

August 16, 2017

VST Tillers Tractors (VSTTIL)

₹ 2000

High other income drives PAT in FY18E...

- VST Tillers & Tractors (VST) reported a mixed Q1FY18 performance driven mainly by higher other income (~₹ 14.8 crore) and robust tractor performance while power tillers failed to deliver growth
- Net sales in Q1FY18 came in at ₹ 181.2 crore, up 4.8% YoY
- In Q1FY18, power tiller sales volume were at 7119 units (down 2.5% YoY) while tractor sales volume was at 2555 units (up 18.4% YoY)
- EBITDA in Q1FY18 was at ₹ 24.5 crore, with corresponding EBITDA margins at 13.5%. PAT during the quarter was at ₹ 28.2 crore
- The management has guided for healthy double digit volume growth in tractor sales and savings of ~150 bps in costs structure in FY18E

Normal monsoon to lift farm sentiments, consequent rural demand

South West Monsoons i.e. the annual rainfall received in June-September is of prime importance to India. This is given a large share of the population (in excess of 50%) is dependent on agriculture for livelihood amid its significant contribution to GDP (~15%). South west monsoon that comprises ~74% of total annual rainfall in India started off strongly as per the forecast by Indian Meteorological Department (IMD). It was ahead of schedule with onset date as May 30, 2017. The onset was strong in southern & eastern India. At the same time, incremental data points were suggesting waning of El Niño conditions signalling normal monsoon 2017. This led IMD to revise upwards its monsoon 2017 forecast to 98% of long period average (LPA) vs. the earlier forecast of 96% of LPA made in April 2017, albeit in the same category of normal monsoon (96-104% of LPA). Tracking the same, the cumulative monsoon rainfall (pan India) as of August 15, 2017 was at -4% of LPA wherein rainfall is normal to positive across India except southern region (-16% of LPA).

Tractor segment to be main growth driver!

VST has a capacity to manufacture 36000 units of tractor annually. It manufactures tractors in less than 30 hp segment which are primarily meant for agriculture purposes. Tractor sales in FY17 were at 9641 units vs. 7801 units in FY16, up 24% YoY. VST has also outperformed the industry in this segment with market share gains of ~330 bps with corresponding market share at ~16.5% in FY17 (13.2% in FY16). VST has put in place a new marketing team with focus on augmenting penetration of its product in different geographies, viz. Bihar, South India. Going forward, on the back of enhanced capacity and renewed focus on the tractor business, we expect sales in the tractor segment to grow at 16.4% CAGR in FY17-19E to ₹ 367.6 crore in FY19E. This will be backed by volume CAGR of 14.1% in FY17-19E to 12550 units in FY19E.

Focus on controlling costs; healthy balance sheet; maintain HOLD!

VST is witnessing muted demand scenario for its flagship product i.e. power tillers largely due to subsidy linked product demand and erratic monsoon in its key states (southern & eastern India). We have, henceforth, downward revised our sales volume estimates and associated profitability in FY17-19E. FY18E, however, witnessed an increase (PAT) due to incorporation of Ind-As wherein investments on the company's books are reinstated at market/fair value, which, we believe, is a one time gain recognition and unsustainable in nature. VST has a healthy balance sheet with surplus cash of ~₹ 190 crore in books as of FY17 and healthy return ratios with RoCE in excess of ~20%. We marginally tweak our estimates and now expect sales, PAT to grow at a CAGR of 12.8%, 9.8%, respectively, in FY17-19E. We value VST at ₹ 2200, i.e. 22x P/E on FY19E EPS of ₹ 100.1 with a **HOLD** recommendation on the stock.

Rating matrix		
Rating	:	Hold
Target	:	₹ 2200
Target Period	:	12-18 months
Potential Upside	:	10%

What's changed?		
Target	Changed from ₹ 2510 to ₹ 2200	
EPS FY18E	Changed from ₹ 95.8 to ₹ 99.8	
EPS FY19E	Changed from ₹ 104.6 to ₹ 100.1	
Rating	Unchanged at Hold	

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	181.2	178.1	1.7	197.2	-8.1
EBITDA	24.5	24.6	-0.3	28.8	-15.0
EBITDA (%)	13.5	13.8	-28 bps	14.6	-109 bps
PAT	28.2	20.0	41.2	17.5	61.3

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	644.8	693.7	777.4	882.2
EBITDA	112.8	98.1	119.2	136.7
Net Profit	74.1	71.7	86.2	86.5
EPS (₹)	85.8	80.3	99.8	100.1

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	23.3	24.1	20.0	20.0
Target P/E	25.6	26.5	22.0	22.0
EV / EBITDA	14.0	15.7	13.6	11.5
P/BV	4.1	3.5	3.2	2.8
RoNW	17.6	14.2	15.8	14.1
RoCE	24.4	19.2	21.1	19.8

Stock data	
Stock Data	
Market Capitalization	₹ 1728 crore
Total Debt (FY17)	₹ 0 crore
Cash & Investments (FY17)	₹ 190 crore
EV	₹ 1538 crore
52 week H/L	2495 / 1669
Equity capital	₹ 8.6 crore
Face value	₹ 10
MF Holding (%)	11.1
FII Holding (%)	6.2

Price performance				
Return %	1M	3M	6M	12M
VST Tillers & Tractor	(15.9)	1.4	4.4	9.6
Mahindra & Mahindra	(1.4)	(0.9)	4.1	(6.6)
Escorts	(9.5)	(5.4)	59.0	104.1

Research Analyst	
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Variance analysis

Standalone Numbers	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Sales	181.2	198.7	177.8	1.9	197.2	-8.1	Topline came in below our estimates largely tracking change in product mix in tractor segment and implementation of Ind-As
Other Operating Income	0.0	0.0	0.3	-100.0	0.0		
Total Operating Income	181.2	198.7	178.1	1.7	197.2	-8.1	
Total Raw Material Expenses	120.2	131.2	114.4	5.1	128.4	-6.3	Raw material as a percentage of sales came in at 66.4% vs. our expectation of 66.0%. Elevated costs are expected to continue in Q2FY18
Employee Cost	15.8	15.9	16.9	-6.5	13.4	18.0	Employee cost came in higher at 8.7% of sales vs. our expectation of 8.0%
Other operating expense	20.7	22.9	22.2	-6.9	26.6	-22.3	Operating expenses came in line with our expectation at 11.4%
Total Expenditure	156.7	169.9	153.5	2.1	168.4	-6.9	
EBITDA	24.5	28.8	24.6	-0.3	28.8	-15.0	
EBITDA Margin (%)	13.5	14.5	13.8	-28 bps	14.6	-109 bps	Margins came in at 13.5%, lower than our estimate of 14.5% largely due to higher raw material costs and change in product mix in tractor segment
Depreciation	2.7	2.9	2.4	11.3	3.4	-20.5	Depreciation was marginally lower than our estimate
Interest	0.7	0.6	0.7		0.7		
Non Operating Expenses	0.0	0.0	0.0		0.0		
Other Income	14.8	3.8	5.9	150.6	2.5	500.0	Implementation of new accounting standards (Ind-As) resulted in a one-time other income gain of ~₹ 12.5 crore. Core other income came in below its usual run rate
PBT	35.9	29.0	27.4	31.3	27.2	32.1	
Taxes	7.8	9.6	7.4	4.7	9.7	-20.3	Tax rate came in below our estimate at 22.0%
PAT	28.2	19.4	20.0	41.2	17.5	61.3	PAT came in higher than our estimate at ₹ 28.2 crore on the back of higher other income

