



# **VST Tillers Tractors Ltd (NSE Scrip Code – VSTTILLERS)**

**Tilling its way through small agriculture land holdings!!**

*Alpha/Alpha Plus stock recommendation for Dec'11*

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# VST Tillers Tractors Ltd – An Introduction

# Largest Tiller manufacturer in India



VST Tillers Tractors Ltd, from the illustrious VST group, was incorporated in the year 1967 in Bangalore, India in technical collaboration and joint venture with Mitsubishi Heavy Industries and Mitsubishi Corporation, Japan for the manufacture of Power Tillers and Diesel Engines.

In 1984, VST entered into an additional technical and financial collaboration with Mitsubishi Agricultural Machinery Company Ltd, Japan for the manufacture of 18.5 HP, 4 wheel drive Tractor.

The manufacturing plant of the company is located in Whitefield Industrial area near Bangalore. It has 75,000 Sq. meters of land and a built up area of 15,000 Sq. meters (approx). The company is coming up with a second manufacturing plant in Hosur.

## **The main products of the Company are Power Tillers and Tractors:**

- In the space of Power Tillers, VST commands a leadership position with a market share of 45%.
- In the segment of tractors, VST was amongst the first few companies to have introduced a <20 HP tractor, while other companies are now following in the footsteps.

# Investment Snapshot (As on December 30, 2011)

**Recommendation :- BUY**

**1<sup>st</sup> Accumulation Range:- 400-415 (2% allocation)**

**2<sup>nd</sup> Accumulation Range:- 330-350 (3% allocation)**

**1<sup>st</sup> Profit Booking :- Sell 30% at Rs 700**

**2<sup>nd</sup> Profit Booking :- Hold remaining for further updates through Alpha Weekly**

**Current Market Price – Rs. 417.00**

**BSE Code – 531266 NSE Code – VSTILLERS**

**Bloomberg Code – VSTT:IN**

**Market Cap (INR Crores) – Rs 351 crores**

**Total Equity Shares [Mn] – 8.63**

**Face Value – Rs. 10**

**52 Week High / Low – Rs. 580.00 / Rs. 404.00**

**Promoter's Holding – 53.91%**

Financial Data		TTM Figures [201109-201012]	
Year End	201103	Sales	475.18
Sales	426	Adj.NP	48.43
Adj.NP	46.22	PBIDT	69.77
Enterprise Value	356.31	EPS(TTM)	56.05
EPS(Adjusted)	52	P/E(TTM)	7.58
P/E	8.44	EV/EBIDTA	5.11
Equity Dividend	7.78	EV/Sales	0.75

Reuters:	VST.BO	Bloomberg:	VSTT IN
<b>Annual</b>			
(in Cr.)	<b>201103</b>	<b>201003</b>	<b>200903</b>
Revenues	425.31	344.54	274.14
Net Profit	46.19	42.33	28.91
EPS	52	47.74	48.92
Cash EPS	52	47.74	48.92
OPM %	17.44	18.95	17.38
NPM %	10.86	12.29	10.55

Bse Code :	531266	Nse Symbol:	VSTILLERS
Industry :	Automobiles - Tractors	NIC Activity:	
<b>Quarterly</b>			
(in Cr.)	<b>201109</b>	<b>201106</b>	<b>201103</b>
Revenues	136.97	113.18	129.26
Net Profit	12.31	11.27	14.59
EPS	14.25	13.04	16.88
Cash EPS	15.3	14.16	17.59
OPM %	14.11	16.18	17.33
NPM %	8.99	9.96	11.29

# Key Investment highlights

**Low farm mechanization in India**– There's no denying that availability of adequate farm power is very crucial for timely farm operations for increasing production and productivity and the power productivity relationship shows that those States having higher farm power availability/ha have higher productivity.

**Small land holdings in India apt for the growth of Tillers and small tractors** - Out of about 105 million farmers who own land in India, about 80 million are small and marginal farmers, who are witnessing labor scarcity and rising wages. For most of these farmers, the medium 31-40 HP tractors are too expensive and too big for their farms, while Low HP tractors and tillers are affordable, making them a viable option.

**Capacity expansion with internal accruals** – For the last many years, VST has been consistently generating positive cash flows which has enabled it to pile on sufficient cash for carrying out a Rs 100 crore capacity expansion. The same will more than double the current combined (tillers + tractors) production capacity of the company. It is expected to come on stream in Sep'12.

**Consistently earning high return on shareholder's funds** – Over the longer term, the company can grow only as fast as it generates returns on the funds employed. VST has consistently been earning 25%+ return on equity for the last 5 years. Considering the capacity expansion that the company has embarked on, we expect far better utilization of free cash and liquid investments, thus expecting the company to further improve upon current capital utilization.

**Very attractive valuations** – VST Tillers is a debt free company with a very strong track record. At current levels, the stock is available at 7-7.5 times FY 12 (E) earnings and 1.75 times the FY 12 (E) book value. A 10-15% correction from current levels will take it towards the lowest end of valuation parameters the stock has witnessed in the past and we have thus suggested a 2 phase buying strategy, considering the overall negative bias in the markets.

# Business Overview

- Major Products
- Main revenue streams
- Sales realization per Power tiller and Tractor
- Margins – Pricing power and Economies of Scale
- Power Tillers – Overview
- Tractors – Overview
- Production capacity & Utilization
- Country wide dealer network
- Strong product pull
- Consistently earning high return on Shareholder's funds

# Major products !!



18.5 HP Tractor



Power Tiller



Rice Transplanter

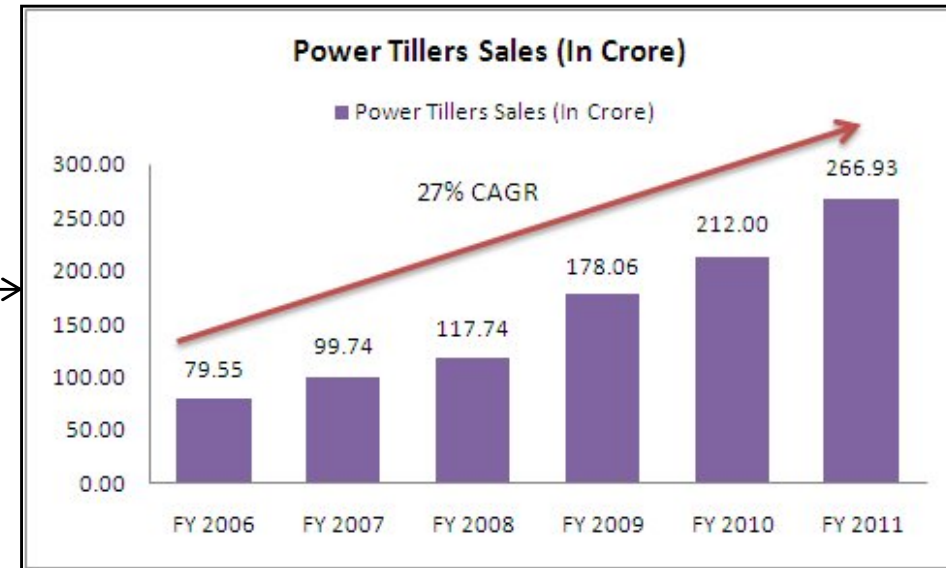
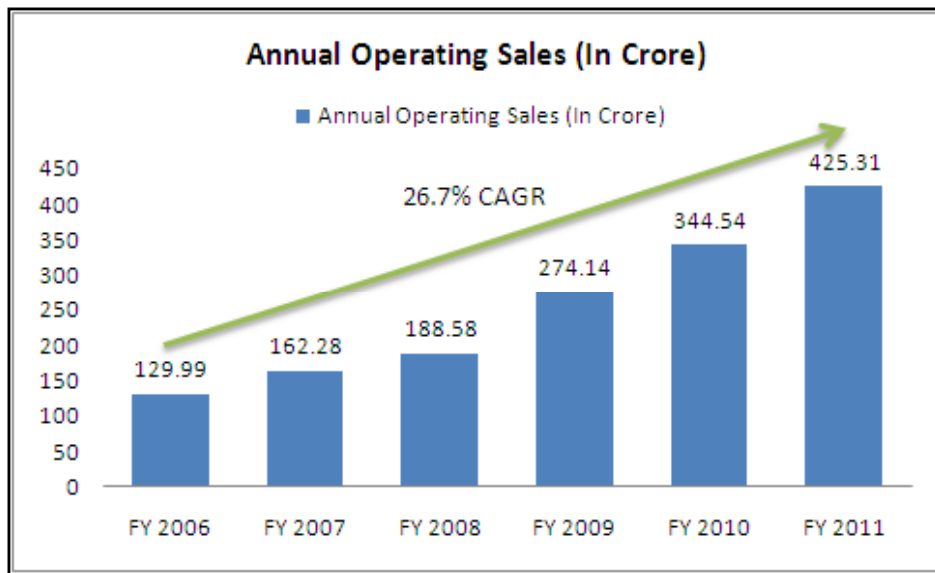


