E numbers with RoCE at 12%. The present valuations leave little room for upgrade. We will wait for the company to execute these positives before any meaningful change in our stance. We maintain **HOLD** rating on VST with a target price of ₹ 1300/share i.e. 18x P/E on FY22E EPS of ₹ 72.2. VST stays a net cash positive company.

VST SHAKTI

**Particulars**

| Stock Data | |
|---|---|
| Market Capitalization | ₹ 1175 crore |
| Total Debt (FY20P) | ₹ 0 crore |
| Cash & Investments (FY20P) | ₹ 147 crore |
| EV | ₹ 1028 crore |
| 52 week H/L | 1429 / 601 |
| Equity capital | ₹ 8.6 crore |
| Face value (₹) | 10.0 |

**Price Chart**

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Company Update

ICICI Securities – Retail Equity Research

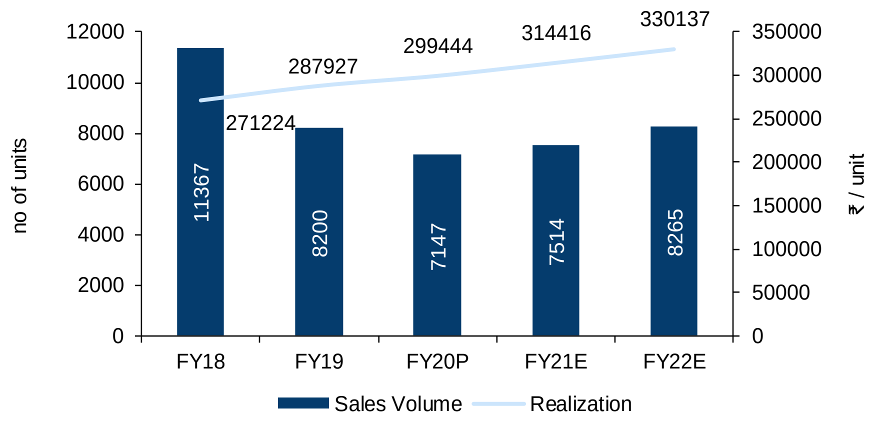
**Key Financial Summary**

| (Year-end March) | FY18 | FY19 | FY20P | FY21E | FY22E | CAGR (FY20E-22E) |
|---|---|---|---|---|---|---|
| Net Sales (₹ crore) | 764.0 | 614.9 | 543.7 | 597.7 | 686.1 | 12.3% |
| EBITDA (₹ crore) | 119.5 | 46.0 | 17.3 | 59.8 | 82.3 | 118.1% |
| EBITDA Margins (%) | 15.6 | 7.5 | 3.2 | 10.0 | 12.0 | |
| Net Profit (₹ crore) | 112.0 | 46.1 | 18.0 | 50.5 | 62.4 | 86.3% |
| EPS (₹) | 129.6 | 53.3 | 20.8 | 58.4 | 72.2 | |
| P/E (x) | 10.5 | 25.5 | 65.4 | 23.3 | 18.8 | |
| RoCE (%) | 24.0 | 11.5 | 4.0 | 10.6 | 12.2 | |
| RoE (%) | 18.8 | 7.8 | 3.1 | 8.3 | 9.6 | |

*Source: Company, ICICI Direct Research*

## Financial story in charts

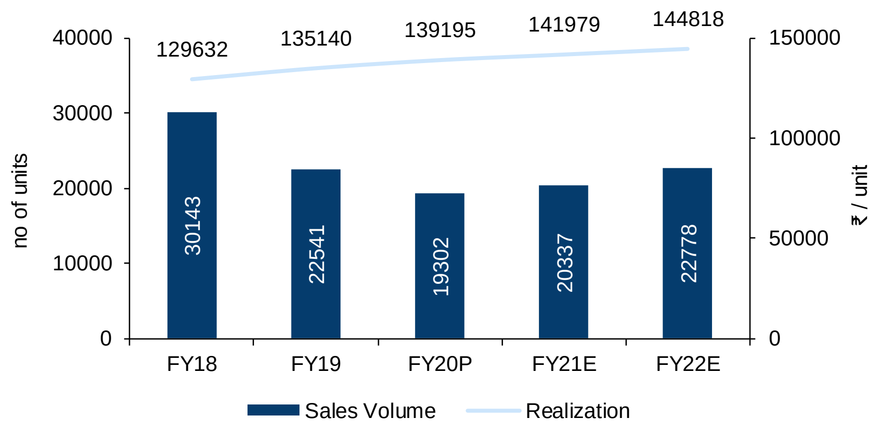
### Exhibit 1: Tractor sales volume and realisation




