

Import restrictions to help gain market share...

The government via its notification on July 15, 2020 has placed power tiller in a restricted import product category from a free product category placed earlier. The move is seen largely supporting domestic power tiller manufacturing vs. imports (~20-25% of industry) given surplus capacity domestically. It is positive for all power tiller players manufacturing in India with VST Tillers & Tractors (VST), in particular, a key beneficiary given its industry leading market share at ~46% (FY20). With certainty of market share gains for VST coupled with robust farm sentiments, we revise upward our estimates as well as valuation multiples to upgrade VST to **BUY**.

Imports form ~20-25% of industry, boost for domestic players

VST is the industry leader in the power tiller segment with a market share of ~46% as of FY20. In this 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 ~20-25%. This represents an immediate opportunity to VST given the present restrictions imposed on power tiller imports. Moreover, with robust farm sentiments amid a healthy Rabi crop, government supporting initiatives for farm income as well as normal Monsoon 2020, the company is witnessing robust demand for its product profile. The same belief is being shared by the domestic tractor industry adding thrust to our belief that near term prospects look robust for VST. The only limitation for power tiller segment is high share of subsidy dependent sales that can remain a drag in the near term given state government's spending meaningful resources to counter Covid-19. Going forward, we upgrade our power tiller sales volume estimates from 8.6% CAGR earlier to 11.4% CAGR now in FY20-22E to 23,951 units in FY22E (19,302 units in FY20). In value terms, power tiller sales are seen growing at a CAGR of 15.8% in the aforesaid period.

With worst behind, margins seen supportive over FY21-22E

With an uptick in volumes as well as more pricing power in the marketplace amid cost rationalisation exercises being conducted at the company, we expect the margin decline trajectory to be behind us. We build in 10% & 12% EBITDA margins for FY21 & FY22E, respectively, going forward. In the tractor segment, we expect volumes to grow at a CAGR of 8.8% in FY20-22E to 8467 units in FY22E (7147 units in FY20). Introduction of higher hp segment tractors is seen supporting realisations with tractor sales in value terms expected to grow at a CAGR of 14.3% over FY20-22E.

Valuation & Outlook

VST possesses a robust balance sheet, which is debt free and cash rich in nature and clocks healthy positive CFOs. With volume uptick in the offering as well as recovery of margin profile, earnings are expected to witness a smart recovery, going forward. Consequently, we upgrade VST from HOLD to **BUY** rating and value the stock at ₹ 1700 i.e. 21x FY22E EPS of ₹ 81.2.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-22E)
Net Sales (₹ crore)	764.0	614.9	543.7	618.4	727.8	15.7%
EBITDA (₹ crore)	119.5	46.0	17.3	61.8	87.3	124.7%
EBITDA Margins (%)	15.6	7.5	3.2	10.0	12.0	
Net Profit (₹ crore)	112.0	46.1	18.0	52.7	70.2	97.7%
EPS (₹)	129.6	53.3	20.8	61.0	81.2	
P/E (x)	11.2	27.2	69.8	23.8	17.8	
RoCE (%)	24.0	11.5	4.0	11.0	13.5	
RoE (%)	18.8	7.8	3.1	8.6	10.6	

Source: Company, ICICI Direct Research

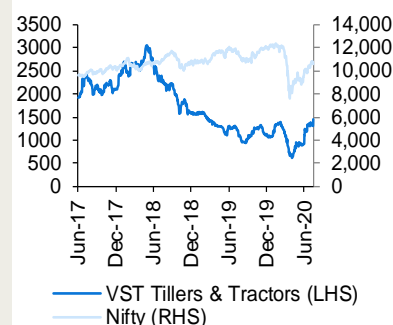


Particulars

Stock Data

Market Capitalization	₹ 1253 crore
Total Debt (FY20P)	₹ 0 crore
Cash & Investments (FY20P)	₹ 147 crore
EV	₹ 1106 crore
52 week H/L	1450 / 601
Equity capital	₹ 8.6 crore
Face value (₹)	10.0

