April 08, 2025

V.S.T. Tillers Tractors Limited: Ratings reaffirmed and assigned for enhanced amount; outlook revised from Positive to Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long Term/ Short Term– Fund Based/ Non Fund Based Limits	10.00	79.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced limits with change in outlook from Positive to Stable
Total	**10.00**	**79.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook from Positive to Stable on the long-term rating of V.S.T. Tillers Tractors Limited (VST) reflects the company's weaker-than-expected performance, as reflected by a muted revenue growth in FY2024, with the revenues likely to stagnate further in FY2025 on account of weak demand witnessed in Q1 FY2025, which would have a bearing on the overall operational performance during the fiscal. Uneven distribution of monsoons in Q2 and Q3 of FY2024) and Q1 FY2025) had some impact on tractor sales of VST in its key markets such as Maharashtra and Gujarat during this period. Besides, state-wise subsidies for tractors and farm equipment were on hold before the General Elections, which had impacted sales during Q1 FY2025. Some recovery in performance was seen in Q2 and Q3 of FY2025, which remained better compared to Q2 and Q3 of FY2024, respectively. ICRA also notes the moderation in VST's operating profit margin (OPM) from 13.1% (FY2024) to 10.2% (9M FY2025) primarily on account of operational expenditure being undertaken by the company towards new product development, which is expected to fructify over the medium-to-long term.

The rating reaffirmation of VST continues to factor in its dominant market position in the domestic tiller segment, with a market share of ~70%, supported by its established presence and wide dealer network. The ratings also favourably consider the promoter's extensive experience in the industry, and its strong financial risk profile, as evident from its continued debt-free status and comfortable liquidity position with sizeable cash and liquid investments of Rs. 449.4 crore as on September 30, 2024.

While the operating expenditure undertaken by the company towards new product development coupled with muted revenues led to a margin decline in 9M FY2025 vis-à-vis FY2024, the profitability is likely to improve gradually over the medium term, aided by increasing revenue share from exports, which govern higher margins compared to domestic sales. ICRA also notes that the company's performance in the domestic tractor segment has been lagging behind market trends. VST's tractor volumes declined by 22% on a YoY basis in FY2024 and remained flat in 11M FY2025 on a YoY basis. Accordingly, VST's ability to claw back its market share in tractors, supported by its product portfolio and network expansion initiatives, and improve its export volumes, remains critical to diversifying and strengthening the business profile further.

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, exposing its profitability to fluctuations in input costs. The dependence of the power tiller segment on Government subsidies also exposes VST's revenues and margins to any change in Government policies. However, the company has been making efforts to launch subsidy-neutral tillers and retail finance schemes for its power tillers, which can mitigate the subsidy risk to a certain extent, going forward.

Key rating drivers and their description

Credit strengths

Established market position in domestic tillers, supported by long presence and wide dealer network – VST has an established market position and a reputed brand presence in the power tiller segment in India with a market share of ~70%. Along with the addition of new dealers to its wide network of over 718 dealers and increasing penetration of farm mechanisation, this will continue to support the company's business prospects.

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. 975.7 crore as on September 30, 2024, healthy cash flows and debt-free status as of March 31, 2024. The company's liquidity position also remains strong with cash balances and liquid investments of Rs. 457.7 crore as on September 30, 2024. Going forward, given the moderate capex requirements and continued healthy cash flow generation, VST is expected to maintain its debt-free status and healthy debt indicators over the medium term.

Credit challenges

Exposed to industry cyclicality with strong linkages to agricultural production and monsoons – VST derived 54% and 24% of its revenues from power tillers and tractors, respectively, in H1 FY2025. Accordingly, its revenues and earnings remain exposed to the cyclicality inherent in these segments owing to dependence on monsoons and crop production in the country. VST reported a YoY volume decline of 5% and 22% for its power tiller and tractor segments, respectively, in FY2024, leading to a YoY revenue decline of 4% for the fiscal. Further, with the power tiller segment reporting a 4% YoY decline in volumes in 9M FY2024 and the tractor segment reporting a marginal 2% YoY growth in volume offtake for the period, the company's revenues remained flat in 9M FY2025 on a YoY basis. Muted performance in volume offtake was on the back of erratic rainfall in FY2024 and holding back of subsidies ahead of the General Elections in Q1 FY2025. With power tiller and tractor segments collectively contributing 75-80% to its revenues, VST's business performance remains exposed to the operational performance of these two segments. Nevertheless, the company is making efforts to diversify into additional segments such as power weeders, brush cutters, electric pumps and spare parts to mitigate this risk to some extent.