Key Metrics

Power Tillers Sales Volume (units)	7,119	7,119	7,300	-2.5	7,766	-8.3	Power tiller sales volumes came at 7119 units, down 2% YoY mainly due to weak monsoon in southern states
Tractor Sales Volume (unit)	2,555	2,555	2,158	18.4	2,567	-0.5	Tractor sales volumes came in robust at 2555 units (up 18% YoY)

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	827.9	777.4	-6.1	925.4	882.2	-4.7	Muted power tiller outlook and change in sales reporting due to implementation of Ind-As leads to downward revision in sales for FY18E & FY19E
EBITDA	125.3	119.2	-4.9	143.4	136.7	-4.6	
EBITDA Margin (%)	15.1	15.3	20 bps	15.5	15.5	0 bps	We largely maintain our margin estimates for FY18E and FY19E at same levels
PAT	82.7	86.2	4.3	90.3	86.5	-4.2	
EPS (₹)	95.8	99.8	4.3	104.6	100.1	-4.2	Downward revision in sales estimates amid stable EBITDA margin profile leads to downward revision in core PAT for FY18-19E. PAT in FY18E, however, was revised upwards on account of reinstatement of investments at fair value on account of incorporation of Ind-As

Source: Company, ICICIdirect.com Research

Assumptions

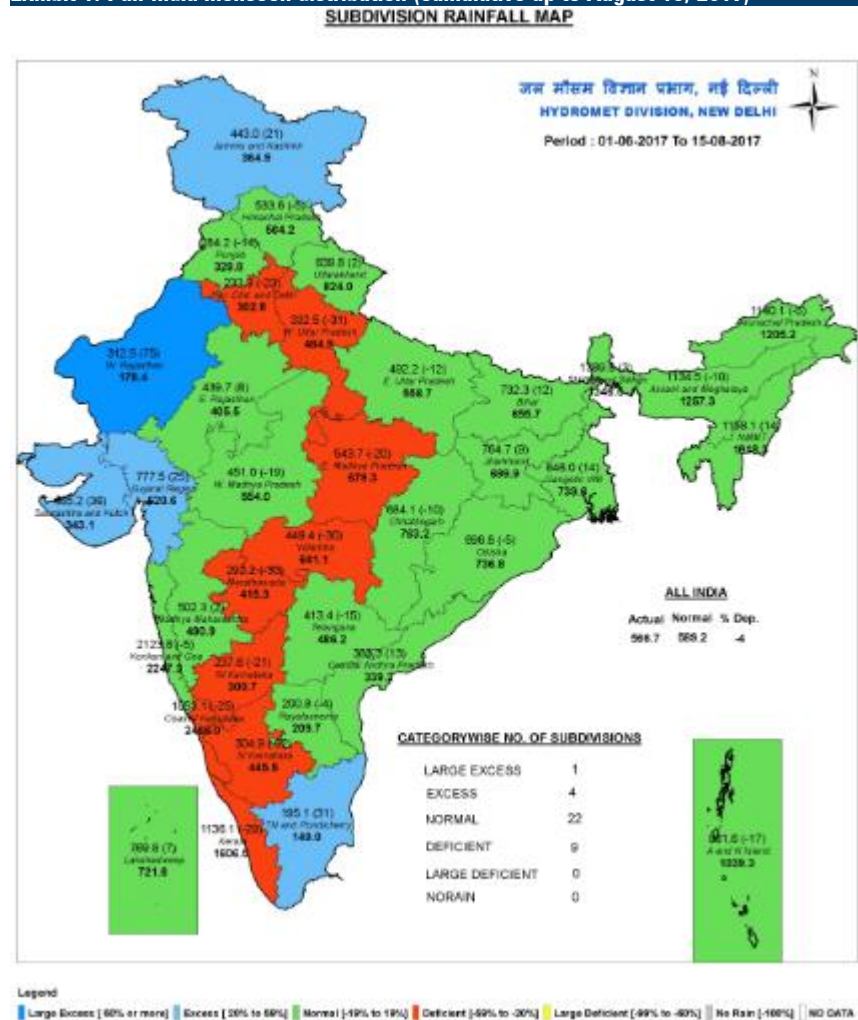
	Current					Earlier		Comments
	FY15	FY16	FY17	FY18E	FY19E	FY18E	FY19E	
Power Tillers Sales Volume (units)	23104	27387	25515	27159	29874	28106	30916	Marginally downward revised our sales volume estimate for FY18E & FY19E due to weak management commentary
Power Tillers Realization (₹/unit)	127684	129112	132393	139012	140402	137952	139332	Marginally revise upward realisation estimates for FY18E & FY19E due to imposition of 12% GST on power tillers and consequent product price increases by the company
Power Tiller Sales (₹ crore)	295	354	338	378	419	388	431	
Tractor Sales Volume (units)	6694	7801	9641	11409	12550	11569	12726	Largely maintain our sales volume estimates for tractors in FY18E & FY19E on the back of robust tractor demand
Tractor Realization (₹/unit)	262922	265222	281506	287136	292879	300591	306603	Marginally revise downward the realisation estimates for FY18E & FY19E on account of change in product mix with management focus more towards lower HP tractors
Tractor Sales (₹ crore)	176	207	271	328	368	348	390	

Source: Company, ICICIdirect.com Research

IMD predicts normal monsoon at 98% of LPA

South West Monsoons i.e. annual rainfall received in June-September is of prime importance to India given that a large share of the population (in excess of 50%) is dependent on the agriculture sector for livelihood amid its significant contribution to GDP (~15%). South west monsoon, which constitutes ~74% of total annual rainfall in India started off on a strong note as forecast by Indian Meteorological Department (IMD) and was ahead of schedule with onset date as May 30, 2017. The onset was strong in southern & eastern India. At the same time, incremental data points were suggesting waning of El Niño conditions signalling normal monsoon 2017. This led IMD to revise upwards its monsoon 2017 forecast to 98% of long period average (LPA) vs. the earlier forecast of 96% of LPA made in April 2017, albeit in the same category of normal monsoon (96-104% of LPA). Tracking the same, the cumulative monsoon rainfall (pan-India) as of August 15, 2017 was at -4% of LPA wherein rainfall is normal to positive across India except southern region (-16% of LPA).