Engines

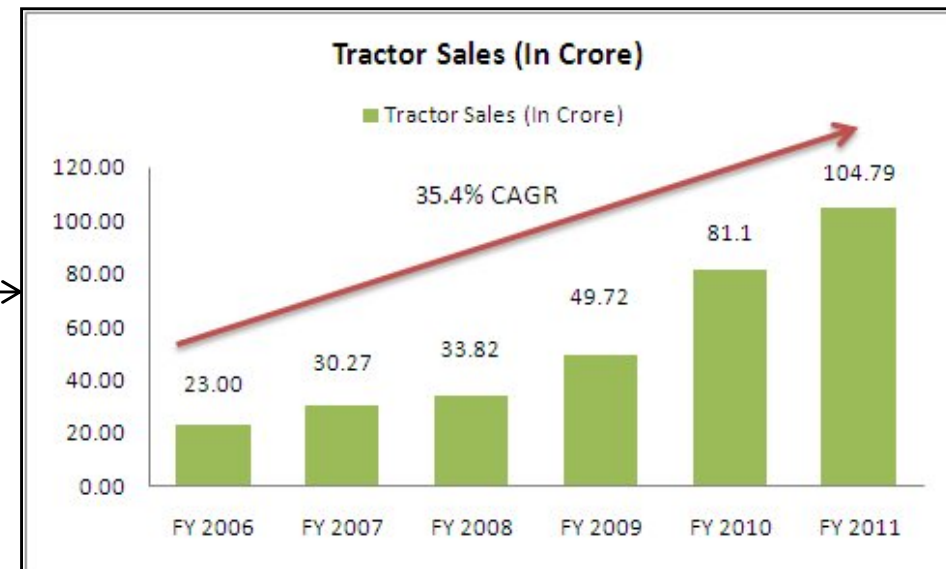


# Main revenue streams

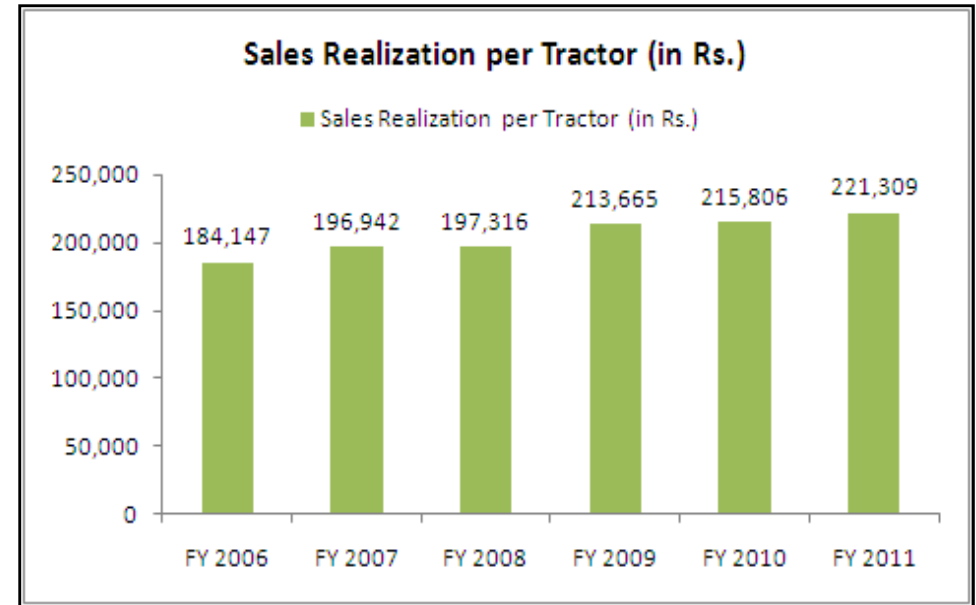
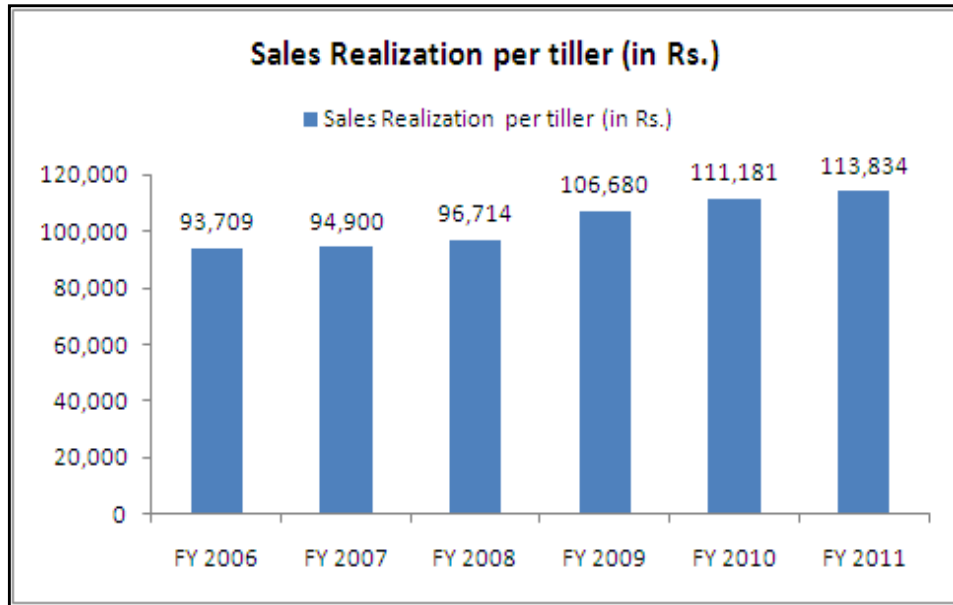
- For VST there are two major revenue streams: Power Tillers and Tractors. Though VST commands more than 45% market share in the Power Tillers segment, it could still record an impressive annualized growth of 27% against an average industry growth of 18-20%, thus thwarting Chinese imports.



- The growth in Tractors segment is even more spectacular at 35% CAGR, however low base has also contributed towards the same. Still we expect the company to maintain the growth momentum, as the demand for sub 20 HP tractors is very strong.

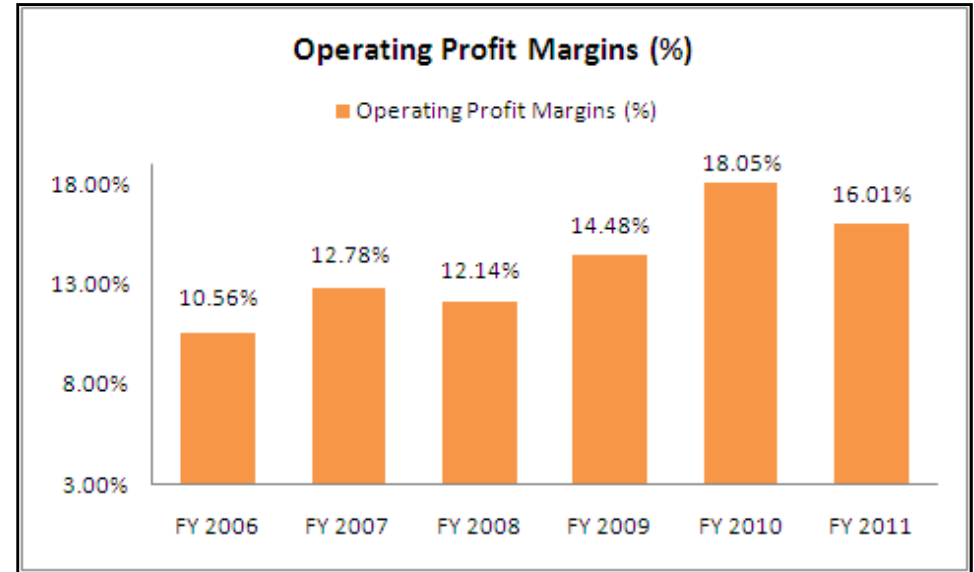
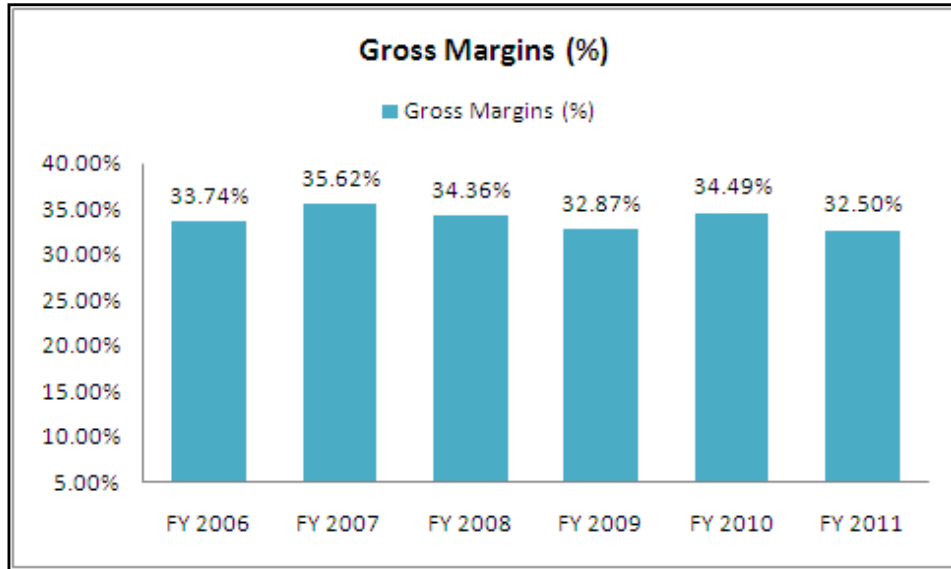


# Sales realization per Power tiller and Tractor



- The sales realization per Power tiller stood at Rs 113,834 for FY 2011.
- Over the last 5 years, the realization per tiller has increased at the rate of 4% per annum.
- Since the sales of tillers is supported by the Govt. subsidy scheme, the prices are approved by all the states once in a year and the company has to maintain the price irrespective of the raw material price increase during the year.
- The sales realization per Tractor stood at Rs 221,309 for FY 2011.
- Over the last 5 years, the realization per Tractor has increased at the rate of 4% per annum.
- It is relatively easier to pass on the raw material price increase in the case of tractors.