Price Chart



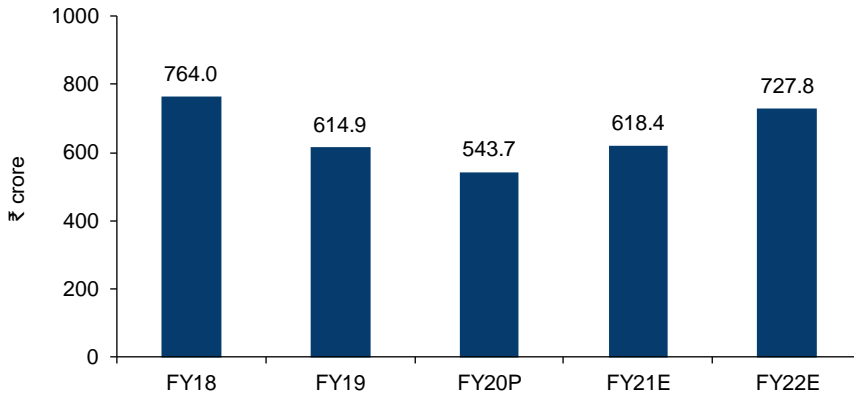
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Key financial charts

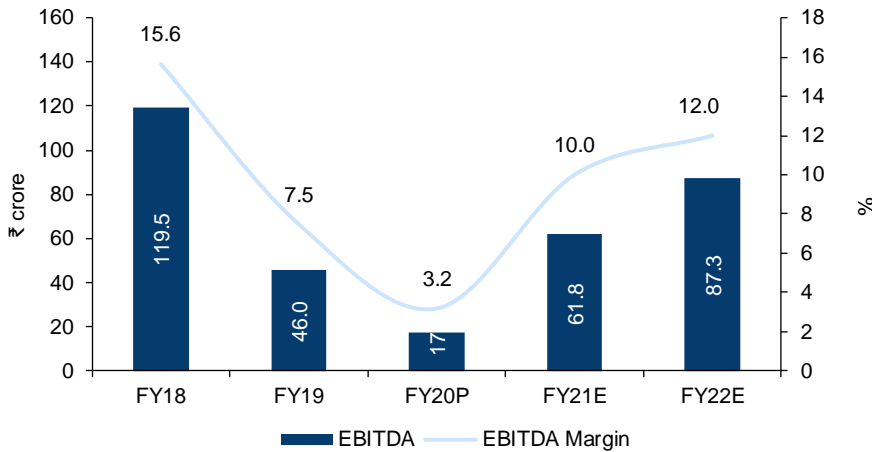
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 15.7% over FY20P-22E to ₹ 728 crore in FY22E

Source: Company, ICICI Direct Research

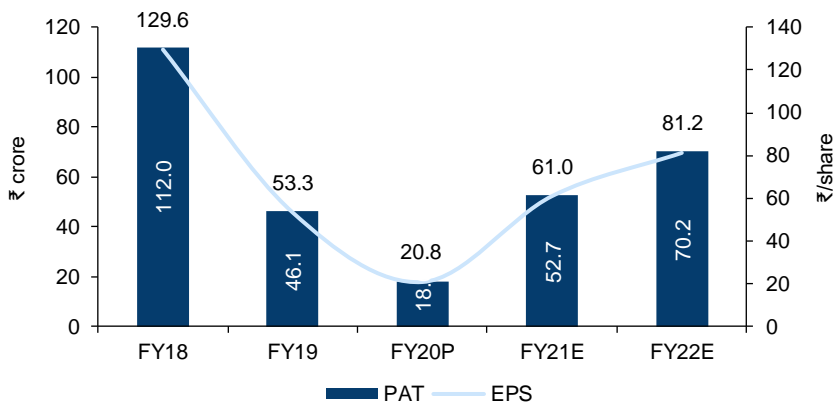
Exhibit 2: EBITDA and EBITDA margin trend