Exhibit 1: Pan-India monsoon distribution (cumulative up to August 15, 2017)



Source: Reuters, ICICIdirect.com Research

In terms of state wide distribution; till date rainfall has been excess in J&K, Rajasthan, Gujarat and Tamil Nadu (marked in blue), near normal in remaining central, northern and western India including key agrarian states of Punjab, Haryana, Bihar, etc (marked in green). It has been muted in the southern states of Karnataka, Kerala and key regions in Maharashtra namely Marathwada & Vidarbha.

Company Analysis

VST Tillers & Tractors was founded in 1967 as a joint venture in technical collaboration between VST Motors and Mitsubishi Heavy Industries (Japan). Thereafter, over a course of time, VST acquired majority ownership in the company with current holding in excess of 51%. Mitsubishi was classified as the promoter group entity with 2.9% stake in the company. The company has inherited all technical know-how for efficient manufacturing and product development in power tillers & tractors and is a major player in the domestic farm equipment industry.

VST has two manufacturing facilities. In Whitefield (Bengaluru), it manufactures power tillers (9 hp, 13 hp, 15 hp) and has a capacity of 60,000 units annually (in two shifts). In Hosur, Tamil Nadu, it has commenced (April 2014) manufacturing agriculture tractors (18.5 hp, 22 hp) with a capacity of 36,000 units annually (in two shifts). On the sales & marketing front, the company has a network of about 200 dealers & 300 vendors spread across India with most associated with VST for a fairly long time. VST is also present in the segment of rice transplanters & power reapers. The company imports the same from China and Japan and markets them in the domestic market, earning a trading margin on the same. VST also exports a few power tillers & tractors to Africa, Russia, Myanmar, etc. This is limited by high Chinese competition overseas.

Power tiller; set to be preferred choice of farm equipment

In India, the average size of operational holding has reduced from 1.33 hectare per holding in FY01 to 1.23 hectare per holding in FY06 and further to 1.15 hectare per holding in FY11.

Exhibit 2: India - Farm holdings break-up

Category of Holdings	No of Holding (million number)			Area (million hectare)		
	2000-01	2005-06	2010-11	2000-01	2005-06	2010-11
Marginal (<1 hectare)	75.4	83.7	92.4	29.8	32	35.4
Small (1-2 hectare)	22.7	23.9	24.7	32.1	33.1	35.1
Semi-Medium (2-4 hectare)	14	14.1	13.8	38.2	37.9	37.5
Medium (4-10 hectare)	6.6	6.4	5.9	38.2	36.6	33.7
Large (>10 hectare)	1.2	1.1	1	21.1	18.7	17.4
All Holdings	119.9	129.2	137.8	159.4	158.3	159.1
(hectare/holding)				1.33	1.23	1.15
holdings (%)	81.8	83.3	85.0			

Source: Ministry of Agriculture, ICICIdirect.com Research

Thus, fragmented land holdings belonging to a lot of farmers in the small & marginal category led to challenges over collective ownership of tractors that cost in the range of ₹ 2.5-8 lakh/unit. This, in turn, throws up a huge opportunity for the domestic power tiller sector wherein a power tiller costs ₹ 1.25 lakh/unit but suffices or is able to perform all requisite agricultural operations performed by a tractor.

We believe that, going forward, given the government's thrust on increasing farm productivity through greater penetration of farm mechanisation and its support through various subsidy programmes, power tillers may turn out to be the preferred farm equipment by choice for domestic farmers.

In the power tiller segment, domestically, since VST is the market leader (market share in excess of 50%); the company is on a strong footing and is poised to gain, going forward.

For the new tractor facility in Hosur, VST incurred a capex of ₹ 70 crore that was entirely funded from internal accruals.

The proportion of marginal & small holding as a percentage of total holdings is also on the rise in India. It has increased from 81.8% in 2000-01 to 85% in 2010-11

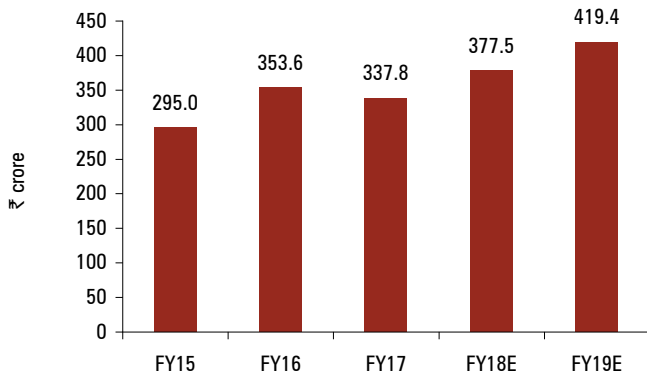
Power tillers are also a cost effective source of farm power for small and marginal farmers wherein it is easy to recover the fixed costs and earn good margins from custom hiring services

Domestically, power tillers are most suited for paddy (rice) cultivation

Power tillers - base business; VST: segmental leader domestically!

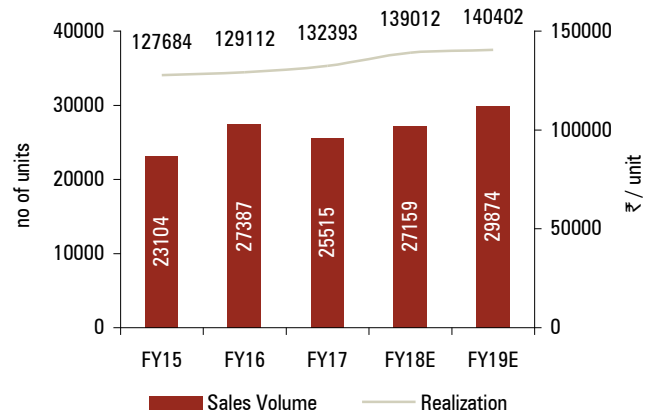
Power tillers have been the base business for VST with sales in the segment growing at a CAGR of 6.7% in FY13-17. In FY17, VST's sales in the power tiller segment came in at ₹ 337.8 crore. On the volume front, VST's power tiller sales have grown at a CAGR of 4.7% in FY13-17 to 25515 units in FY17 (21231 units in FY13). On the realisation front, realisations have grown at a CAGR of 2.0% in FY13-17 to ₹ 132393/unit in FY17 (₹ 122755/unit in FY13).