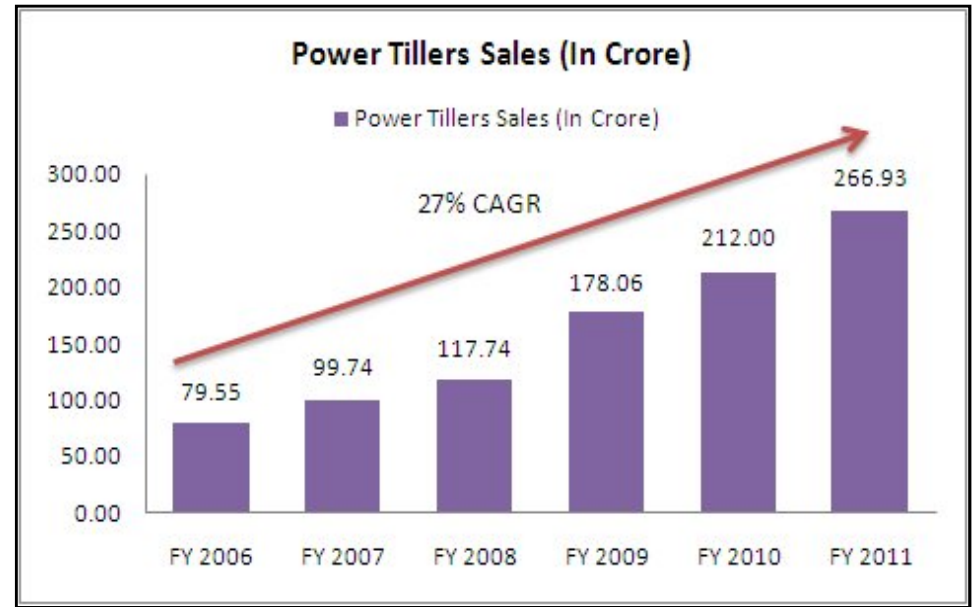
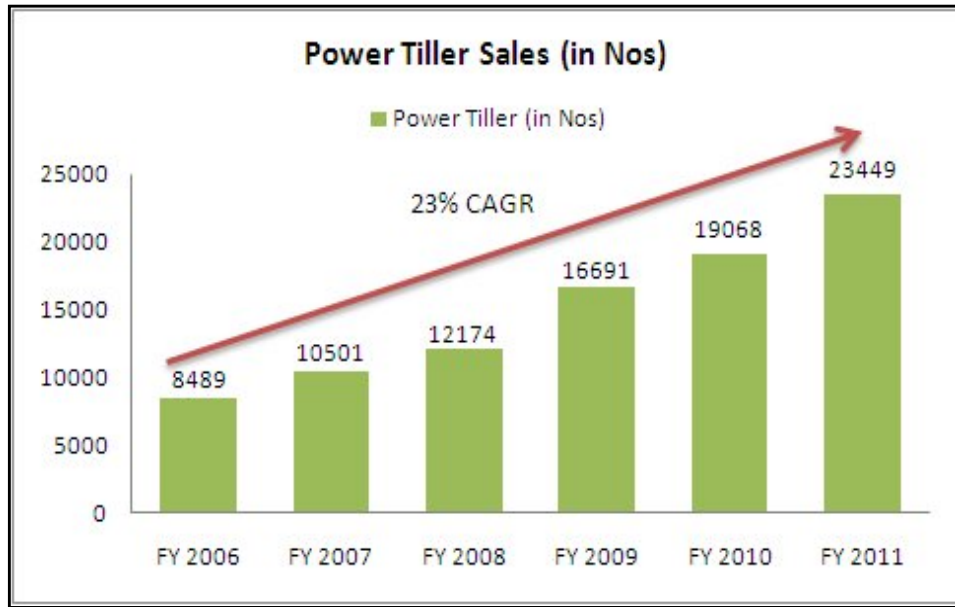
# Margins – Pricing power & Economies of Scale



- The Gross margins of the company have hovered in the range of 32-35% over the last 5 years.
- We believe company has done well to maintain its Gross margins and has more or less been able to increase the prices of its products in line with the increase in prices of the raw materials.
- Farm equipments is a price sensitive sector, more so in the case of Tillers as the same is driven by National and State Govt. subsidies. Being able to pass on price hikes reflects a strong pull for the company's products.

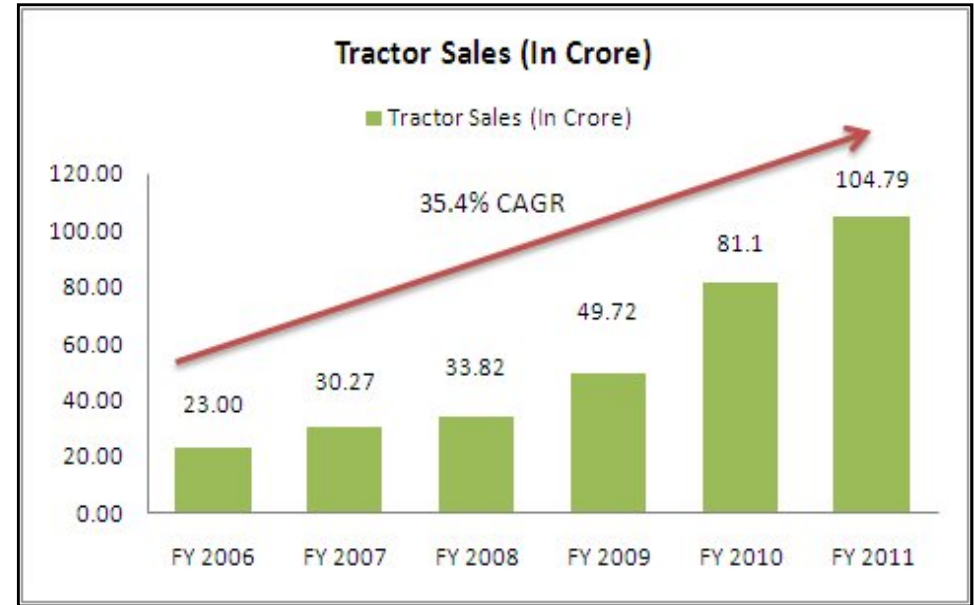
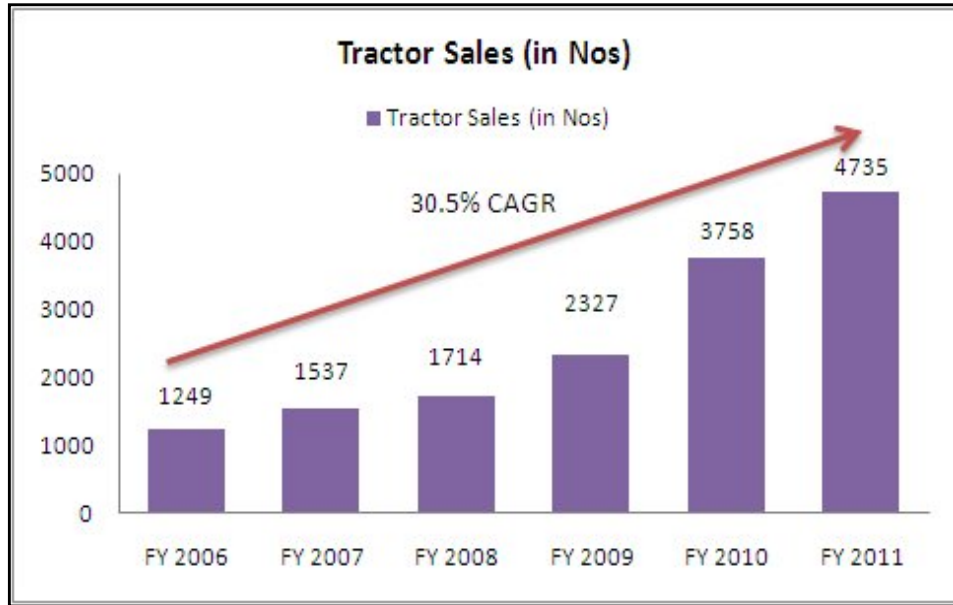
- As can be observed from the above illustration, the operating profit margins of the company have improved over the years.
- While it used to be 10-12% earlier, the increase in operations over the years have helped the company achieve economies of scale with Operating profit margins now in the range of 15-18%.
- We believe that margins peaked out in FY 2010, and shall settle in the range of 15-16% over the longer term.