*Source: Company, ICICI Direct Research*

*We expect tractor sales volume to grow at a CAGR of 7.5% over FY20P-22E to 8,265 units in FY22E. On the realisations front, this is set to improve given management thrust on higher hp products. In the higher hp segment the company sold 229 units in FY20 vs. 60-70 units in FY19 and is targeting sales of ~1000 units in FY21E. It expects to leverage its association with Zetor in higher hp tractor segment*

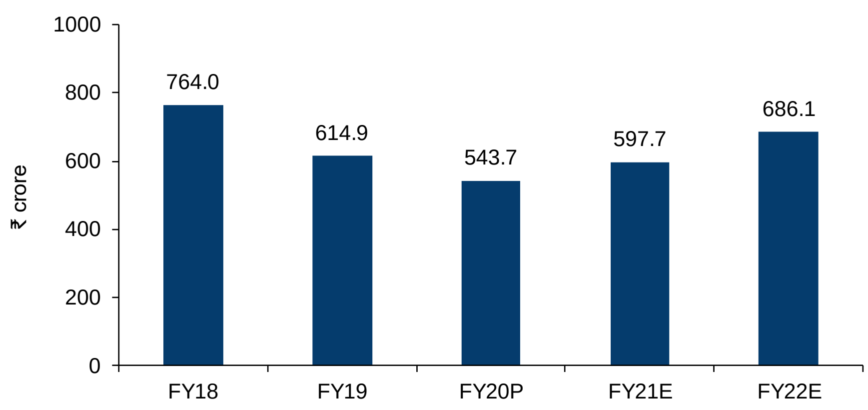
### Exhibit 2: Power tiller sales volume and realisation




*Source: Company, ICICI Direct Research*

*We expect power tiller sales volume to grow at a CAGR of 8.6% in FY20P-22E to 22,778 units in FY22E. VST has indegeniously developed an innovative subsidy neutral power tiller, which it expects to launch later in the year FY21E wherein it intends to make decent margins*

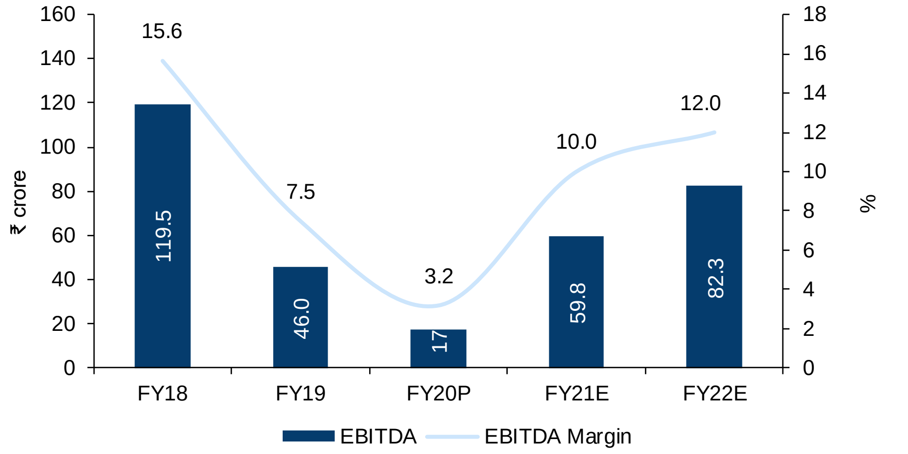
### Exhibit 3: Topline trend




*Source: Company, ICICI Direct Research*

*We expect sales to grow at a CAGR of 12.3% over FY20P-22E to ₹ 686 crore in FY22E*

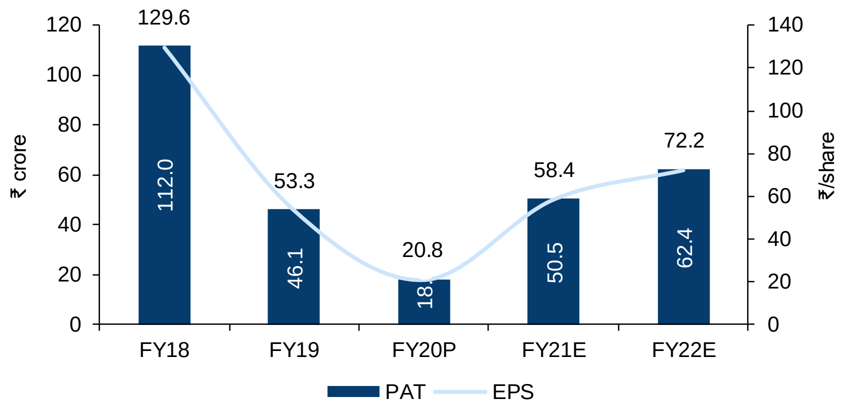
Exhibit 4: EBITDA and EBITDA margin trend




*Source: Company, ICICI Direct Research*

*We expect EBITDA margins to improve from a low of 3.2% in FY20P to 10% in FY21E & 12% in FY22E*

