

# VST Tillers & Tractors

11 September 2018

Reuters: VST.BO; Bloomberg: VSTT IN

## Demand Impacted By Delay In Release of Subsidy

VST Tillers & Tractors' (VST) monthly sales in recent months have been below expectations, with the overall volume falling 17% YoY. Tiller volume at 9,611 units declined 14% YoY on YTD basis and tractor volume at 3,213 units slipped 26% YoY. Lower volume in recent months can be attributed to the delay in subsidy release in states like Andhra Pradesh, Karnataka and Maharashtra. Tiller volume managed to report YoY growth in the past two months, while tractor volume continues to register a double-digit decline. With the onset of the festive season, we expect VST's tractor volume to improve in the coming months. Subsidy has been released in Andhra Pradesh and Maharashtra, while in Karnataka it is likely to be done in the near term. However, with the volume in past five months already being impacted, it will be difficult for the company to make up for the lost volume and hence we have cut our FY19 volume estimate by 6% in case of tractors and 5% in case of tillers. We now expect 9% YoY growth in tractor sales and 2% YoY growth in tiller sales in FY19. Our earnings estimates for FY19/FY20 stand reduced by 11% and 8%, respectively. However, following the sharp correction in the stock price of VST in recent months, we have upgraded our rating on it to Buy (from Accumulate earlier) with a revised target price of Rs2,721 (21x FY20E EPS).

### 1QFY19 numbers reflect lower subsidy payment and correction in inventory level:

VST's 1QFY19 volume in tractors and tillers fell 25% YoY each as the demand was impacted by delayed subsidy release. VST also had excess inventory which the company rationalised in 1QFY19. Following lower volume, net sales at Rs1.45bn fell sharply by 20% YoY and EBITDA margin declined 461bps QoQ and 90bps YoY, resulting in sharp EBITDA fall of 25% YoY and 56% QoQ. PAT for the quarter at Rs144mn also fell sharply by 57% QoQ.

**Expect improvement in the coming months:** VST's YTD performance of 26% YoY fall in tractor sales and 14% YoY decline in tiller sales was because of the delay in subsidy release in states like Maharashtra, Karnataka and Andhra Pradesh. With Maharashtra and Andhra Pradesh clearing the subsidy payment and Karnataka expected to do the same in the near time, we expect the volume to improve in the coming months. We note that tiller volume has managed to post single-digit YoY growth in the past two months, while tractor volume continued to fall in double digits. With the onset of the festive season, we expect VST's tractor volume to improve in the coming months. However, with the volume in the past five months already being impacted, it will be difficult for the company to make up for the lost volume and hence we have cut our volume estimates by 6% in case of tractors and 5% in case of tillers for FY19. We now project 9% YoY growth in tractor sales and 2% YoY growth in tiller sales for FY19. Our earnings estimates for FY19/FY20 stand reduced by 11% and 8%, respectively. However, following the sharp correction in VST stock price in recent months, we have upgraded our rating on it to Buy (from Accumulate earlier) with a revised target price of Rs2,721 (21x FY20E EPS).

## BUY

Sector: Farm Equipment

CMP: Rs2,081

Target Price: Rs2,721

Upside: 31%

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### Key Data

|                          |             |
|--------------------------|-------------|
| Current Shares O/S (mn)  | 8.6         |
| Mkt Cap (Rsbn/US\$m)     | 17.9/247.5  |
| 52 Wk H / L (Rs)         | 3,044/1,903 |
| Daily Vol. (3M NSE Avg.) | 6,732       |

### Price Performance (%)

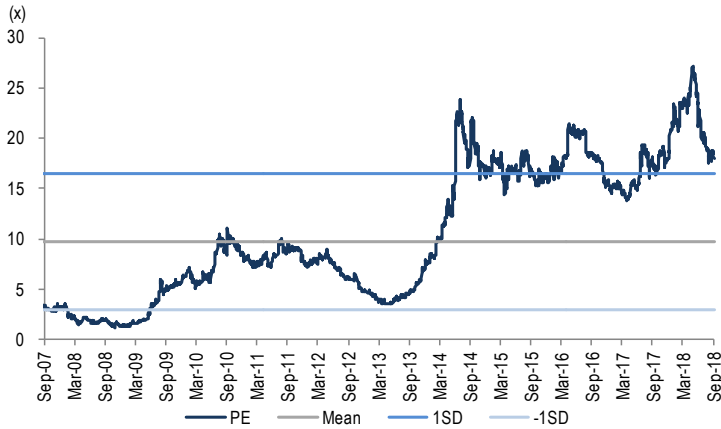
|             | 1 M   | 6 M    | 1 Yr |
|-------------|-------|--------|------|
| VST Tillers | (5.2) | (20.1) | 2.9  |
| Nifty Index | (0.3) | 11.4   | 13.9 |