# Power Tillers - Overview



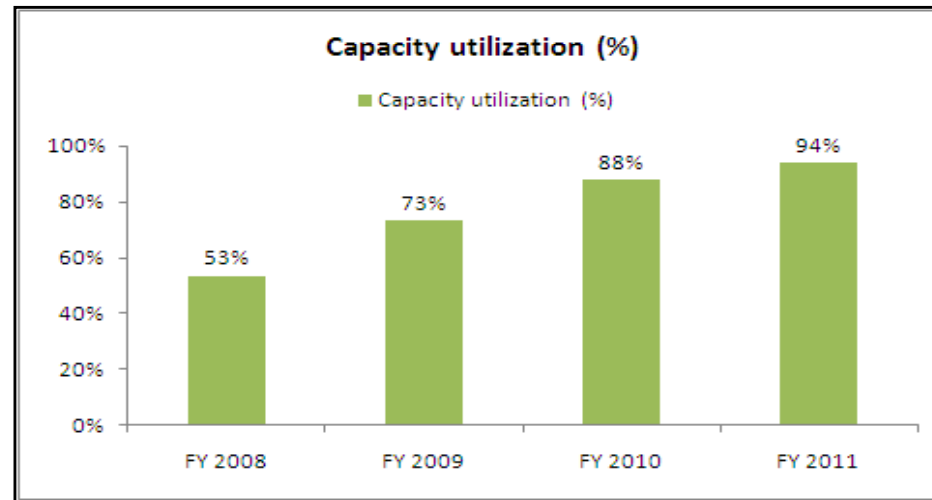
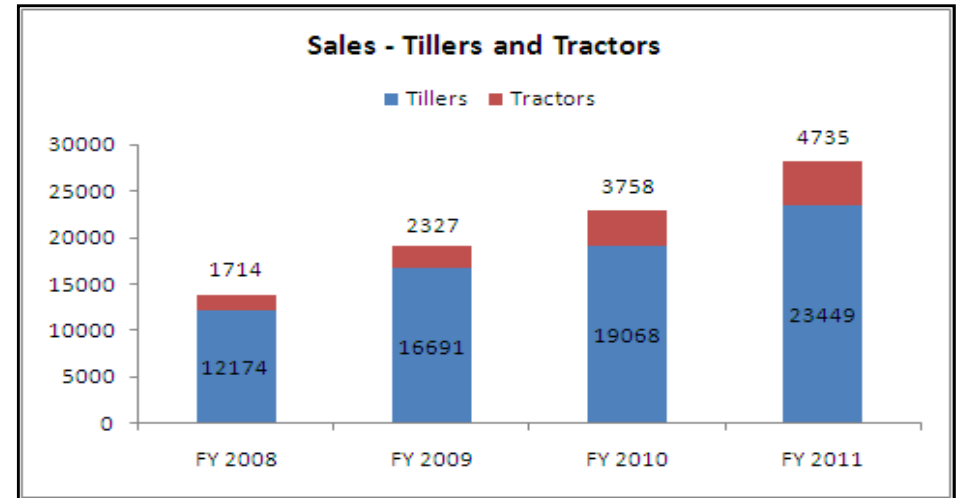
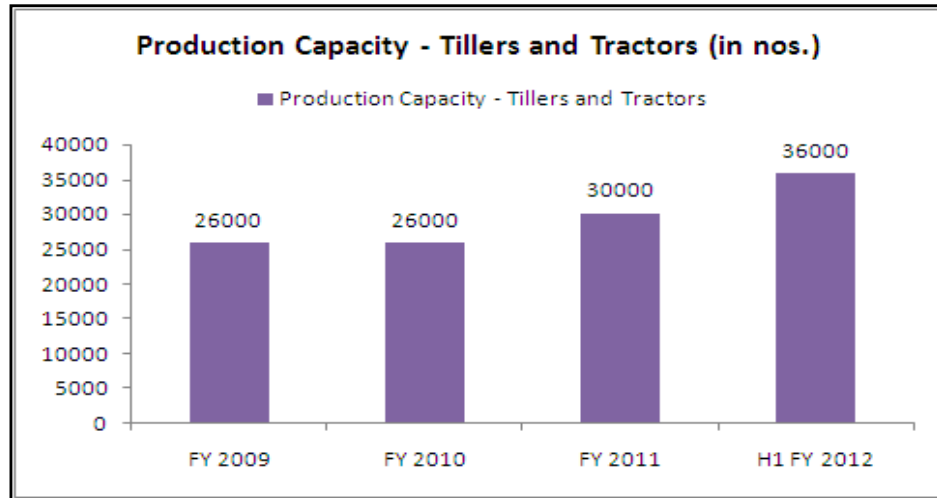
- In the segment of Power Tillers, VST commands a market share in excess of 45%. The sale of Power Tillers is supported by the Government subsidy scheme. For ex., in Karnataka the subsidy is 50,000 and in Orissa the subsidy is 60,000 per tiller and incidentally Orissa has now become the largest consumer of power tillers with annual sales of 10,000 tillers inclusive of VSTs sales of 4,500 tillers. Orissa remains a high potential market considering both the small land holdings and under penetration of farm mechanization in the state.
- For FY 11, VST sold a total of 23449 tillers while at present the company has a total capacity of 36,000 (tillers + tractors) at Bangalore plant. Once the new tractor plant comes up in Hosur, the entire Bangalore plant of the company will be available for Power Tillers. Thus, we don't see any capacity constraints at least for the next 2-3 years. Besides company has also started importing Chinese Tillers in order to get a share out of the market which is preferring an economy model or a lower HP power tiller. However the share of sale from Chinese Tillers is still minuscule, with VST importing only 562 Tillers during FY 2011 and 371 during FY 2010.

# Tractors – Overview



- VST Tillers was primarily a Power Tillers manufacturing company, however off-late the Tractors segment of the company is gaining traction and is rather growing at a scorching pace of 30%+.
- Keeping small land holdings in perspective, VST has created a niche of its own in the tractors space by manufacturing 18.5 HP tractors while all the major players are competing in the 25-55 HP segment. Its only recently that Mahindra has launched a 15 HP Tractor after realizing the immense potential for small tractors.
- As per the management, the sub 20 HP tractors are extensively used in grape vineyards, cotton fields, sugar industry etc. because of their unique features like compact size, 4 wheel drive, less weight and low cost. VST is witnessing huge demand from its dealers and the demand waitlist is very strong for its 18.5 HP tractors. In order to address the same, the expansion plans have already been initiated and should commission by 3<sup>rd</sup> quarter of FY 2013.

# Production Capacity and Utilization



- As can be observed from the illustration to the right, the company reached 94% capacity utilization at the end of FY 2011.
- Since then company has increased the combined capacity by another 20% at the end of H1 FY 2012, considering the demand waitlist for its tractors.

- The 36,000 production capacity accounts for the manufacturing plant at Bangalore.
- Another 25000-30000 tractors manufacturing plant will come up at Hosur by Sep'12.
- The same should help the company maintain the growth rate for another 3 years.

# Country wide dealer network

## A wide dealer Network Reaching every Corner

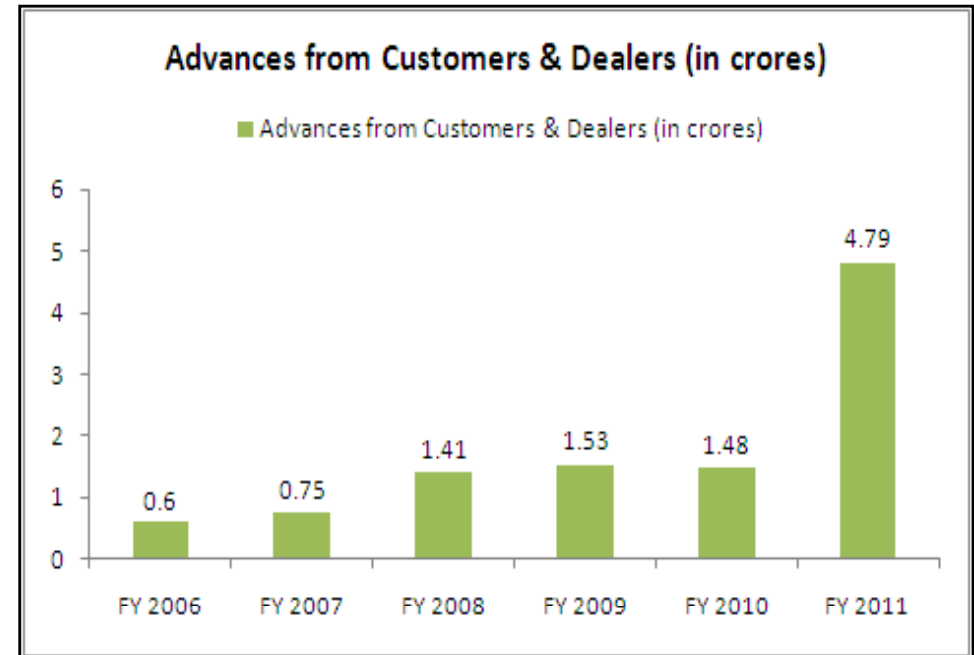
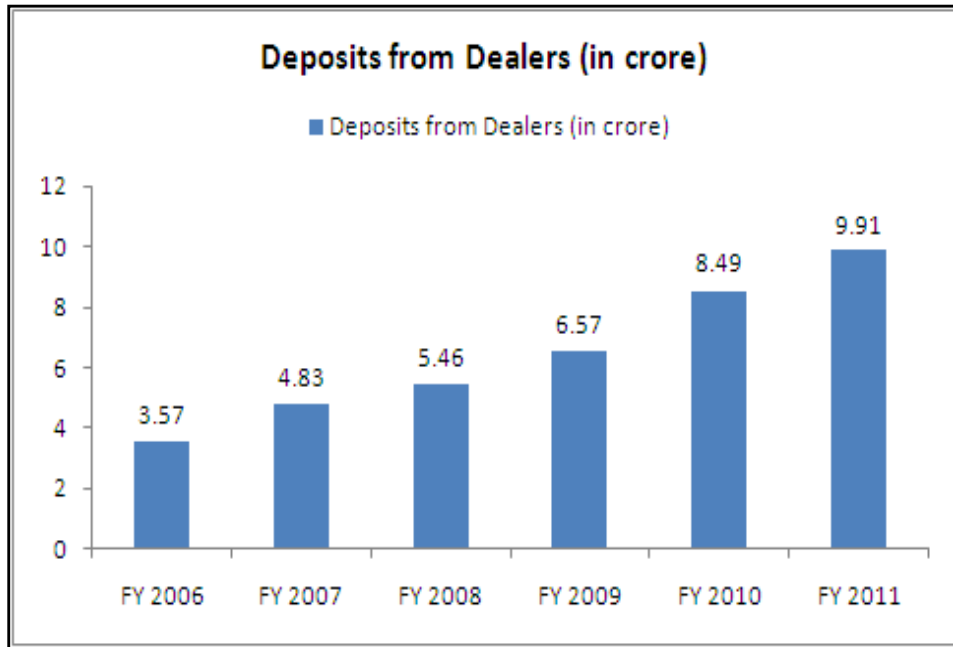
Over the years, VST Tillers Tractors has established an extensive and efficient countrywide sales and after-sales network backed by easy availability of spare parts.