Exhibit 3: VST power tiller sales (value)



Source: Company, ICICIdirect.com Research

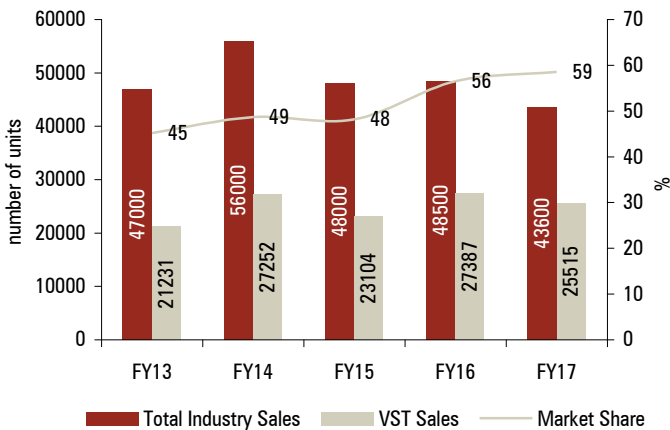
Exhibit 4: VST power tiller sales (volume & realisation)



Source: Company, ICICIdirect.com Research

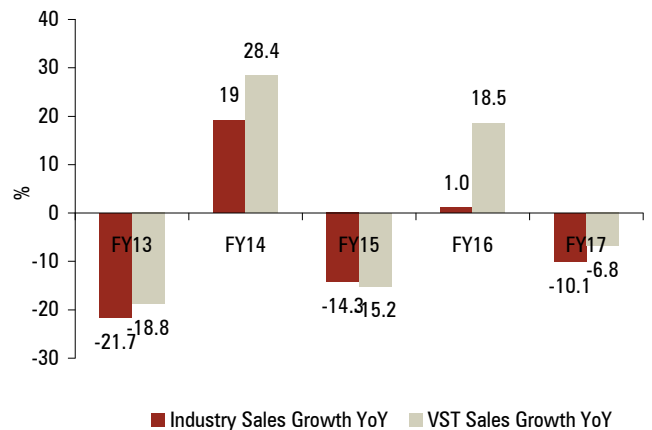
VST has always maintained its market leadership in the power tiller segment domestically with market share in the range of 46-60% in FY13-17. The other major players are Kerala Agro Machinery (with a market share of ~25%) and Chinese players (with a market share of ~25-30%).

Exhibit 5: Domestic power tillers industry volume



Source: Company, ICICIdirect.com Research

Exhibit 6: VST power tiller sales (volume & realisation)



Source: Company, ICICIdirect.com Research

VST's key prerogative is to maintain its market share in the range of 50-60%

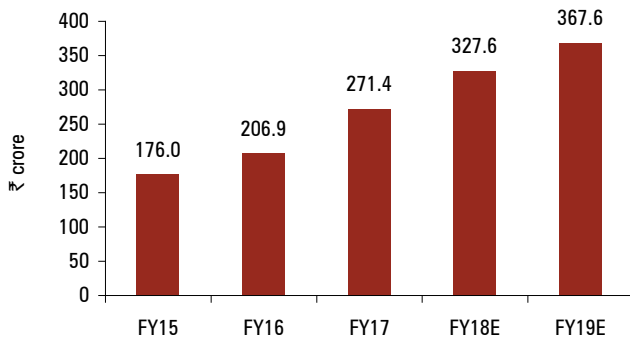
Going forward, however, due to a delay in execution of various subsidy schemes by various state governments, we expect sales of the power tiller segment to moderate and grow at a CAGR of 11.4% in FY17-19E to ₹ 419.4 crore in FY19E (₹ 337.8 crore in FY17). Sales volumes are expected to grow at a CAGR of 8.2% in FY17-19E to 29874 units in FY19E. Realisations are expected to grow at a CAGR of 3.0% in FY17-19E. This is primarily on the back of increase in raw material prices (mainly steel) and imposition of GST on power tiller segment (12%). Realisations are expected to increase to ₹ 140402/unit in FY19E (₹ 132393/unit in FY17).

VST has recently launched a new tractor in the sub 30 hp segment in the 27 hp range and is witnessing good acceptance of the product in the marketplace

Tractor business; renewed focus to drive sales

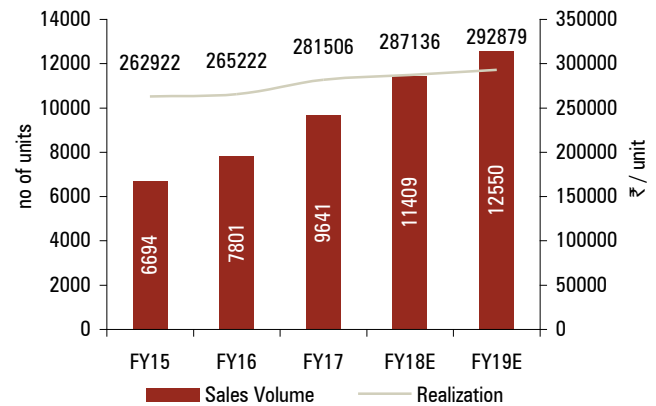
VST is also present in the tractor segment wherein the company manufactures low hp (18.5 hp & 22 hp) tractors that are meant primarily for agricultural purposes. Sales in this segment have grown at a CAGR of 15.1% in FY13-17 to ₹ 271.4 crore in FY17 (₹ 154.4 crore in FY13). On the volume front, VST's tractor sales have grown at a CAGR of 11.5% in FY13-17 to 9641 units in FY17 (6233 units in FY13). On the realisation front, realisations have grown at a CAGR of 3.2% in FY13-17 to ₹ 281506/unit in FY17 (₹ 247714/unit in FY13).

Exhibit 7: VST tractor sales (value)



Source: Company, ICICIdirect.com Research

Exhibit 8: VST tractor sales (volume & realisation)

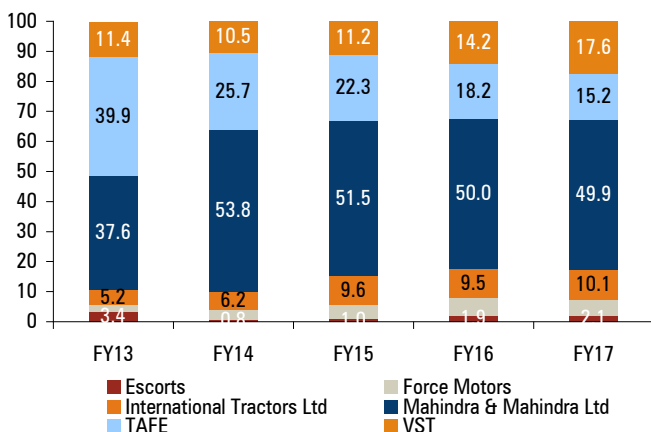


Source: Company, ICICIdirect.com Research

Market share in <30 hp segment; slowly inching upward

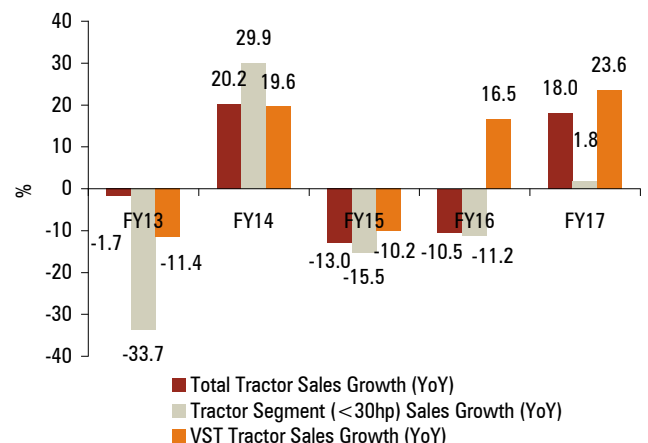
VST is a prominent player in the low hp (<30 hp) tractor segment domestically with its market share increasing from a mere 3.2% in FY08 to 17.6% in FY17. VST has, on the whole, outperformed its industry and segmental growth rates in the recent past, which clearly showcases the company's intent to become a prominent player in the domestic tractor business and increase its market share domestically.

