January 31, 2022

V.s.t. Tillers Tractors Limited: Ratings Reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating action
Long Term – Fund Based/CC	5.0	5.0	[ICRA]AA-; Reaffirmed; Outlook revised to Positive from Stable
Short Term- Non-Fund Based	5.0	5.0	[ICRA]A1+; Reaffirmed
Total	**10.0**	**10.0**	

Instrument details are provided in Annexure-1;

Rationale

The positive outlook on V.S.T. Tillers Tractors Limited's (VST) long-term rating takes into account the expected healthy growth in revenue in FY2022 in addition to expected expansion in its margins and profitability metrics. The ratings also continue to consider the dominant market position of VST in the domestic tiller market supported by its long presence and widespread dealer network. VST has a market share of ~60% in domestic power tillers as of H1 FY2022. The ratings also favourably consider the promoter's extensive experience in the industry, sizeable cash and liquid investments and debt-free status as on September 30, 2021. Going forward, VST is expected to retain its dominant market position in the domestic tiller market while maintaining its strong financial risk profile.

In FY2021, VST's revenue achieved a growth of 40.6% supported by strong demand growth under both tractors and tillers segment and a low base of FY2020, wherein Q4 FY2020 revenues were impacted by the pandemic. The growth in demand for tillers was also supported by restrictions placed on imports of tillers in July 2020. With continued healthy demand environment, the company's top line grew by 16.5% YoY in H1 FY2022 while its operating profit margin expanded to 14.9% in H1 FY2022 from 5.8% in FY2020 on the back of increased scale of operations and various cost optimization measures undertaken by the company. In 9M FY2022, the company's sales volume of power tillers achieved growth of 13.3% Y-o-Y and going forward, the company is expected to achieve a healthy growth in FY2022 on the back of healthy demand for VST's products while maintaining its operating margin at H1 FY2022 levels.

The ratings also consider the cyclicality inherent in the tractor and tiller industry in addition to the competition that limits the company's pricing flexibility to a certain extent and its profitability is susceptible to fluctuations in input costs. The dependence of the power tiller segment on Government subsidies also exposes VST's revenues and margins to any changes in Government policies. However, the company has recently launched subsidy-neutral tiller and retail finance schemes for its power tillers which may mitigate the subsidy risk to a certain extent going forward.

Key rating drivers and their description

Credit strengths

Established market position in domestic tiller market supported by long presence and widespread dealer network – VST has an established market position and a well-reputed brand presence in the power tiller segment in India with a market share of ~60% in H1 FY2022 (up from ~55% in FY2021). This, coupled with addition of new dealers to its widespread dealer network of over 500will continue to support the company's business operations.

Strong financial profile characterised by nil debt and sizeable cash balances and liquid investments – VST's financial profile remains strong, supported by its sizeable net worth of Rs. 706.3 crore as on September 30, 2021, healthy cashflows and debt-free status. The company's liquidity position is strong with cash balance and liquid investments of Rs. 280.4 crore as on September 30, 2021. This apart, its working capital facilities of Rs. 5.0 crore remain unutilised. Going forward, VST's debt indicators are expected to remain comfortable.

Healthy revenue growth and margin expansion in FY2021 and H1 FY2022– In FY2021, VST's revenue achieved a growth of 40.6% supported by strong demand growth under both tractors and tillers segment and a low base of FY2020 wherein Q4 FY2020 revenues were impacted by the pandemic. The growth in demand for tillers was also supported by restrictions placed on imports of tillers in July 2020. The tillers volume witnessed strong 41.5% and 13.3% volume growth (YoY) respectively in FY2021 and 9M FY2022, and expects the volume growth to continue in Q4 FY2022 on the back of increased demand for subsidy neutral power tillers and retail finance schemes introduced by the company. The company's operating profit margin expanded to 14.9% in H1 FY2022 from 5.8% in FY2020 on the back of increased scale of operations and various cost optimization measures undertaken by the company. Overall, the company is expected to achieve a healthy growth in revenue in FY2022 on the back of healthy demand for VST's products while maintaining its operating margin at H1 FY2022 levels.