VST has very strong presence in the Southern, Western and North-Eastern states of India. The company is not trying for a pie of Northern states as the land holdings in northern states are large & thus not suitable for VST's Power Tillers and < 20 HP Tractors.

Till now, Tractors sales constituted less than 25% of the entire sales of the company, however with the commissioning of new manufacturing plant for tractors in 2012, the strong and widespread dealer network shall help the company scale up the sale easily.



# Strong product pull



- For companies like VST, a strong dealer network serves the role of marketing agents, after sales service agents and at the same time act as a strong moat against competition from new and marginal players. Also the distribution network enables the company to launch and test market new products, considering they have already build in good reputation amongst the farmers community.
- Though VST has in place a strong dealer network, the company is further strengthening it with every passing year and the same is evident from the fast compounding dealer's deposits. Also, the company witnessed a sharp increase in advances from customers and dealers towards the end of FY 11.
- We believe there's a strong pull for VSTs tractors and tillers and the same should help the company maintain 25% growth rate.



# Consistently earning high return on shareholders funds

*Leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return. The worst business to own is one that must, or will, do the opposite—that is, consistently employ ever-greater amounts of capital at very low rates of return. Unfortunately, the first type of business is very hard to find . . .”- Warren Buffett*

Return on Shareholders Funds							
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Shareholders Equity	41.93	47.39	57.24	68.26	92.12	126.88	164.03
PAT	5.86	7.42	12.55	14.34	29.04	42.4	46.22
ROAE		16.61%	23.99%	22.85%	36.21%	38.72%	31.77%

- In case of VST, the capital includes shareholders equity as it's a debt free company and VST has done justice to shareholder's funds by consistently earning ROAE (Return on Average Equity) in excess of 20%.
- So whatever portion the company is retaining as a part of net profits, they are deploying the same at 20%+ returns. At the end of FY 11, the company had close to 50 crore cash and cash equivalents earning low return for shareholders. Now that company has embarked on expansion, the return on equity and thus the growth may further increase FY 13 onwards.

# Earnings estimates for FY 15 (E)

- 30,000 tractors manufacturing facility at Hosur
- Earnings estimate for FY 2015 (E)

# 30,000 tractors manufacturing facility at Hosur

BUSINESS

CHENNAI, December 9, 2011

## VST Tillers plans unit at Hosur

SHANTHI KANNAN

SHARE · PRINT · T+



Arun Surendra

With rising demand for tractors, VST Tillers Tractors Limited (VTTL) is setting up a second factory at Hosur in Tamil Nadu. The company is investing Rs.100 crore in the new facility that will produce 30,000 units of tractors per annum.

Arun Surendra, Managing Director, VST Motors, told *The Hindu* that the factory, being built on 14 acres would be completed by the end of 2012. VTTL's existing Bangalore facility is producing to its full capacity of 10,000 units of tractors and 35,000 units of tillers annually. The company has shelved the earlier proposal to shift the entire tractor manufacturing base to Hosur from Bangalore. Mr. Surendra said that VTTL would continue with both the facilities for some time. The company aims to double its current turnover of Rs.550 crore by 2013. The group also has an NBFC (non-banking finance company), Gove Investments & Finance Limited, for funding its captive customers.

In many concalls and in various discussions, management has indicated that they are witnessing very strong demand for their tractors of 18.5 HP.

In order to capitalize on the same, VST is setting up a second factory at Hosur with a production capacity of 30,000 tractors (on double shift basis) per annum.

The capacity is expected to come up towards the 2<sup>nd</sup>- 3<sup>rd</sup> quarter of FY 2013.

At present the company is selling close to 5,000 tractors per annum, so once the second factory is up and running, it could give a major boost to the revenues of the company.

# Earnings estimate for FY 2015 (E)

	Tillers (in nos)	Realization per tiller (in Rs.)	Tractors (in nos)	Realization per tractor (in Rs.)	Tillers Sales (in crore)	Tractors Sales (in crore)	Other Operating Sales (in crore)	Other Income (in crore)	OPM (%)	NPM (%)
FY 2011	23449	113834	4735	221309	266.93	104.79	53.55	5.97	16.01%	10.86%
FY 2015 (E)	33000~	128121*	25000^^	249085*	422.8	622.71	75	6	15%	9.50%

~ - Assuming Power Tillers production from Bangalore Plant

^^- Assuming Tractors production from Hosur Plant

\* - Assuming 3% annual price escalation against 4% for the last 5 years

	FY 2011	FY 2015 (E)
Net Sales	425.27	1120.51
Other Income	5.97	6
<b>Total Income</b>	<b>431.24</b>	<b>1126.51</b>
Operating Profit	74.01	168.07
<b>Net Profit</b>	<b>46.19</b>	<b>107.01</b>
<b>Diluted EPS</b>	<b>53.46</b>	<b>123.86</b>

We have outlined some basic assumptions for estimating the FY 15 turnover and net profit. We believe that the estimates are conservative and would rather be happy if the company outperforms our estimates by a large margin as the management itself has set a target of 1000-1100 crore turnover by FY 2014.

We don't expect equity dilution during the period as VST is sufficiently funded, generates good cash flows and is debt free.

There's a high probability of company registering much higher Tiller sales than the 33,000 assumed, as the industry is growing at 15-18%, while in the tractors segment, achieving higher capacity utilization should be easy as the demand backlog is strong.

# Management Quality

- Shareholding Pattern
- Distributing 15%+ profits as dividends
- Managements' Remuneration

# Shareholding pattern

VST Tillers Tractors - Shareholding Pattern	Sep'11	Jun'11	Mar'11	Dec'10	Sep'10
<b>Promoter and Promoter Group</b>	<b>53.91%</b>	<b>53.91%</b>	<b>53.91%</b>	<b>53.91%</b>	<b>53.91%</b>
Indian	50.98%	50.98%	50.98%	50.98%	50.98%
Foreign	2.93%	2.93%	2.93%	2.93%	2.93%
<b>Public</b>	<b>46.09%</b>	<b>46.09%</b>	<b>46.09%</b>	<b>46.09%</b>	<b>46.09%</b>
Institutions	8.44%	8.02%	7.10%	6.62%	6.61%
FII	3.90%	3.67%	3.65%	3.37%	3.20%
DII	4.54%	4.35%	3.45%	3.25%	3.21%
Non-Institutions	37.65%	38.07%	38.99%	39.47%	39.48%
Bodies Corporate	5.99%	5.84%	6.23%	6.72%	6.85%
Custodians					
<b>Total No. of Shares</b>	<b>86,39,528</b>	<b>86,39,528</b>	<b>86,39,528</b>	<b>86,39,528</b>	<b>86,39,528</b>

- The Promoters of the company, VST Group, have been firmly holding 50.98% equity in the company since long, while Mitsubishi Heavy Industries Ltd. holds another 2.93% taking total Promoter holding to 53.91%.
- As can be observed from the above illustration, institutions, both FIIs and DIIs have been increasing their stakes steadily over the last few quarters.
- At 350-400 crore market cap, VST Tillers is a sizable company and is under the radar of institutional investors.
- Novastar International Funds holds 2.39% stake (from 1.44% in Dec'09) in the company and they have been increasing their stake with every passing quarter. In the past, they have made some great investments in stocks like Bajaj Electricals, TTK Prestige, Shriram Transport, etc. They invest in profitable publicly listed small cap companies that have the potential to emerge as leaders.

# Distributing 15%+ profits as dividends

Dividends Declared			
Year End	Dividend Amount (In Crore)	Dividend Per Share (Rs)	Face Value (Rs)
FY 2011	7.78	9.00	10.00
FY 2010	6.48	7.50*	10.00
FY 2009	4.32	7.50	10.00
FY 2008	2.88	5.00	10.00
FY 2007	2.30	4.00	10.00
FY 2006	1.73	3.00	10.00
FY 2005	1.44	2.50	10.00
FY 2004	1.44	2.50	10.00

\* - 1:2 Bonus in Feb 2010

- While VST has no defined Dividend Policy, however they have been consistently distributing 15%+ of their net profits as dividends.
- A consistent and increasing dividend payout, in line with the profitability, is reflective of the wealth sharing attitude of the management.

# Managements' Remuneration

Management's Remuneration						Rs. (in Lakhs)
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Annual Salary	15.37	16.96	16.02	20.3	24.84	26.04
Other Allowances	3.78	5.51	24.63	12.93	14.08	16.2
Contribution to PF etc	1.83	1.9	2.19	2.43	2.98	3.12
Commission	15.37	21.23	15.26	25.84	31.17	32.67
<b>Total</b>	<b>36.35</b>	<b>45.62</b>	<b>58.12</b>	<b>61.52</b>	<b>73.07</b>	<b>78.04</b>

- We like the companies with the management that derive major portion of their remuneration from Performance linked commissions. Also one should be cautious about companies where the management take home more than 10% of net profits as remuneration.
- In the case of VST, it is good to see that over the last 5 years the annual fixed salary component hasn't increased much. Also, the total Management remuneration is just 1.70% of the net profit of the company.