Exhibit 9: Domestic tractor market share –players (<=30 hp segment)



Source: Company, ICICIdirect.com Research

Exhibit 10: Tractor sales growth (YoY)



Source: Company, ICICIdirect.com Research

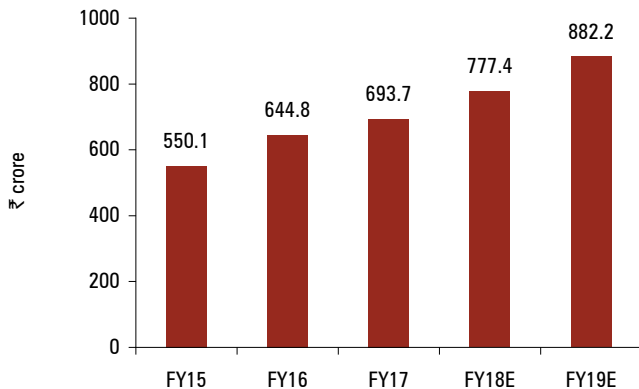
VST has a new tractor manufacturing facility in Hosur, Tamil Nadu with a capacity to manufacture 36,000 units annually (in two shifts per day). The company has also hired a new team headed by a new marketing manager wherein their prerogative is to record healthy sales growth (~15% CAGR) in the tractor segment, going forward.

We expect sales in the tractor segment to grow at 16.4% CAGR in FY17-19E to ₹ 367.6 crore in FY19E. This will be backed by volume CAGR of 14.1% in FY17-19E to 12550 units in FY19E.

Revenues to grow at 12.8% CAGR in FY17-19E

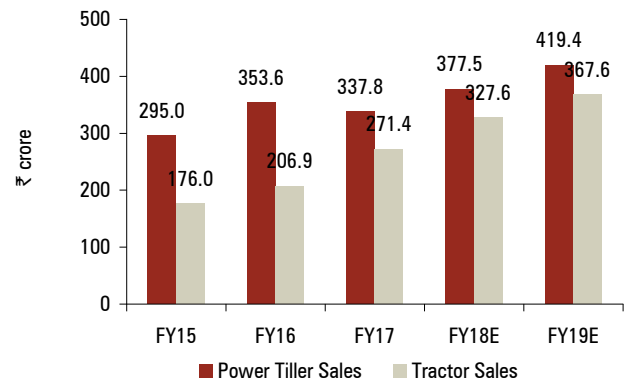
We expect VST to clock modest revenue growth at 12.8% CAGR in FY17-19E to ₹ 882.2 crore in FY19E (₹ 693.7 crore in FY17). In the power tiller segment, revenues are expected to grow at a CAGR of 11.4% in FY17-19E to ₹ 419.4 crore in FY19E (₹ 337.8 crore in FY17). In the tractor segment, sales are expected to increase at a CAGR of 16.4% in FY17-19E to ₹ 367.6 crore in FY19E. This is primarily on the back of the management's focus on increasing its market share in the domestic tractor market amid robust farm sentiment amid expectations of normal monsoon 2017.

Exhibit 11: Consolidated revenue trend



Source: Company, ICICIdirect.com Research

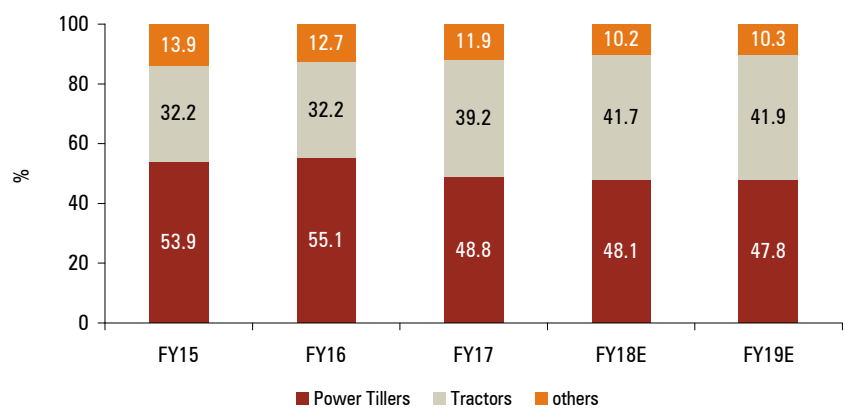
Exhibit 12: Revenue break-up (power tillers and tractors)



Source: Company, ICICIdirect.com Research

Going forward, VST's management expects the tractor to be the main revenue growth driver with tractor: power tiller sales mix in 2020 envisaged at 60:40

Exhibit 13: Revenue share mix (%)



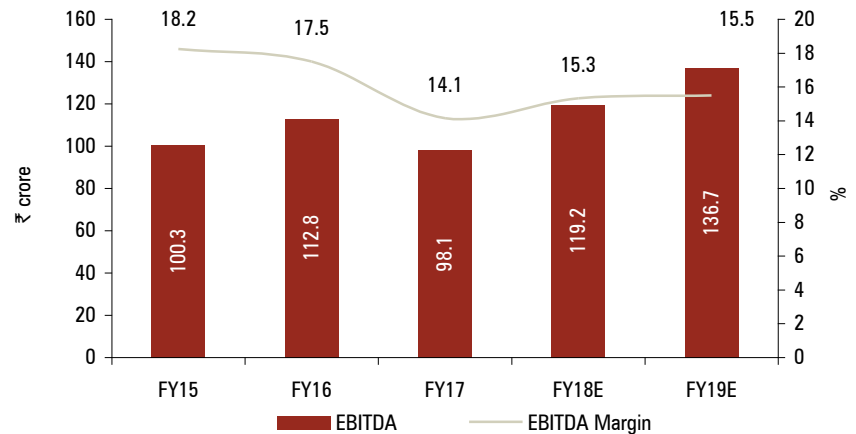
Source: Company, ICICIdirect.com Research

The share of power tillers in the overall revenue mix is expected to decline from 49% in FY17 to ~48% by FY19E. For the tractor segment, the same is expected to improve from 39% in FY17 to ~42% by FY19E, going forward. Others, which include spare part sales, is expected to remain largely flat in the range of ~10.5%.