Credit challenges

Exposed to cyclicality in industry with strong linkages to agricultural production and monsoon – VST derived 48.7% and 34.4% of its revenues from the power tiller and tractor segments, respectively, in H1 FY2022. The company's revenues and earnings remain exposed to the cyclicality inherent in these industries owing to the dependence on monsoon and crop production in the country.

Dependence of the power tiller segment on Government subsidies – To a large extent, power tiller sales are driven by the state government subsidies, which exposes VST's revenues and margins to any adverse changes in Government policies. The company has launched subsidy-neutral tiller and retail finance schemes for its power tillers which may mitigate the subsidy risk to a certain extent going forward. However, performance of the same will remain a monitorable.

Competition and pricing risks – The tractor and power tiller industries are characterised by intense competition, thus limiting VST's pricing flexibility amid fluctuating input costs. With restriction in imports, the pricing scenario has been relatively better.

Liquidity position: Strong

VST's liquidity position is strong with a cash balance of Rs. 280.4 crore as on September 30, 2021 and a Rs. 5.0-crore buffer available as working capital facilities, which have largely remained unutilised. Despite regular dividend payouts, the company's liquidity position has remained strong on the back of healthy operating cashflows, which are expected to continue in future as well. VST remains debt free and has moderate capex in the current fiscal.

Rating sensitivities

Positive factors – The long-term rating could be upgraded on a sustained improvement in scale of operations and earnings profile. VST's ability to achieve business diversification, strengthen market share in the domestic tractor and farm equipment segment aided by product launches and geographical spread shall be key monitorable.

Negative factors – The ratings may be revised downwards with any sharp deterioration in financial profile of the company arising from weak earnings and/or deterioration in credit metrics. Any large debt-funded acquisition or capex or any large impact on operations amid the Covid-19 pandemic will be critical monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Tractor Manufacturers](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of VST

About the company

V.S.T. Tillers Tractors Limited (VST) was promoted in 1967 as a 60:20:20 joint venture between (1) Mr. V.T. Velu along with his two brothers in technical and financial collaboration, (2) Mitsubishi, Japan (Mitsubishi Heavy Industries Limited) and Mitsubishi Corporation) and (3) Mysore State Industrial Investment Corporation Limited, for the manufacture of power tillers and diesel engines. The commercial production of tillers commenced in 1970. Later, an additional technical and financial collaboration was entered into with Mitsubishi Agricultural Machinery Company Limited, Japan in 1984 for the manufacture of 18.5 horse power (HP) four-wheel drive tractors. However, the collaborations with all the above entities have expired. The current shareholding of the Indian promoters in VST is 51.84%, while Mitsubishi's stake is 2.93%. VST manufactures farm equipment, namely power tillers, tractors, power weeders, diesel engines and other precision agricultural and automotive components. It also trades in certain other farm equipment (mainly rice transplanters), which are sourced from China. Headquartered in Bangalore, VST derives over ~96% of its revenues from the domestic market and has a nationwide network of more than 500 active dealers to support sales and provide after-sales services.

Key financial indicators (audited)

VST (Consolidated)	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	543.7	764.2	427.1
PAT (Rs. crore)	18.0	90.8	56.2
OPBDIT/OI (%)	5.8%	12.6%	14.9%
RoCE (%)	4.6%	20.9%	22.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	0.3
Total Debt/OPBDIT (times)	-	-	-
Interest Coverage (times)	19.4	49.5	125.1
DSCR (times)	26.2	55.6	136.2

**Unauditedl;PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	27-Nov-2020	23-May-2019	21-Dec-2018
1	Cash Credit	Long Term	5.0	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
2	Non-fund Based	Short Term	5.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based/CC	Simple
Short Term- Non-Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	Cash-Credit	-	NA	-	5.00	[ICRA]AA- (Positive)
NA	Non-fund Based Facilities	-	NA	-	5.00	[ICRA]A1+

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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