Source: Bloomberg

| Y/E March (Rsmn) | FY16  | FY17  | FY18  | FY19E  | FY20E |
|------------------|-------|-------|-------|--------|-------|
| Revenues         | 6,467 | 6,951 | 7,640 | 8,264  | 9,411 |
| YoY (%)          | 17.2  | 7.5   | 9.9   | 8.2    | 13.9  |
| EBITDA           | 1,129 | 987   | 1,196 | 1,244  | 1,463 |
| % of sales       | 17.5  | 14.2  | 15.7  | 15.0   | 15.5  |
| PAT              | 741   | 718   | 1,120 | 960    | 1,119 |
| YoY (%)          | 6.6   | (3.2) | 56.1  | (14.3) | 16.6  |
| EPS (Rs)         | 85.8  | 83.1  | 129.6 | 111.1  | 129.6 |
| RoE (%)          | 18.9  | 15.8  | 20.6  | 15.8   | 16.9  |
| RoCE (%)         | 20.0  | 15.1  | 15.5  | 13.9   | 15.0  |
| P/E (x)          | 24.2  | 25.1  | 16.1  | 18.7   | 16.1  |
| EV/EBITDA (x)    | 15.7  | 17.8  | 14.9  | 14.1   | 12.1  |
| P/BV (x)         | 4.3   | 3.7   | 3.0   | 2.9    | 2.5   |

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Valuation charts



Source: Nirmal Bang Institutional Equities Research



Source: Nirmal Bang Institutional Equities Research

## Exhibit 2: Change in our estimates

| (Rsmn)            | New estimates |        | Old estimates |        | Change (%) |         |
|-------------------|---------------|--------|---------------|--------|------------|---------|
|                   | FY19E         | FY20E  | FY19E         | FY20E  | FY19E      | FY20E   |
| Volume            | 43,130        | 48,063 | 45,432        | 50,635 | (5.1)      | (5.1)   |
| Net sales         | 8,264         | 9,411  | 8,721         | 9,934  | (5.2)      | (5.3)   |
| EBITDA            | 1,244         | 1,463  | 1,399         | 1,593  | (11.1)     | (8.2)   |
| EBITDA margin (%) | 15.0          | 15.5   | 16.0          | 16.0   | (95bps)    | (46bps) |
| PAT               | 960           | 1,119  | 1,073         | 1,215  | (10.6)     | (7.9)   |
| EPS (Rs)          | 111.1         | 129.6  | 124.2         | 140.7  | (10.6)     | (7.9)   |

Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 3: Income statement

| Y/E March (Rsmn)         | FY16         | FY17         | FY18         | FY19E        | FY20E        |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>         | <b>6,467</b> | <b>6,951</b> | <b>7,640</b> | <b>8,264</b> | <b>9,411</b> |
| % growth                 | 17.2         | 7.5          | 9.9          | 8.2          | 13.9         |
| Raw material costs       | 4,211        | 4,459        | 4,938        | 5,401        | 6,226        |
| Staff costs              | 454          | 585          | 689          | 653          | 687          |
| Other expenses           | 673          | 920          | 817          | 967          | 1,035        |
| Total expenditure        | 5,338        | 5,964        | 6,444        | 7,021        | 7,948        |
| <b>EBITDA</b>            | <b>1,129</b> | <b>987</b>   | <b>1,196</b> | <b>1,244</b> | <b>1,463</b> |
| % growth                 | 12.5         | (12.5)       | 21.1         | 4.0          | 17.6         |
| <b>EBITDA margin (%)</b> | <b>17.5</b>  | <b>14.2</b>  | <b>15.7</b>  | <b>15.0</b>  | <b>15.5</b>  |
| Other income             | 123          | 156          | 452          | 240          | 280          |
| Interest costs           | 26           | 30           | 17           | 15           | 14           |
| Gross profit             | 2,255        | 2,492        | 2,702        | 2,863        | 3,185        |
| % growth                 | 16.0         | 10.5         | 8.4          | 6.0          | 11.2         |
| Depreciation             | 125          | 118          | 109          | 134          | 172          |
| Profit before tax        | 1,100        | 995          | 1,522        | 1,335        | 1,557        |
| % growth                 | 9.4          | (9.5)        | 52.9         | (12.3)       | 16.6         |
| Tax                      | 359          | 311          | 403          | 375          | 438          |
| Effective tax rate (%)   | 32.6         | 31.2         | 26.4         | 28.1         | 28.1         |
| <b>Net profit</b>        | <b>741</b>   | <b>718</b>   | <b>1,120</b> | <b>960</b>   | <b>1,119</b> |
| % growth                 | 6.6          | (3.2)        | 56.1         | (14.3)       | 16.6         |
| <b>EPS (Rs)</b>          | <b>85.8</b>  | <b>83.1</b>  | <b>129.6</b> | <b>111.1</b> | <b>129.6</b> |
| % growth                 | 6.6          | (3.2)        | 56.1         | (14.3)       | 16.6         |
| DPS (Rs)                 | 15.0         | 15.0         | 50.0         | 24.5         | 30.0         |
| Payout (%)               | 17.5         | 18.1         | 38.6         | 22.1         | 23.2         |