Dependence of power tiller segment on Government subsidies – Power tiller sales are driven by state government subsidies to a large extent, which exposes VST's revenues and margins to adverse changes in Government policies. While the company has launched subsidy-neutral tillers and retail finance schemes for its power tillers, which may mitigate the subsidy risk to a certain extent, going forward, the company's ability to further reduce dependence of its power tiller segment on the Government subsidies remains monitorable.

Exposed to competition and pricing risks – The tractor and power tiller segments are characterised by intense competition, thus limiting VST's pricing flexibility amid fluctuating input costs. With restriction in imports from countries like China, the pricing scenario has been relatively better than the past, although competition from domestic players continues to remain elevated.

Environmental and social risks

Environmental considerations: Tractor OEMs are exposed to adverse climatic conditions such as droughts and floods as they attract most of the demand from the rural segment that may be impacted by such environmental factors. Construction/agricultural equipment OEMs also remain exposed to climate transition risks from the likelihood of tightening emission control requirements, with the Government focused on reducing the adverse impact of automobile emissions. Companies in the sector may also need to invest materially to develop products to meet regulatory thresholds, which may have a moderating impact on their return and credit metrics. The change in emission norms from TREM IV to TREM V or TREM VI may lead to a capex outlay towards upgrading its higher horsepower (HP) tractors. As most of VST's revenue is derived from power tillers and low HP tractors, for which the said norms are not applicable, the credit risk from the same remains low.

Social considerations: OEMs are exposed to risk arising from labour unrest like strikes and lockouts. The company has a labour redressal protocol in place, wherein any unrest is obviated by negotiations and conciliations. The company regularly conducts welfare activities for its employees to mitigate the risk. Another social risk that OEMs face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to financial implication but could also harm their reputation and create a long-lasting adverse impact on demand.

Liquidity position: Strong

VST's liquidity position is strong with a cash and liquid investment balance of Rs. 457.7 crore as on September 30, 2024, and sizeable buffer available in the form of undrawn working capital lines. Despite regular dividend payouts, the company's liquidity position has remained strong on the back of healthy operating cash flows, which are expected to continue in the future as well. VST continues to maintain a net cash surplus position, with a moderate capex of Rs. 50-60 crore annually over the medium term, which would be funded comfortably through internal accruals.

Rating sensitivities

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

Negative factors – The ratings may be revised downward in case of any sharp deterioration in the financial profile of the company from weak earnings and/or a deterioration in credit metrics. Any large debt-funded acquisition or capex will also be an important monitorable.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractors
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VST.

About the company

V.S.T. Tillers Tractors Limited was promoted in 1967 as a 60:20:20 joint venture among Mr. V.T. Velu and his two brothers, in technical and financial collaboration with Mitsubishi, Japan (Mitsubishi Heavy Industries Limited and Mitsubishi Corporation), and Mysore State Industrial Investment Corporation Limited, for manufacturing power tillers and diesel engines. The commercial production of tillers commenced from 1970. Later, in 1984, an additional technical and financial collaboration began with Mitsubishi Agricultural Machinery Company Limited, Japan, for manufacturing 18.5 horsepower (HP), four-wheel drive tractors. However, collaborations with all the above entities have expired. The current shareholding of the Indian promoters in VST stands at 52.64%, while Mitsubishi's stake is 2.93%, with the rest held by public shareholders. VST manufactures farm equipment, namely power tillers, tractors, power weeders, diesel engines and other precision agricultural and automotive components. It also trades in certain farm equipment (mainly rice transplanters), which are sourced from China. Headquartered in Bangalore, VST derives approximately ~90% of its revenues from the domestic market and has a nationwide network of more than 1,100 dealers to support sales and provide after-sales services.

Key financial indicators (audited)

VST – Consolidated	FY2023	FY2024	H1FY2025*	9M FY2025*
Operating income	1,006.4	968.0	474.0	693.1
PAT	92.4	121.5	68.0	69.5
OPBDIT/OI	12.9%	13.1%	10.8%	10.2%
PAT/OI	9.2%	12.6%	14.3%	10.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.2	NA
Total debt/OPBDIT (times)	0.0	0.0	0.1	NA
Interest coverage (times)	66.4	48.9	47.8	45.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Apr 8, 2025	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	-	-	-	-	-	-	Jan 10, 2023	[ICRA]AA- (Positive)
Non-Fund based	Short term	-	-	-	-	-	-	Jan 10, 2023	[ICRA]A1+
Fund Based/ Non-Fund Based Limits	Long term/ Short Term	79.00	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	Mar 14, 2024	[ICRA]AA- (Positive)/ [ICRA]A1+		

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term/ Short-term – Fund-based/ Non-fund Based Limits	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 are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Long-term/ Short-term – Fund-based/ Non-fund Based Limits**	NA	NA	NA	79.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	VST Ownership	Consolidation Approach
VST Zetor Private Limited	51.00%	Equity method

Source: *Company annual report FY2024*

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