

March 14, 2024

V.S.T. Tillers Tractors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	5.00	0.00	-
Short-term – Non-fund Based	5.00	0.00	-
Long-term/ Short-term – Fund-based/ Non-fund Based Limits	0.00	10.00	[ICRA]AA- (Positive)/ [ICRA]A1+; reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of V.S.T. Tillers Tractors Limited (VST) factors in its dominant market position in the domestic tiller segment, with a market share of ~70%, supported by its established presence and widespread dealer network. The ratings also favourably consider the promoter's extensive experience in the industry, and its strong financial risk profile as evidenced by its continued debt-free status and comfortable liquidity position with sizeable cash and liquid investments of Rs. 337.5 crore as on September 30, 2023

The ratings also factor in VST's recent operating performance with YoY revenue growth of 17.9% and 1.6% reported in FY2023 and 9M FY2024, respectively, supported primarily by healthy traction in the domestic tiller segment. However, the input cost inflation and supply chain constraints exerted some pressure on margins, along with lower volumes. The OPM contracted to 12.1% in 9M FY2024 and 12.9% in FY2023 from 14.8% in FY2022. ICRA expects the operating profit margin to be in the range of 11.5–12.5% in FY2025. ICRA also notes that the company's performance in the domestic tractor segment has been lagging behind market trends. In 11M FY2024 the tractor volumes declined by 23%. 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 cyclical nature 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 changes in Government policies. However, the company has made 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.

The Positive outlook on the long-term rating reflects ICRA's expectation that VST will continue to benefit from its established position in the tiller segment. In addition, ICRA expects the company's revenue and margin will improve with the product and market diversification activities undertaken in the past two years. The company is also expected to continue to maintain its debt-free status and strong liquidity profile, supported by healthy cash accruals from operations.

Key rating drivers and their description

Credit strengths

Established market position in domestic tillers, 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

~70%. Coupled with addition of new dealers to its widespread network of over 660 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. 874.4 crore as on September 30, 2023, healthy cash flows and debt-free status. The company's liquidity position also remains strong with cash balances and liquid investments of Rs. 337.5 crore as on September 30, 2023. Going forward, given minimal 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 cyclical in industry with strong linkages to agricultural production and the monsoons – VST derived 58% and 27% of its revenues from power tillers and tractors, respectively, in 9M FY2024. Accordingly, its revenues and earnings remain exposed to the cyclical in industry inherent in these segments owing to dependence on the monsoons and crop production in the country. VST reported a volume decline for tractors and tillers during 9M FY2024, resulting in total revenues of Rs. 694.6 crore, while operating margins declined to 12.1% (12.9% in FY2023). The decline was on the back of unseasonal rainfall in Karnataka and Maharashtra (collectively generating 35-40% of the total revenue as of March 31, 2023). However, 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 – To a large extent, power tiller sales are driven by state government subsidies, which exposes VST's revenues and margins to any 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; their performance will remain a monitorable.

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 past; although the competition from domestic players continues to increase.

Environmental and social risks

Environmental considerations: Tractor OEMs are exposed to adverse climatic conditions such as droughts and floods as they attract most of their demand from the rural segment, which may be impacted by environmental factors. Construction/agricultural equipment OEMs also remain exposed to climate transition risks from a likelihood of tightening emission control requirements, with the Government focused on reducing the 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 to higher HP tractors. However, since most of VST's revenue is currently generated by power tillers and low HP tractors (share of higher HP is still low), 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 a financial implication but could also harm their reputation and create a more long-lasting adverse impact on demand.

Liquidity position: Strong

VST's liquidity position is **strong** with a cash and liquid investment balance of Rs. 337.5 crore, as on September 30, 2023. 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 remains debt-free with moderate capex of Rs. 50-60 crore annually over the medium term, which would be funded comfortably from internal accruals.

Rating sensitivities

Positive factors – The long-term rating could be upgraded on a sustained improvement of 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, shall be a key monitorable.

Negative factors – The ratings may be revised downwards in case of any sharp deterioration in the financial profile of the company from weak earnings and/or deterioration in credit metrics. Any large debt-funded acquisition or capex will also be a critical monitorable. Additionally, the outlook may be revised to Stable if the company reports any continued weakness in operating performance.

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 standalone financials of VST.

About the company

V.S.T. Tillers Tractors Limited was promoted in 1967 as a 60:20:20 joint venture between 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, the collaborations with all the above entities have expired. The current shareholding of the Indian promoters in VST is 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 1,000 dealers to support sales and provide after-sales services.

Key financial indicators (audited)

VST – Standalone	FY2022	FY2023	9M FY2024*
Operating income	853.9	1,006.4	694.6
PAT	99.3	92.4	86.4
OPBDIT/OI	14.8%	12.9%	12.1%
PAT/OI	11.6%	9.2%	12.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	NA
Total debt/OPBDIT (times)	0.0	0.0	NA
Interest coverage (times)	78.8	66.3	51.8

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 14, 2024	Jan 10, 2023	Jan 31, 2022	Nov 27, 2020
1 Cash Credit	Long-term	-	-	-	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)
2 Non-Fund based	Short-term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Fund Based/ Non-Fund Based Limits	Long Term/ Short Term	10.00	-	[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	10.00	[ICRA]AA- (Positive)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Sahil Udani
+91 22 6114 3465
sahil.udani@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Trisha Agarwal
+91 22 6114 3457
trisha.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.