# Industry Overview

- Higher farm mechanization – Higher farm productivity
- NREGA: Farm mechanization, an unintended consequence
- Tractors – Low penetration; high growth potential
- < 20 HP Tractors – Very buoyant demand
- Government subsidy driving tiller sales in India
- Power tillers: Grossly underpenetrated, thereby huge potential

# Higher farm mechanization – Higher farm productivity

Farm Power Availability and Average Productivity of Food grains in India in 2001		
	Farm Power availability (kw/ha)	Food Grain Productivity (Kg/ha)
Punjab	3.5	4032
Haryana	2.3	3088
Uttar Pradesh	1.8	2105
Andhra Pradesh	1.6	1995
Uttaranchal	1.6	1712
West Bengal	1.3	2217
Tamil Nadu	0.9	2262
Karnataka	0.9	1406
Kerala	0.8	2162
Bihar	0.8	1622
Assam	0.8	1443
Gujarat	0.8	1169
Madhya Pradesh	0.8	907
Himachal Pradesh	0.7	1500
Maharashtra	0.7	757
Rajasthan	0.7	884
Jharkhand	0.6	1095
Jammu & Kashmir	0.6	1050
Orissa	0.6	799
Chhattisgarh	0.6	799
<b>All India Average</b>	<b>1.35</b>	<b>1723</b>

There's no denying that availability of adequate farm power is very crucial for timely farm operations for increasing production and productivity.

**The power productivity relationship shows that those States having higher farm power availability/ha have higher productivity.**

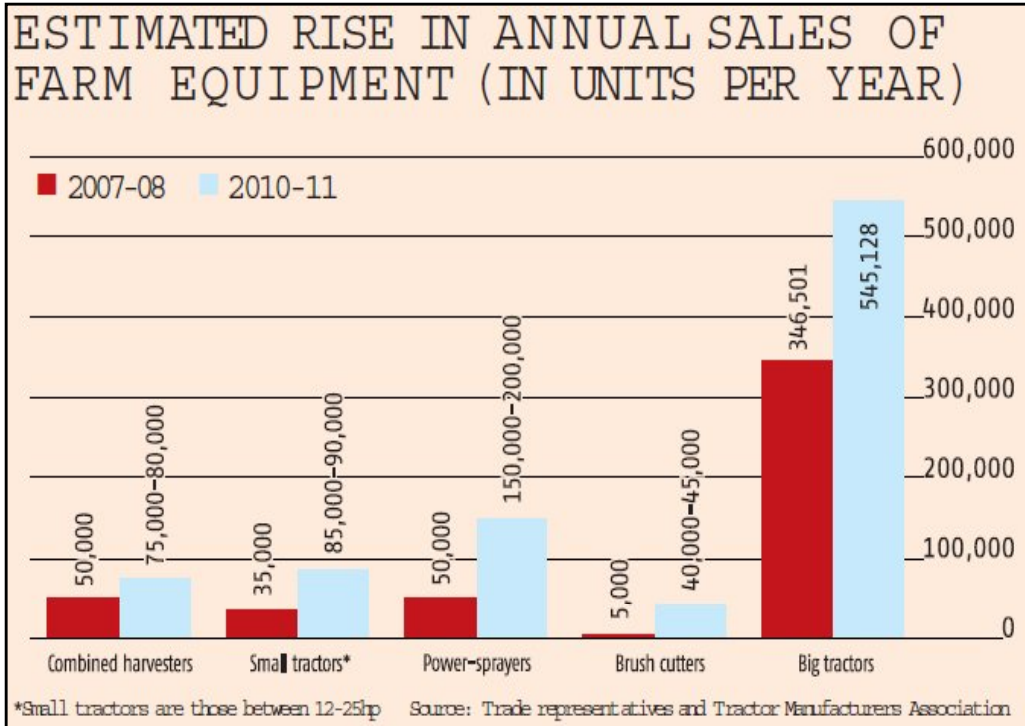
Considering the fact that Food Security Bill has been passed, it can be concluded that the additional requirement of food grains in future will be met through improving productivity by using more farm equipments, more specifically the equipments like Tillers, Tractors, etc.

# NREGA: Farm mechanization, an unintended consequence

**AVERAGE DAILY WAGE RATE FOR FARM LABOUR (IN ₹)**

	Jan-07	Apr-11	% Change*
Punjab	95.75	170.24	78
Haryana	100.18	203.06	103
UP	64.4	116.08	80
Bihar	58.97	100.95	71
Bengal	75.44	125.53	66
Maharashtra	68.88	131.32	91
M P	50.2	89.08	77
Andhra	69.06	173.7	152

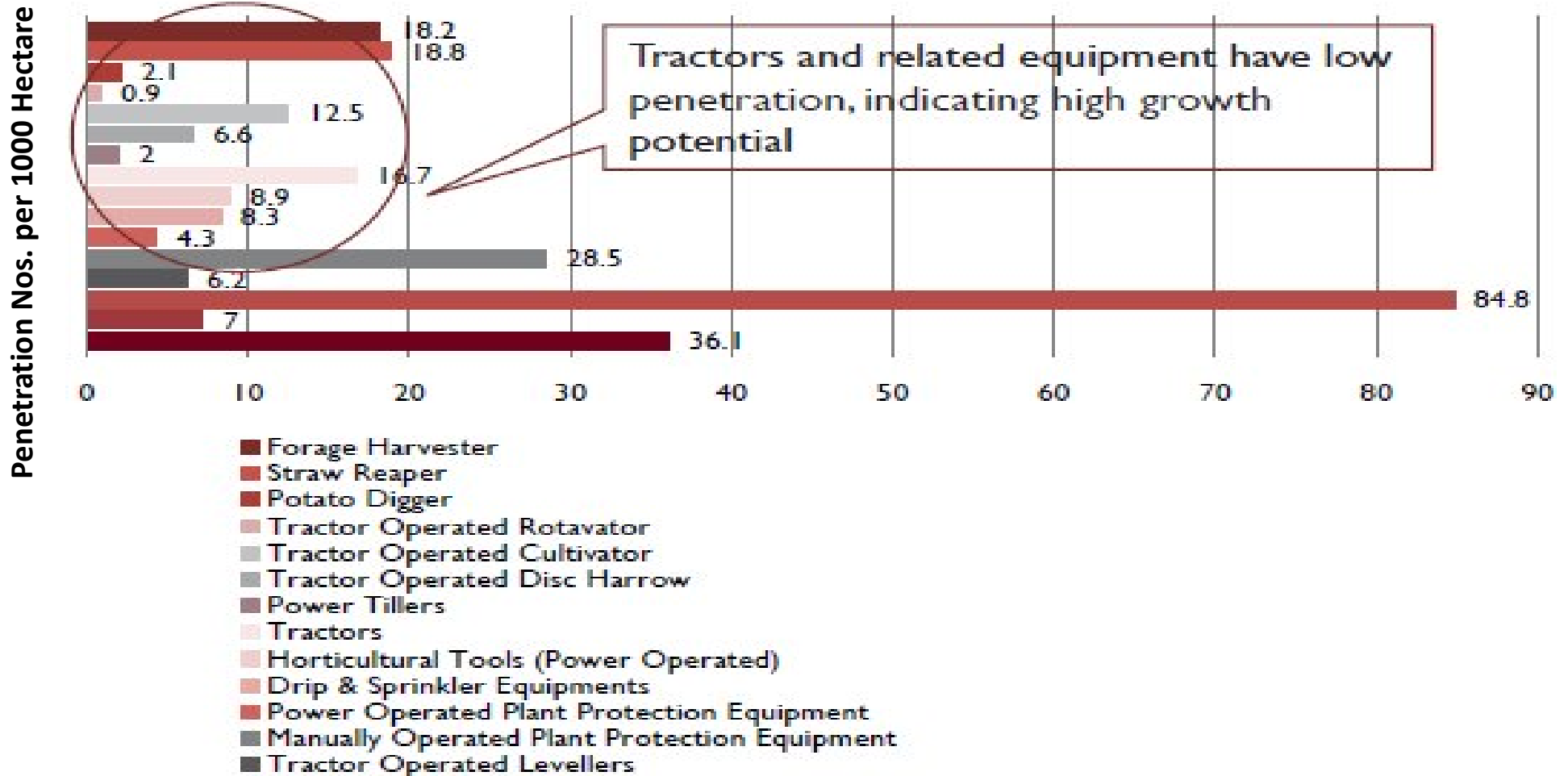
\*The change in percentage is between January 2007 to April 2011.  
 Note: Average daily wages include average of five farm operations which include sowing, weeding, transplanting



Interference with price signals has been the bane of public policy in India. The latest example is the labour market distortions caused by wage guarantee schemes. Business Standard highlights the sharp increases in farm labor wages between Jan'07 and Apr'11. It is estimated that farm wages have risen by an average of 70% in the past four years due to the success of the NREGA which has been in operation in all Indian districts since 2007.

**One happy consequence of scarce and costly manual labour has been the pace of farm mechanisation, as manifested in increased use of tractors, combine harvesters, small tillers, de-weeders and small power-driven sprayers.**

# Tractors – Low penetration; high growth potential



Tractors and accessories provide the most significant investment and growth opportunity, on account of low penetration in the Indian farm holdings.