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

Source: Company, ICICI Direct Research

Exhibit 3: PAT and EPS trend



PAT is seen improving primarily tracking positive volume growth and resurgent margins. EPS is seen improving from ₹ 20.8/share in FY20P to ₹ 81.2/share in FY22E. PAT in FY20P was adversely affected to the tune of ~₹ 20 crore, primarily on account of MTM loss (~₹ 12 crore) on investments and provision for bad debts (~₹ 8 crore)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Net Sales	614.9	543.7	618.4	727.8
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	614.9	543.7	618.4	727.8
Growth (%)	-19.5	-11.6	13.7	17.7
Raw Material Expenses	406.2	372.4	408.1	473.0
Employee Expenses	66.1	68.3	67.5	72.8
Other Operating Expense	96.6	85.7	80.9	94.6
Total Operating Expenditure	568.9	526.4	556.5	640.4
EBITDA	46.0	17.3	61.8	87.3
Growth (%)	-61.5	-62.4	257.4	41.2
Depreciation	15.8	16.4	18.1	21.3
Interest	2.3	1.5	2.0	1.5
Other Income	43.7	23.6	28.7	29.4
PBT	71.6	23.0	70.5	93.8
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	25.5	5.1	17.8	23.6
PAT	46.1	18.0	52.7	70.2
Growth (%)	-58.8	-61.0	193.6	33.1
EPS (₹)	53.3	20.8	61.0	81.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	46.1	18.0	52.7	70.2
Add: Depreciation	15.8	16.4	18.1	21.3
(Inc)/dec in Current Assets	29.0	30.1	-0.6	-33.1
Inc/(dec) in CL and Provision	-39.1	4.6	10.5	21.3
Others	2.3	1.5	2.0	1.5
CF from operating activitie	54.0	70.6	82.7	81.2
(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 E 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	8.4	8.1
Opening Cash	24.5	18.7	25.9	34.3
Closing Cash	18.7	25.9	34.3	42.4

Source: Company, ICICI Direct Research

Exhibit 6: 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	603.7	652.3
Total Shareholders funds	589.9	576.9	612.4	661.0
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	656.2	706.8
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	110.1	129.6
Debtors	96.4	96.2	110.1	129.6
Loans and Advances	74.7	65.9	44.0	37.3
Other Current Assets	4.4	4.7	5.3	6.3
Cash	18.7	25.9	34.3	42.4
Total Current Assets	317.8	294.9	304.0	345.2
Current Liabilities	103.7	108.3	118.6	139.6
Provisions	1.6	1.7	1.8	2.2
Current Liabilities & Prov	105.3	109.9	120.4	141.7
Net Current Assets	212.5	185.0	183.5	203.5
Others Assets	21.4	20.5	20.5	20.5
Application of Funds	643.0	618.8	656.2	706.8

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	53.3	20.8	61.0	81.2
Cash EPS	71.6	39.7	82.0	105.9
BV	682.8	667.8	708.8	765.0
DPS	15.0	15.0	20.0	25.0
Cash Per Share (Incl Invst)	216.7	214.5	209.2	244.1
Operating Ratios (%)				
EBITDA Margin	7.5	3.2	10.0	12.0
PAT Margin	7.5	3.3	8.5	9.6
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	8.6	10.6
RoCE	11.5	4.0	11.0	13.5
RoIC	6.8	0.2	9.4	13.2
Valuation Ratios (x)				
P/E	27.2	69.8	23.8	17.8
EV / EBITDA	24.2	63.9	18.0	12.4
EV / Net Sales	1.8	2.0	1.8	1.5
Market Cap / Sales	2.0	2.3	2.0	1.7
Price to Book Value	2.1	2.2	2.0	1.9
Solvency Ratios				
Debt/E BITDA	0.0	0.0	0.0	0.0
Debt / E equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.4	2.2	2.1
Quick Ratio	1.7	1.5	1.3	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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