EBITDA to grow at 18.1% CAGR in FY17-19E

We expect EBITDA to grow at a CAGR of 18.1% in FY17-19E to ₹ 136.7 crore in FY19E, primarily on the back of an increase in sales to the tune of 12.8% in the aforesaid period and improvement in EBITDA margins by 140 bps over FY17-19E. EBITDA margins are expected to improve from 14.1% in FY17 to 15.5% in FY19E primarily on the back of tapering of A&P spend by the company.

Exhibit 14: EBITDA & EBITDA margins (%) trend



Source: Company, ICICIdirect.com Research

Asset (gross block) turnover at VST has always stayed strong in the range of 3.0-5.9x in FY08-17 with the peak in FY12 wherein the asset turnover stood at 5.9x. The same in FY17 was at 3.5x

Exhibit 15: Asset turnover

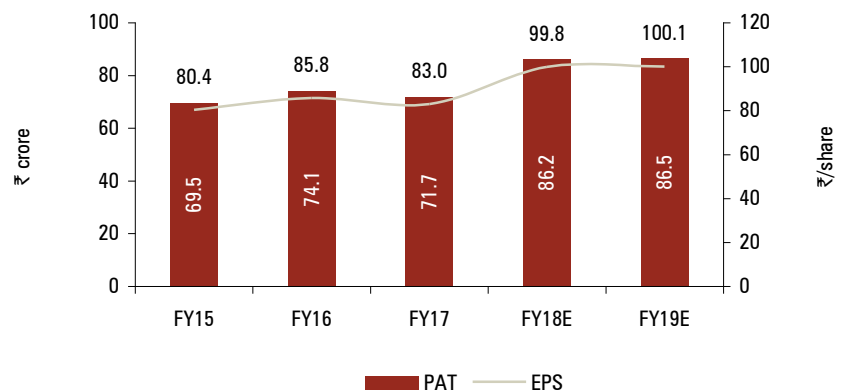
Particulars	Units	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Sales	₹ crore	531	482	624	550	645	694	777	882
Gross Block	₹ crore	90	114	164	185	189	200	220	350
Asset Turnover	x	5.9	4.2	3.8	3.0	3.4	3.5	3.5	2.5

Source: Company, ICICIdirect.com Research

PAT to grow at 9.8% CAGR in FY17-19E

We expect PAT to grow at a CAGR of 9.8% in FY17-19E to ₹ 86.5 crore in FY19E (₹ 71.7 crore in FY17) on the back of a pick-up in sales and improvement in EBITDA margins.

Exhibit 16: Consolidated PAT trend



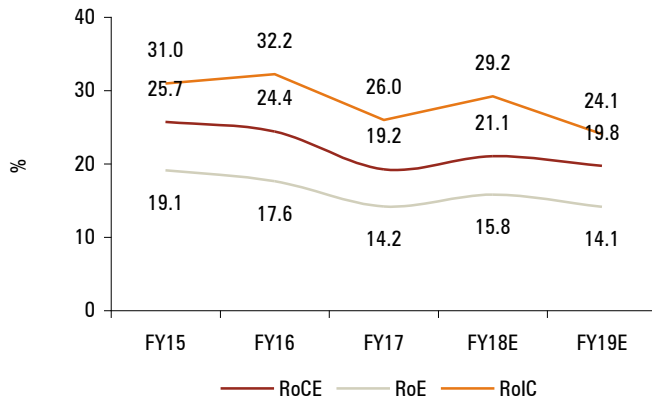
Source: Company, ICICIdirect.com Research

FY18E, however, witnesses an increase (PAT) due to incorporation of Ind-As wherein the investments on the company's books were reinstated at market/fair value, which we believe is a one time gain recognition and not sustainable in nature.

RoCE, RoE set to moderate, core RoICs set to improve after blip!

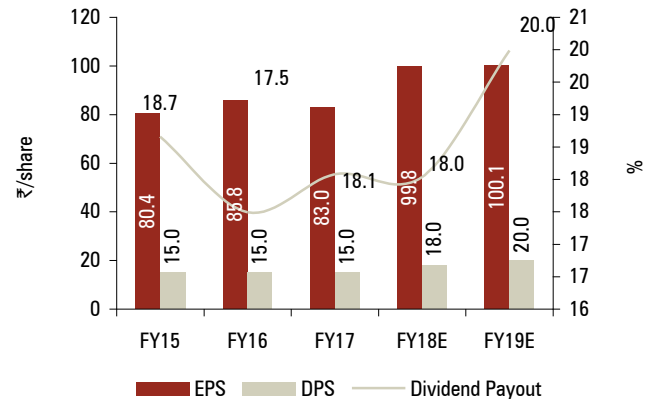
On the back of a moderation in EBITDA margins and higher equity base, RoEs and RoCEs were on a decline at VST over FY15-17. Going forward however on the back of increasing sales and improvement in EBITDA margins we expect return ratios to improve at VST in FY17-19E. We expect RoCE of ~20% & RoIC of ~25% over FY17-19E.

Exhibit 17: RoIC, RoCE & RoE trend



Source: Company, ICICIdirect.com Research

Exhibit 18: EPS, DPS & dividend payout



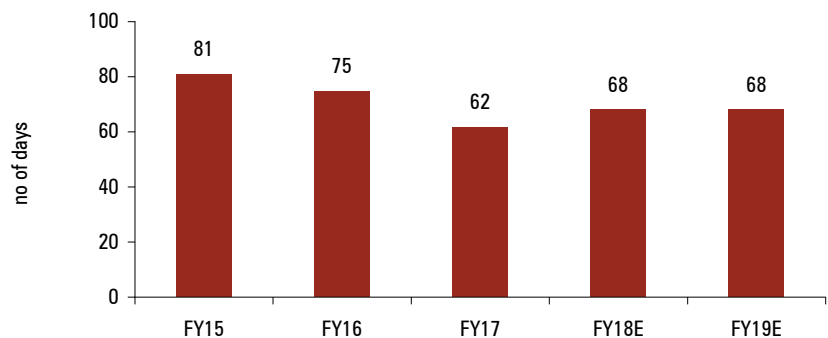
Source: Company, ICICIdirect.com Research

Dividend payout has been muted with the company's average dividend payout in the last five years i.e. FY13-17 at ~17% despite a debt free and cash rich balance sheet. Going forward, the company's management has guided for a dividend payout of ~20% in FY17-19E. Going forward, we expect the company to record an EPS of ₹ 99.8 in FY18E and ₹ 100.1 in FY19E. The corresponding dividend is expected at ₹ 18/share in FY18E and ₹ 20/share in FY19E.

Volatile working capital; build in conservative estimates

As VST operates in a highly subsidy driven industry, WC at VST has been quite volatile with the five year average (FY13-17) net working capital days at 67 days. The same in FY17 was at 62 days. Going forward, conservatively we have built in NWC days at ~68 days in FY17E-19E.