# <20 HP Tractors – Very buoyant demand

Table 5: HP-wise Tractor Data

Segment	Market Share						Growth Rate				
	FY08	FY09	FY10	FY11	Apr-Aug 10	Apr-Aug 11	3 Yr CAGR	2 Yr CAGR	1 Yr CAGR	Apr-Aug 10 (Y-o-Y)	Apr-Aug 11 (Y-o-Y)
<20 HP	0.5%	0.7%	0.9%	0.9%	1.1%	1.1%	40.3%	42.5%	25.7%	49%	14%
21-30 HP	14.5%	14.4%	15.0%	12.9%	13.4%	12.3%	8.7%	18.5%	6.3%	14%	7%
31-40 HP	46.8%	45.6%	45.9%	41.6%	43.0%	42.3%	8.7%	19.7%	12.1%	10%	14%
41-50 HP	25.3%	24.6%	24.0%	28.3%	26.6%	27.9%	17.3%	34.3%	45.9%	45%	22%
> 51 HP	12.9%	14.7%	14.3%	16.4%	15.9%	16.3%	22.4%	32.3%	42.3%	54%	19%

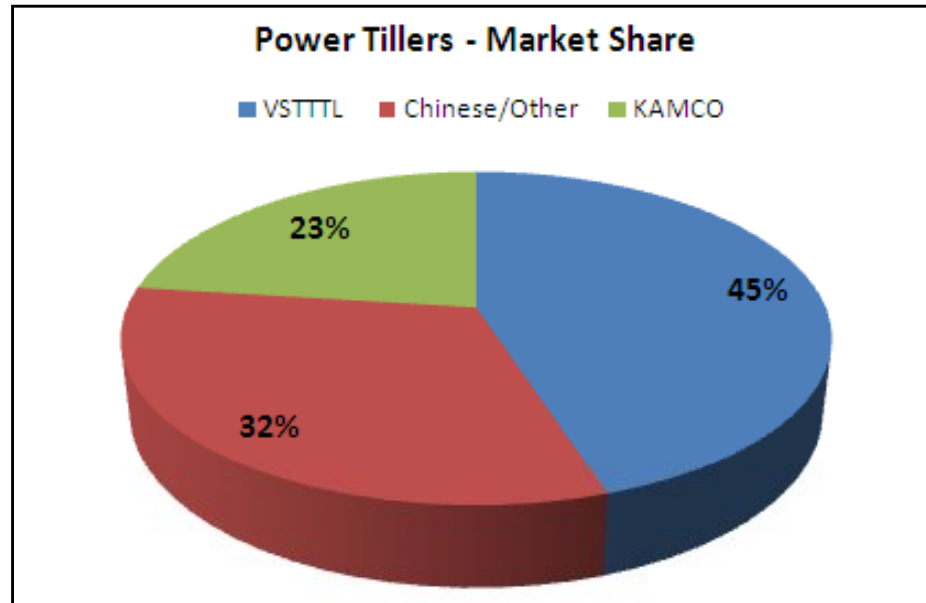
India has traditionally been a medium HP (31-40 HP) market, accounting for 46.8% of market in FY08. Off late a distinct trend is emerging in the Indian tractor market, the increase in market share of low HP tractors. Although low HP tractors only have a negligible presence even now, the segment has more than doubled its market share in the past three years.

A combination of factors like labor scarcity and rising wages, better affordability of small marginal farmers and sales plateauing in traditional markets like Punjab among others - has slowed demand for 31-40 HP tractors that account for 45 percent of all tractor sales, while pushing demand for less-powerful, more fuel efficient tractors.

Out of about 105 million farmers who own land in India, about 80 million are small and marginal farmers. For most of these farmers, the medium 31-40 HP tractors are too expensive and too big for their farms, while Low HP tractors are affordable, making them a viable option.

# Government subsidy driving tiller sales in India

In FY11, the Indian Power Tiller Market was about 53,000 Tillers out of which, VSTTL sold 23,450 units, KAMCO sold 12,000 units and Chinese imports (10-12 importers) were 17,000 units.



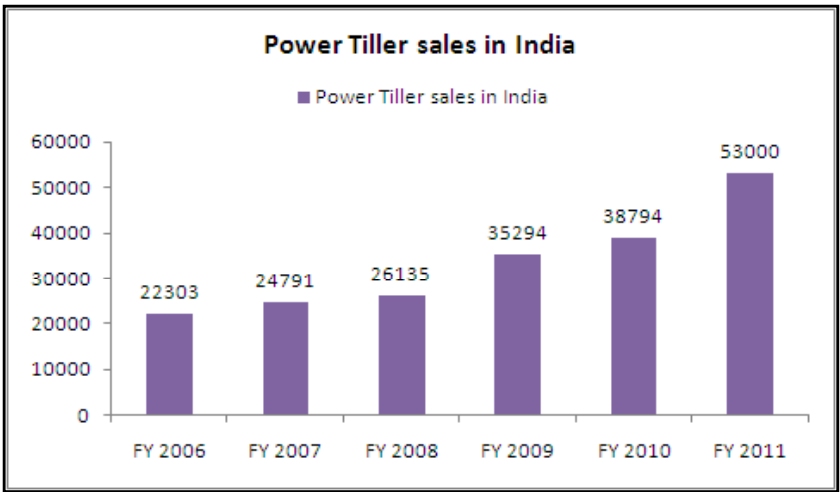
The Chinese imports today constitute 1/3<sup>rd</sup> of the industry volumes. VSTTL wants to buy out KAMCO (a Kerala state govt. PSU) but the Kerala Government is not in favor of privatization.

Government subsidies is the single largest factor driving Tiller sales in India. The magnitude of subsidy is state specific. For instance Chattisgarh is providing Rs. 90,000/tiller subsidy, while Jharkhand & Bihar are providing Rs. 65,000/tiller. Assam Govt. in its FY10 Budget stated that 20 power tillers will be provided to each assembly constituency at 75% discount. Therefore, annual Tiller demand from Assam should be 124 constituencies x 20 = 2480 tillers. Central Government subsidy on Tillers is Rs. 45,000.

# Power tillers: Grossly underpenetrated, thereby huge potential

For the remaining amount (net of subsidy), PSU Banks give credit at 5% interest to farmers for Tiller purchases. The government thrust to increase in agricultural lending also works in favor of the Indian Tiller market.

Due to the huge subsidy, tiller prices are regulated by the government to some extent and VSTTL needs government approval before increasing prices. A 2-3% price hike per annum is usually permitted. Overall, VSTTL is a beneficiary of the govt. intervention in the Tiller market.



Indian Tiller market is growing at a rate of 15-18% for the last 5 years. This is expected to accelerate to 20% CAGR over the next 5 years. Orissa has the largest tiller market in India. During FY11, 10,800 units or 20% of all tillers sold in India were sold in Orissa.

Compared to 6,00,000 tiller units sold in China, only 53,000 units are sold in Indian per annum, though total arable land in India is more than in China. Even Bangladesh has sales of close to 50,000 units p.a. This comparison shows the incredible under penetration of the tillers in the Indian farm land and thereby a huge opportunity.

# Financial Overview

- Annual Performance – Consistent Growth
- Quarterly Performance – Margins under pressure for FY 12
- Cash Flows – Occasional delay in release of subsidy
- Balance Sheet – Adequately funded



# Annual Performance – Consistent growth

FINANCE - PROFIT AND LOSS - VST Tillers Tractors Ltd (Curr: Rs in Cr.) As on 21/12/2011						
	201103 (12)	201003 (12)	200903 (12)	200803 (12)	200703 (12)	200603 (12)
<b>INCOME :</b>						
Net Sales	425.31	344.54	274.14	188.58	162.28	129.99
Other Income	5.97	2.86	4.86	2.79	2.11	1.65
Stock Adjustments	-0.86	-1.05	15.03	5.01	-1.51	0.98
<b>Total Income</b>	<b>430.42</b>	<b>346.35</b>	<b>294.03</b>	<b>196.38</b>	<b>162.88</b>	<b>132.62</b>
<b>EXPENDITURE :</b>						
Raw Materials	286.22	224.64	199.06	133.01	102.95	87.1
Power & Fuel Cost	2.44	2.05	1.96	1.66	1.5	1.31
Employee Cost	24.28	19.97	17.55	15.39	14.05	11.34
Other Manufacturing Expenses	6.01	5.09	4.73	1.83	5.29	4.36
Selling and Administration Expenses	36.04	25.62	20.92	17.08	14.54	10.95
Miscellaneous Expenses	1.14	3.62	2.05	1.49	1.48	1.93
<b>Total Expenditure</b>	<b>356.13</b>	<b>280.99</b>	<b>246.27</b>	<b>170.46</b>	<b>139.81</b>	<b>116.99</b>
<b>Operating Profit</b>	<b>74.29</b>	<b>65.36</b>	<b>47.76</b>	<b>25.92</b>	<b>23.07</b>	<b>15.63</b>
Interest	0.98	0.97	0.81	0.76	0.69	1.37
Depreciation	2.27	2.59	2.81	2.9	2.73	2.71
<b>Profit Before Tax</b>	<b>71.04</b>	<b>61.8</b>	<b>44.14</b>	<b>22.26</b>	<b>19.65</b>	<b>11.55</b>
Tax	23.39	21.59	15.02	7.83	6.82	4.09
Deferred Tax	1.46	-2.12	0.04	-0.38	-0.13	-0.29
<b>Net Profit</b>	<b>46.22</b>	<b>42.4</b>	<b>29.04</b>	<b>14.34</b>	<b>12.55</b>	<b>7.42</b>
<b>Earnings Per Share (EPS)</b>	<b>52</b>	<b>47.74</b>	<b>32.61</b>	<b>16.1</b>	<b>14.07</b>	<b>8.3</b>
<b>Book Value (BV)</b>	<b>189.07</b>	<b>146.08</b>	<b>105.84</b>	<b>78.22</b>	<b>65.45</b>	<b>54.04</b>

- The track record of the company is marked by both consistency and outstanding growth.
- During the last 5-6 years, the environment's been both conducive and tough at different times, however VST did well to weather through tough times.
- The margins for FY 10 were pretty high as there was a windfall of excise duty release, however we now expect the net profit margins to settle in the range of 9-10%.