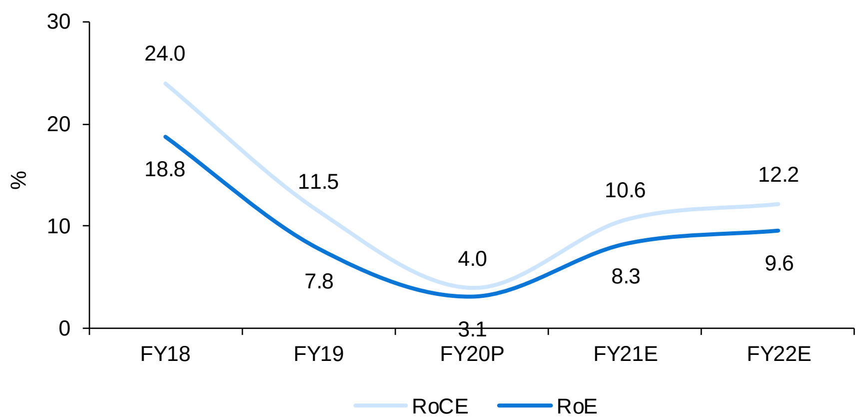
Exhibit 5: PAT and EPS trend




*Source: Company, ICICI Direct Research*

*PAT is seen improving primarily tracking positive volume growth and resurgent margins. EPS is seen improving from ₹ 20.8/share in FY20P to ₹ 72.2/ share in FY22E. PAT in FY20P was adversely affected to the tune of ~₹ 20 crore priamirly on account of MTM loss (~₹ 12 crore) on investments and provision for bad debts (~₹ 8 crore)*

Exhibit 6: Return ratios trend




*Source: Company, ICICI Direct Research*

*Return ratios are seen muted in FY20-22E, still some time away from its usual range of ~20% till FY18*

# Financial Summary

**Exhibit 7: Profit and loss statement** (₹ crore)

| (Year-end March) | FY19 | FY20P | FY21E | FY22E |
|---|---|---|---|---|
| Net Sales | 614.9 | 543.7 | 597.7 | 686.1 |
| Other Operating Income | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Operating Income** | **614.9** | **543.7** | **597.7** | **686.1** |
| Growth (%) | -19.5 | -11.6 | 9.9 | 14.8 |
| Raw Material Expenses | 406.2 | 372.4 | 394.5 | 445.9 |
| Employee Expenses | 66.1 | 68.3 | 65.2 | 68.6 |
| Other Operating Expense | 96.6 | 85.7 | 78.3 | 89.2 |
| Total Operating Expenditure | 568.9 | 526.4 | 538.0 | 603.7 |
| **EBITDA** | **46.0** | **17.3** | **59.8** | **82.3** |
| Growth (%) | -61.5 | -62.4 | 245.5 | 37.7 |
| Depreciation | 15.8 | 16.4 | 18.1 | 21.3 |
| Interest | 2.3 | 1.5 | 2.0 | 1.5 |
| Other Income | 43.7 | 23.6 | 27.8 | 23.9 |
| **PBT** | **71.6** | **23.0** | **67.5** | **83.4** |
| Exceptional Item | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 25.5 | 5.1 | 17.0 | 21.0 |
| **PAT** | **46.1** | **18.0** | **50.5** | **62.4** |
| Growth (%) | -58.8 | -61.0 | 181.1 | 23.5 |
| **EPS (₹)** | **53.3** | **20.8** | **58.4** | **72.2** |

*Source: Company, ICICI Direct Research*

**Exhibit 8: Cash flow statement** (₹ crore)

| (Year-end March) | FY19 | FY20P | FY21E | FY22E |
|---|---|---|---|---|
| Profit after Tax | 46.1 | 18.0 | 50.5 | 62.4 |
| Add: Depreciation | 15.8 | 16.4 | 18.1 | 21.3 |
| (Inc)/dec in Current Assets | 29.0 | 30.1 | -3.5 | -26.6 |
| Inc/(dec) in CL and Provision | -39.1 | 4.6 | 6.5 | 17.2 |
| Others | 2.3 | 1.5 | 2.0 | 1.5 |
| **CF from operating activitie** | **54.0** | **70.6** | **73.5** | **75.8** |
| (Inc)/dec in Investments | 38.7 | 9.1 | 13.0 | -22.0 |
| (Inc)/dec in Fixed Assets | -41.4 | -29.7 | -70.0 | -30.0 |
| Others | 8.0 | -11.3 | 2.0 | 2.0 |
| **CF from investing activitie** | **5.3** | **-31.9** | **-55.0** | **-50.0** |
| 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 | -17.8 | -17.1 | -19.3 | -23.1 |
| Inc/(dec) in Share Cap | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | -47.3 | -14.5 | 0.0 | 0.0 |
| **CF from financing activitie** | **-65.1** | **-31.5** | **-19.3** | **-23.1** |
| **Net Cash flow** | **-5.8** | **7.2** | **-0.8** | **2.7** |
| Opening Cash | 24.5 | 18.7 | 25.9 | 25.1 |
| **Closing Cash** | **18.7** | **25.9** | **25.1** | **27.9** |