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Balance sheet

| Y/E March (Rsmn)                     | FY16         | FY17         | FY18         | FY19E        | FY20E        |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Equity                               | 86           | 86           | 86           | 86           | 86           |
| Reserves                             | 4,115        | 4,804        | 5,877        | 6,112        | 6,920        |
| Net worth                            | 4,201        | 4,891        | 5,964        | 6,198        | 7,006        |
| Net deferred tax liabilities         | 46           | 37           | 59           | 59           | 59           |
| LT liabilities/provisions            | 387          | 426          | 391          | 391          | 391          |
| Total loans                          | -            | -            | -            | -            | -            |
| <b>Liabilities</b>                   | <b>4,634</b> | <b>5,354</b> | <b>6,414</b> | <b>6,648</b> | <b>7,457</b> |
| Gross block                          | 1,891        | 1,995        | 2,193        | 2,993        | 3,393        |
| Depreciation                         | 621          | 729          | 838          | 972          | 1,144        |
| Net block                            | 1,270        | 1,266        | 1,355        | 2,021        | 2,249        |
| Capital work-in-progress             | 28           | 103          | 568          | 568          | 568          |
| Investments                          | 165          | 573          | 856          | 856          | 856          |
| Other long-term assets               | 115          | 64           | 85           | 85           | 85           |
| Inventories                          | 804          | 707          | 784          | 806          | 918          |
| Debtors                              | 1,238        | 1,323        | 1,861        | 1,245        | 1,315        |
| Cash                                 | 277          | 366          | 173          | 395          | 162          |
| Other current assets/invst           | 1,438        | 1,785        | 2,176        | 2,176        | 2,876        |
| Total current assets                 | 3,756        | 4,180        | 4,994        | 4,623        | 5,272        |
| Trade payables                       | 323          | 363          | 617          | 677          | 745          |
| Other current liabilities/provisions | 378          | 469          | 827          | 827          | 827          |
| Total current liabilities            | 701          | 832          | 1,444        | 1,505        | 1,573        |
| Net current assets                   | 3,055        | 3,348        | 3,550        | 3,118        | 3,699        |
| <b>Total assets</b>                  | <b>4,633</b> | <b>5,354</b> | <b>6,414</b> | <b>6,648</b> | <b>7,457</b> |

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Cash flow

| Y/E March (Rsmn)                | FY16       | FY17       | FY18       | FY19E        | FY20E        |
|---------------------------------|------------|------------|------------|--------------|--------------|
| EBIT                            | 1,126      | 1,058      | 1,539      | 1,350        | 1,571        |
| (Inc.)/dec. in working capital  | 104        | 203        | (851)      | 654          | (114)        |
| Cash flow from operations       | 1,230      | 1,262      | 688        | 2,005        | 1,457        |
| Other income                    | (66)       | (119)      | 180        | 0            | 80           |
| Other expenses                  | (46)       | 11         | (46)       | (56)         | (56)         |
| Depreciation                    | 125        | 118        | 109        | 134          | 172          |
| Tax paid                        | (392)      | (376)      | (403)      | (375)        | (438)        |
| <b>Net cash from operations</b> | <b>852</b> | <b>895</b> | <b>529</b> | <b>1,707</b> | <b>1,216</b> |
| Capital expenditure             | (79)       | (322)      | (554)      | (666)        | (228)        |
| Net cash after capex            | 773        | 573        | (25)       | 1,041        | 988          |
| Other investment activity       | (349)      | (453)      | 367        | (540)        | (896)        |
| Cash from financial activity    | (338)      | (30)       | (535)      | (269)        | (325)        |
| Opening cash balance            | 180        | 266        | 356        | 163          | 395          |
| Closing cash balance            | 266*       | 356*       | 163*       | 395          | 162          |
| Change in cash balance          | 86         | 90         | (193)      | 232          | (233)        |