Exhibit 19: Net working capital days

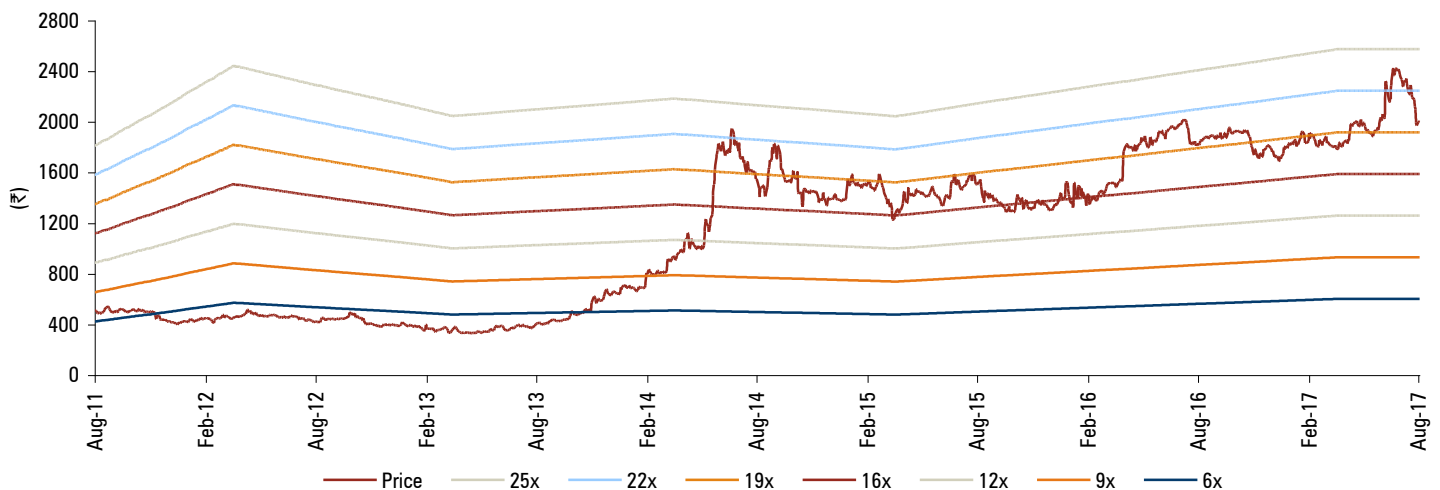


Source: Company, ICICIdirect.com Research

Outlook & Valuation

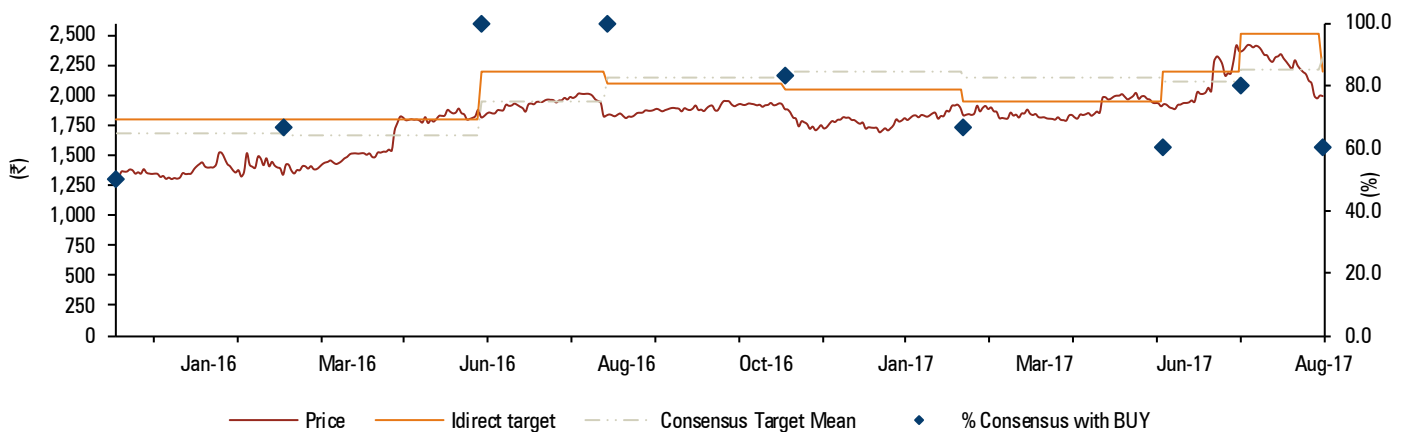
VST is witnessing a muted demand scenario for its flagship product i.e. power tillers largely due to subsidy linked product demand and erratic monsoon in its key states (southern & eastern India). Henceforth, we downward revise our sales volume estimates and associated profitability over FY17-19E. FY18E, however, would witness an increase (PAT) due to incorporation of Ind-As wherein the investments on the company's books are reinstated at market/fair value. We believe this is a one-time gain recognition and unsustainable in nature. VST has a healthy balance sheet with surplus cash of ~₹ 190 crore in books as of FY17 and healthy return ratios with RoCE in excess of ~20%. We marginally tweak our estimates, and now expect sales & PAT to grow at a CAGR of 15.5%, 12.3%, respectively, in FY17-19E. We value VST at ₹ 2200, i.e. 22x P/E on FY19E EPS of ₹ 100.1 with a **HOLD** recommendation on the stock. The key risk to our call is incremental benefits realised from the planned capex of ~₹ 120 crore in FY18E.

Exhibit 20: Two year forward P/E (VST currently trading at 20.0x)



Source: Reuters, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research, *I-direct coverage on VST Tillers & Tractors was initiated on July 2015

Key events

Date/Year	Event
2008	Total power tiller and tractor production stood at 14493 units against the capacity of 13000 units, implying a capacity utilization of ~112%
2009	VST reports robust growth in FY09 topline with FY09 sales up 45% YoY while margins improved 340 bps on YoY basis to 15.5%. PAT was up 100% YoY
2010	VST declares bonus. Bonus share issued in the ratio of 1:2 i.e. 1 share issued for every 2 shares held by an investor. VST expands its capacity from manufacturing 13000 units (power tillers and tractors combined) in FY09 to 26000 units in FY10
2011	VST further expands its capacity from 26000 units to 30000 units with total production coming in at 27308 units, implying utilization levels of ~90%
2013	VST commenced setting up of a training center at Bhubaneswar in association with department of agriculture
2014	VST launches a new tractor variant:- VT 224-1D (22 HP) tractor. VST also inaugurates new tractor manufacturing facility at Hosur (Tamil Nadu) built at a capex of ₹ 70 crore. The company records highest ever sales of power tillers and tractors in the domestic market. Total power tiller sales came in at 27252 units while tractor sales volume stood at 7452 units
2015	In May'15 VST rolled out the 3,00,000th Power Tiller. For FY15 power tiller & tractor sales came in at 23104 units & 6694 units respectively. The enhanced capacity to manufacture power tillers stood at 60000 units (annually) on 2 shift basis and tractors stood at 36000 units (annually)
2016	VST signs MOU with Karnataka Government for setting up 92 custom hire service centre (CHSC) in nine districts. The company came out with a novel scheme to help small and marginal farming community to have sustainable and efficient agriculture production. The capex spend on the said MoU will be minimal at VST's end however is expected to create a strong brand awareness for VST products in the rural market place
2017	VST launches Viraat MT 270 in <= 30 hp segment. This has received an encouraging response (sold 2200 units in FY17). The company also launched two new tractors viz. Viraat Plus (4 cylinder engine, 4WD) and Samrat (17 hp single cylinder tractor) in May, 2018. These new launches will drive growth, going forward. It received exclusive selling rights for MTD power weeder