*Source: Company, ICICI Direct Research*

**Exhibit 9: Balance Sheet** (₹ crore)

| (Year-end March) | FY19 | FY20P | FY21E | FY22E |
|---|---|---|---|---|
| Liabilities | | | | |
| Equity Capital | 8.6 | 8.6 | 8.6 | 8.6 |
| Reserve and Surplus | 581.3 | 568.3 | 601.5 | 642.3 |
| **Total Shareholders funds** | **589.9** | **576.9** | **610.2** | **650.9** |
| Total Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Liability | 7.0 | 1.4 | 1.4 | 1.4 |
| Minority Interest / Others | 46.1 | 40.5 | 42.5 | 44.5 |
| **Total Liabilities** | **643.0** | **618.8** | **654.0** | **696.7** |
| Assets | | | | |
| Gross Block | 300.0 | 316.8 | 406.8 | 446.8 |
| Less: Acc Depreciation | 94.3 | 110.7 | 128.8 | 150.1 |
| Net Block | 205.7 | 206.2 | 278.1 | 296.7 |
| Capital WIP | 34.8 | 47.7 | 27.7 | 17.7 |
| **Total Fixed Assets** | **240.5** | **253.9** | **305.8** | **314.4** |
| Investments | 168.5 | 159.4 | 146.4 | 168.4 |
| Inventory | 123.7 | 102.3 | 106.4 | 122.2 |
| Debtors | 96.4 | 96.2 | 106.4 | 122.2 |
| Loans and Advances | 74.7 | 65.9 | 54.5 | 48.9 |
| Other Current Assets | 4.4 | 4.7 | 5.2 | 5.9 |
| **Cash** | **18.7** | **25.9** | **25.1** | **27.9** |
| Total Current Assets | 317.8 | 294.9 | 297.7 | 327.0 |
| Current Liabilities | 103.7 | 108.3 | 114.6 | 131.6 |
| Provisions | 1.6 | 1.7 | 1.8 | 2.0 |
| Current Liabilities & Prov | 105.3 | 109.9 | 116.4 | 133.6 |
| **Net Current Assets** | **212.5** | **185.0** | **181.3** | **193.4** |
| Others Assets | 21.4 | 20.5 | 20.5 | 20.5 |
| **Application of Funds** | **643.0** | **618.8** | **654.0** | **696.7** |

*Source: Company, ICICI Direct Research*

**Exhibit 10: Key ratios**

| (Year-end March) | FY19 | FY20P | FY21E | FY22E |
|---|---|---|---|---|
| Per share data (₹) | | | | |
| EPS | 53.3 | 20.8 | 58.4 | 72.2 |
| Cash EPS | 71.6 | 39.7 | 79.4 | 96.9 |
| BV | 682.8 | 667.8 | 706.2 | 753.4 |
| DPS | 15.0 | 15.0 | 20.0 | 25.0 |
| Cash Per Share (Incl Invst) | 216.7 | 214.5 | 198.6 | 227.2 |
| **Operating Ratios (%)** | | | | |
| EBITDA Margin | 7.5 | 3.2 | 10.0 | 12.0 |
| PAT Margin | 7.5 | 3.3 | 8.4 | 9.1 |
| Inventory days | 73.4 | 68.7 | 65.0 | 65.0 |
| Debtor days | 57.2 | 64.6 | 65.0 | 65.0 |
| Creditor days | 61.6 | 72.7 | 70.0 | 70.0 |
| **Return Ratios (%)** | | | | |
| RoE | 7.8 | 3.1 | 8.3 | 9.6 |
| RoCE | 11.5 | 4.0 | 10.6 | 12.2 |
| RoIC | 6.8 | 0.2 | 8.8 | 12.1 |
| **Valuation Ratios (x)** | | | | |
| P/E | 25.5 | 65.4 | 23.3 | 18.8 |
| EV / EBITDA | 22.5 | 59.4 | 17.5 | 12.4 |
| EV / Net Sales | 1.7 | 1.9 | 1.7 | 1.5 |
| Market Cap / Sales | 1.9 | 2.2 | 2.0 | 1.7 |
| Price to Book Value | 2.0 | 2.0 | 1.9 | 1.8 |
| **Solvency Ratios** | | | | |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 2.8 | 2.4 | 2.3 | 2.2 |
| **Quick Ratio** | **1.7** | **1.5** | **1.4** | **1.3** |

*Source: Company, ICICI Direct Research*

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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