\*Not including other bank balances

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

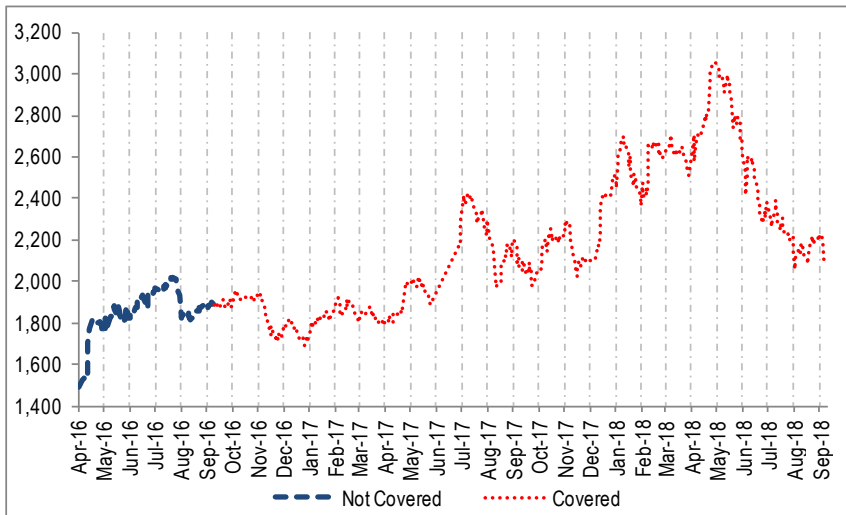
| Y/E March                                     | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|------|------|------|-------|-------|
| <b>Profitability &amp; return ratios</b>      |      |      |      |       |       |
| EBITDA margin (%)                             | 17.5 | 14.2 | 15.7 | 15.0  | 15.5  |
| EBIT margin (%)                               | 15.5 | 12.5 | 14.2 | 13.4  | 13.7  |
| Net profit margin (%)                         | 11.5 | 10.3 | 14.7 | 11.6  | 11.9  |
| RoE (%)                                       | 18.9 | 15.8 | 20.6 | 15.8  | 16.9  |
| RoCE (%)                                      | 20.0 | 15.1 | 15.5 | 13.9  | 15.0  |
| RoIC (%)                                      | 27.6 | 23.5 | 23.8 | 20.3  | 22.7  |
| <b>Working capital &amp; liquidity ratios</b> |      |      |      |       |       |
| Receivables (days)                            | 61   | 67   | 76   | 55    | 51    |
| Inventory (days)                              | 51   | 40   | 36   | 36    | 36    |
| Payables (days)                               | 21   | 28   | 36   | 35    | 34    |
| Cash conversion cycle (WC days)               | 91   | 79   | 75   | 55    | 52    |
| Current ratio (x)                             | 5.4  | 5.0  | 3.5  | 3.1   | 3.4   |
| Quick ratio (x)                               | 4.2  | 4.2  | 2.9  | 2.5   | 2.8   |
| <b>Valuation ratios</b>                       |      |      |      |       |       |
| EV/Sales (x)                                  | 2.7  | 2.5  | 2.3  | 2.1   | 1.9   |
| EV/EBITDA (x)                                 | 15.7 | 17.8 | 14.9 | 14.1  | 12.1  |
| P/E (x)                                       | 24.2 | 25.1 | 16.1 | 18.7  | 16.1  |
| P/BV (x)                                      | 4.3  | 3.7  | 3.0  | 2.9   | 2.5   |

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

| Date             | Rating     | Market price (Rs) | Target price (Rs) |
|------------------|------------|-------------------|-------------------|
| 9 September 2016 | Buy        | 1,890             | 2,415             |
| 10 November 2016 | Buy        | 1,859             | 2,329             |
| 10 February 2017 | Buy        | 1,845             | 2,341             |
| 29 May 2017      | Buy        | 1,923             | 2,341             |
| 16 August 2017   | Buy        | 2,000             | 2,341             |
| 17 November 2017 | Buy        | 2,055             | 2,521             |
| 12 February 2018 | Accumulate | 2,642             | 2,942             |
| 21 May 2018      | Accumulate | 2,880             | 2,954             |

## Rating track graph



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SELL < -5%

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