# Quarterly Performance – Margins under pressure for FY 12

QUARTERLY - RESULTS AT A GLANCE - VST Tillers Tractors Ltd (Curr: Rs in Cr.) As on 21/12/2011												
	Sep'11	Sep'10	VAR [%]	Jun'11	Jun'10	VAR [%]	Mar'11	Mar'10	VAR [%]	Dec'10	Dec'09	VAR [%]
Net Sales	136.97	106.95	28.1	113.18	93.33	21.3	129.26	103.76	24.6	95.77	71.67	33.6
Other Operating Income	0.49	0.62	-21	0	0	0	0	0	0	0	0	0
Other Income	1.21	0.54	124.1	1.82	0.76	139.5	2.93	1.39	110.8	1.12	0.49	128.6
<b>Total Income</b>	<b>138.67</b>	<b>108.11</b>	<b>28.3</b>	<b>115</b>	<b>94.09</b>	<b>22.2</b>	<b>132.19</b>	<b>105.15</b>	<b>25.7</b>	<b>96.89</b>	<b>72.16</b>	<b>34.3</b>
<b>Total Expenditure</b>	<b>119.34</b>	<b>89.53</b>	<b>33.3</b>	<b>96.69</b>	<b>77.85</b>	<b>24.2</b>	<b>109.79</b>	<b>84.35</b>	<b>30.2</b>	<b>80.08</b>	<b>60.05</b>	<b>33.4</b>
<b>PBIDT</b>	<b>19.33</b>	<b>18.58</b>	<b>4</b>	<b>18.31</b>	<b>16.24</b>	<b>12.7</b>	<b>22.4</b>	<b>20.8</b>	<b>7.7</b>	<b>16.81</b>	<b>12.11</b>	<b>38.8</b>
Interest	0.18	0.17	5.9	0.2	0.17	17.6	0.2	0.21	-4.8	0.18	0.19	-5.3
Depreciation	0.91	0.55	65.5	0.96	0.55	74.5	0.61	0.52	17.3	0.56	0.68	-17.6
Tax	5.93	6.36	-6.8	5.88	5.68	3.5	7	5.06	38.3	5.81	3.72	56.2
Fringe Benefit Tax	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Tax	0	0	0	0	0	0	0	0	0	0	0	0
<b>Profit After Tax</b>	<b>12.31</b>	<b>11.5</b>	<b>7</b>	<b>11.27</b>	<b>9.84</b>	<b>14.5</b>	<b>14.59</b>	<b>15.01</b>	<b>-2.8</b>	<b>10.26</b>	<b>7.52</b>	<b>36.4</b>

- For FY 12, two quarters have passed and the company has recorded a turnover of Rs 250 crore against Rs 200 crore turnover for the similar period of FY 11. So, the sales growth has been very strong while the operating margins and the net profit margins are under pressure on account of unabated inflation across all the industries.
- The management expects the raw material prices to remain high and have indicated that their Operating profit margins will settle at 15% for FY 12 against 16% for FY 11.
- For the half year ending Sep'11, the company sold 3,235 tractors against 2,119 for the similar period last year, thus registering 52.6% growth while the growth in Tillers unit is a bit muted with a sales of 12,760 units against 11,153 for H1 FY 11.

# Cash Flows – Occasional delay in release of subsidy

FINANCE - CASH FLOW - VST Tillers Tractors Ltd (Curr: Rs in Cr.) As on 27/12/2011						
	201103	201003	200903	200803	200703	200603
Cash and Cash Equivalents at Beginning of the year	14.99	18.74	16.97	15.5	6.47	5.35
<b>Cash Flow From Operating Activities</b>						
Net Profit before Tax & Extraordinary Items	71.04	61.8	44.14	22.26	19.65	11.55
Adjustment For:						
Depreciation	2.27	2.59	2.82	2.9	2.73	2.71
Interest (Net)	0.72	0.67	0.53	0.53	0.45	1.37
Dividend Received	-1.67	-0.44	-1.11	-0.45	-0.4	-0.3
<b>Op. Profit before Working Capital Changes</b>	<b>70.88</b>	<b>66.23</b>	<b>45.97</b>	<b>24.91</b>	<b>22.73</b>	<b>15.99</b>
Adjustment For:						
Trade & oth receivables	-1.32	-32.33	-9.61	-6.21	-6.31	3.25
Inventories	-10.38	6.67	-17.57	-7.03	-4.91	-1.56
Trade Payables	17.36	-4.17	13.73	8.77	6.06	4.65
<b>Cash Generated from/(used in) Operations</b>	<b>76.54</b>	<b>36.4</b>	<b>32.52</b>	<b>20.44</b>	<b>17.57</b>	<b>22.33</b>
Direct Taxes Paid	-25.11	-21.24	-14.64	-8.1	-7.26	-4.36
<b>Cash Flow before Extraordinary Items</b>	<b>51.43</b>	<b>15.16</b>	<b>17.88</b>	<b>12.34</b>	<b>10.31</b>	<b>17.97</b>
<b>Cash Flow from Investing Activities</b>						
Investment in Assets :						
Purchased of Fixed Assets	-5.83	-17.98	-12.1	-5.1	-2.95	-3.4
Purchase of Investments	-32.43	0	-0.85	-5.75	-0.5	-0.5
Interest Received	1.67	0.44	1.08	0.5	0.37	0.29

- VST has reported positive cash flows from operations for each year during the last 6 years.
- Its average cash flow post tax for the last six years is Rs 21 crore against reported average net profit of Rs 25 crore. The difference is on account of delay in release of subsidies.
- The direct taxes paid speaks volumes of the accounting practices. In case of VST, we are glad to see an increasing tax payout at almost 32-33% of reported Profit before tax.
- VST made short term investments worth Rs 32 crore in FY 11. The company will liquidate the same for setting up Hosur plant as and when the requirement arises.

# Balance Sheet – Adequately funded

FINANCE - BALANCE SHEET - VST Tillers Tractors Ltd (Curr: Rs in Cr.) As on 21/12/2011

201103 201003 200903 200803 200703 200603

## SOURCES OF FUNDS :

Share Capital	8.64	8.64	5.76	5.76	5.76	5.76
Reserves Total	155.39	118.24	86.36	62.5	51.48	41.63
<b>Total Shareholders Funds</b>	<b>164.03</b>	<b>126.88</b>	<b>92.12</b>	<b>68.26</b>	<b>57.24</b>	<b>47.39</b>
Secured Loans	0	2.31	0.56	2.39	2.79	0.36
Unsecured Loans	9.92	8.49	6.57	5.53	5.02	3.95
<b>Total Debt</b>	<b>9.92</b>	<b>10.8</b>	<b>7.13</b>	<b>7.92</b>	<b>7.81</b>	<b>4.31</b>

## APPLICATION OF FUNDS :

Net Block	53.42	51.05	38.28	27.88	26.67	26.34
Capital Work in Progress	2.8	1.71	0.36	1.79	1.06	1.61
Investments	36.83	4.35	5	4.49	0.84	0.84

## Current Assets, Loans & Advances

Inventories	54.85	44.48	51.14	33.57	26.54	21.62
Sundry Debtors	62.19	67.44	36.23	30.32	24.2	18.77
Cash and Bank	20.77	14.98	18.74	16.97	15.5	6.48
Loans and Advances	16.92	9.62	8.5	4.96	4.97	4.02
<b>Total Current Assets</b>	<b>154.73</b>	<b>136.52</b>	<b>114.61</b>	<b>85.82</b>	<b>71.21</b>	<b>50.89</b>

## Less : Current Liabilities and Provisions

Current Liabilities	59.89	44.51	48.82	36.4	27.64	22.76
Provisions	11.17	10.14	7.11	4.71	4.4	2.82
<b>Total Current Liabilities</b>	<b>71.06</b>	<b>54.65</b>	<b>55.93</b>	<b>41.11</b>	<b>32.04</b>	<b>25.58</b>
<b>Net Current Assets</b>	<b>83.67</b>	<b>81.87</b>	<b>58.68</b>	<b>44.71</b>	<b>39.17</b>	<b>25.31</b>

- VST has a very strong balance sheet with zero debt and a small but interest free source of capital in the form of deposits from dealers.
- Out of a net block of 53 crore, 28 crore is in the form of free land, which includes the land recently bought for Hosur Plant.
- Out of a total investment value of Rs 36.83 crore, Rs 32 crore is in liquid investments.
- Besides, company is also holding cash and cash equivalents worth Rs 20 crores. Considering the same, we don't expect company to go for debt or equity financing for its 100 crore expansion project at Hosur.

# Concerns

# Concerns

- Power Tillers, which is one of the major contributor in VSTs sales is driven by Govt. subsidy. Any change in Govt. policy can adversely affect the operations of the company.
- Lack of credit facilities for farmers can effect their ability to purchase high cost tractors and tillers.
- A lot of bigger players like Mahindra and Mahindra, TAFE, International Tractors are eyeing a pie of <20 HP Tractors market share.
- **VST for long has been facing problems w.r.t. sourcing of components from the vendors.** In the absence of adequate sourcing from the vendors, the company may not be able to achieve the desired levels of capacity utilization at its new plant, thus registering lower growth than anticipated.

# Conclusion

# Price chart



- VST is in general a highly volatile stock and witnesses sharp swings in each direction.
- As can be observed from the above illustration, the stock's been range bound for some time in the channel of 400-550. We expect the stock to find support at current levels of Rs 400, however in case the market turns extremely bearish, the stock can witness a fall to the levels of Rs 330-350 i.e. a downside of 15-20%.
- **We would therefore suggest a portfolio allocation strategy with 2% allocation at Rs 400-410 and further 2-3% allocation at Rs 340-350.**



# Katalyst Wealth – Alpha Portfolio



Katalyst Wealth **Alpha Portfolio** service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on the stock.

For more information on **VST Tillers Tractors Ltd**, discuss with **Ekansh Mittal**

Mail Id : [ekansh@katalystwealth.com](mailto:ekansh@katalystwealth.com)

Mobile: **+91-9818866676**

## **Katalyst Wealth**

Corporate office:

G-52, 2<sup>nd</sup> Floor

Sector – 39, Noida – 201301

Ph.: +91-120-4109766

Mob: +91-9818866676

Email: [info@katalystwealth.com](mailto:info@katalystwealth.com)