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Surendra (V K)	30-Jun-17	20.9	1.8	0.0
2	Mahendra (V P)	30-Jun-17	7.3	0.6	0.0
3	PineBridge Investments Asia Limited	30-Jun-17	4.2	0.4	0.0
4	V S T Motors, Ltd.	30-Jun-17	4.1	0.4	0.0
5	Kotak Mahindra Asset Management	30-Jun-17	3.9	0.3	0.1
6	Mitsubishi Heavy Industries Ltd	30-Jun-17	2.9	0.3	0.0
7	Pravindra (V V)	30-Jun-17	2.6	0.2	0.0
8	Arun (V S)	30-Jun-17	2.5	0.2	0.0
9	Vijayendra (V V)	30-Jun-17	2.2	0.2	0.0
10	V P Mahendra Brothers Investments	30-Jun-17	1.6	0.1	0.0

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	54.0	54.0	54.0	54.0	54.0
FII	9.2	8.8	8.2	6.0	6.2
DII	8.8	9.1	9.5	11.6	11.1
Others	28.0	28.1	28.3	28.4	28.8

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor Name	Value (US\$ Million)	Shares (Million)	Investor Name	Value (US\$ Million)	Shares (Million)
Kotak Mahindra Asset Mgmt Company	1.9	0.1	HDFC Asset Management Co., Ltd.	-5.1	-0.1
PineBridge Investments LLC	0.1	0.0	Axis Asset Management Company Limited	-2.4	-0.1
			ICICI Prudential Asset Management	-0.2	0.0
			Taurus Asset Management Co. Ltd.	-0.1	0.0
			Mirae Asset Global Investments Co., Ltd.	0.0	0.0

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	644.8	693.7	777.4	882.2
Other Operating Income	1.8	0.8	0.0	0.0
Total Operating Income	646.6	694.5	777.4	882.2
Growth (%)	17.2	7.4	11.9	13.5
Raw Material Expenses	421.1	445.9	514.3	582.3
Employee Expenses	45.5	58.5	58.9	66.2
Other Operating Expense	67.2	92.0	84.9	97.0
Total Operating Expenditure	533.8	596.4	658.2	745.5
EBITDA	112.8	98.1	119.2	136.7
Growth (%)	12.5	-13.0	21.5	14.7
Depreciation	12.6	11.8	11.7	15.7
Interest	2.5	3.0	2.7	2.4
Other Income	12.3	16.2	17.8	10.4
PBT	110.0	99.5	122.6	129.1
Exceptional Item	0.0	-3.3	0.0	0.0
Total Tax	35.9	31.2	36.4	42.6
PAT	74.1	71.7	86.2	86.5
Growth (%)	6.7	-3.3	20.3	0.3
EPS (₹)	85.8	80.3	99.8	100.1

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	74.1	71.7	86.2	86.5
Add: Depreciation	12.6	11.8	11.7	15.7
(Inc)/dec in Current Assets	-17.8	5.3	-30.3	-33.0
Inc/(dec) in CL and Provisions	0.0	13.8	3.5	12.1
Others	2.5	3.0	2.7	2.4
CF from operating activities	71.3	105.5	73.9	83.6
(Inc)/dec in Investments	-41.1	-74.6	105.0	-45.0
(Inc)/dec in Fixed Assets	-5.6	-18.9	-130.0	-20.0
Others	4.7	2.6	5.0	5.0
CF from investing activities	-42.0	-90.9	-20.0	-60.0
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	-18.1	-18.5	-21.3	-23.1
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-2.0	12.8	-10.6	0.0
CF from financing activities	-20.1	-5.7	-31.9	-23.1
Net Cash flow	9.2	8.9	22.0	0.4
Opening Cash	18.4	27.7	36.6	58.5
Closing Cash	27.7	36.6	58.5	59.0

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	8.6	8.6	8.6	8.6
Reserve and Surplus	411.5	480.4	537.4	603.1
Total Shareholders funds	420.1	489.1	546.0	611.8
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	4.6	3.7	3.7	3.7
Minority Interest / Others	36.5	39.9	44.9	49.9
Total Liabilities	461.2	532.7	594.7	665.4
Assets				
Gross Block	189.1	199.5	219.8	349.8
Less: Acc Depreciation	62.1	72.9	84.7	100.3
Net Block	127.0	126.6	135.2	249.5
Capital WIP	2.8	10.3	120.0	10.0
Total Fixed Assets	129.8	136.9	255.2	259.5
Investments	136.3	210.9	105.9	150.9
Inventory	80.4	70.7	85.2	96.7
Debtors	123.8	132.3	149.1	169.2
Loans and Advances	34.8	29.8	29.5	30.9
Other Current Assets	0.7	1.5	0.8	0.9
Cash	27.7	36.6	58.6	59.0
Total Current Assets	267.3	270.9	323.2	356.6
Current Liabilities	68.9	81.6	85.2	96.7
Provisions	3.3	4.3	4.3	4.8
Current Liabilities & Prov	72.2	85.9	89.5	101.5
Net Current Assets	195.1	185.0	233.7	255.1
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	461.2	532.7	594.7	665.4

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	85.8	83.0	99.8	100.1
Cash EPS	100.3	96.6	113.4	118.2
BV	486.3	566.1	632.0	708.1
DPS	18.1	18.0	21.6	24.0
Cash Per Share (Incl Invest)	189.8	286.4	190.3	242.9
Operating Ratios (%)				
EBITDA Margin	17.4	14.1	15.3	15.5
PAT Margin	11.5	10.3	11.1	9.8
Inventory days	45.5	37.2	40.0	40.0
Debtor days	70.1	69.6	70.0	70.0
Creditor days	39.0	42.9	40.0	40.0
Return Ratios (%)				
RoE	17.6	14.2	15.8	14.1
RoCE	24.4	19.2	21.1	19.8
RoIC	32.2	26.0	29.2	24.1
Valuation Ratios (x)				
P/E	23.5	24.3	20.2	20.1
EV / EBITDA	14.1	15.8	13.7	11.6
EV / Net Sales	2.5	2.2	2.1	1.8
Market Cap / Sales	2.7	2.5	2.2	2.0
Price to Book Value	4.1	3.6	3.2	2.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	2.7	3.0	2.9
Quick Ratio	2.2	1.9	2.0	2.0

Source: Company, ICICIdirect.com Research

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Hold: Up to +/-10%;

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